ANNEX 1

MEDIUM TERM FINANCIAL PLAN
2022/23 to 2026/27
July 2021

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GLOSSARY

Introduction

This Medium-Term Financial Plan (MTFP) is a summary of the Council's key financial information, including the budget challenges faced, over the period 2022/23 to 2026/27 and our approach to addressing them.

It sets out the approach to establishing a sustainable financial base to support delivery of Council policies and priorities. It also highlights the financial risks and issues which have to be tackled, including ongoing reductions in Government funding.

In January 2021 the Executive approved the previous version of the MTFP which was based on the objectives of the Corporate Plan 2020-2025. It set out the latest resource projections and estimates of expenditure. This document refreshes and updates MTFP forecasts in anticipation of service & financial planning for 2022/23.

Key changes since the January 2021 budget report include:

- Updated forecast for pay cost inflation to reflect the outturn budget position for 2020/21;
- Updated forecasts for council tax and business rates income following confirmation of the measures announced by the Government to mitigate COVID-19 impacts on the collection fund;
- Updated forecast for borrowing costs to reflect the Capital Programme outturn in 2020/21; and
- Updated assumptions on continuation of the additional Government grants awarded in the 2020/21 settlement.

The draft budget report later this year will set out the detailed actions required to deliver a balanced budget for 2022/23 onwards that is consistent with the direction and objectives set out in this MTFP.

1. Medium Term Financial Plan Objectives

The objectives of this MTFP are to help us:

- Provide a robust financial framework to assist decision-making processes;
- Manage council finances within the context of a forward-looking service & financial planning framework;
- Prioritise resources to align spending plans with our vision and strategic objectives and resident priorities;
- Recognise the ongoing funding challenges that will need to be addressed through changes to how services are delivered, realising new sources of income and delivery of cashable budget savings, or a combination of all three;
- Maintain council tax resource levels;
- Maintain a balanced budget and continue to strengthen that position;
- Maintain the General Fund reserve at a minimum of 15% of the annual net Revenue Budget to cover significant unforeseen expenditure;

- Maintain Earmarked Revenue Reserves for specific purposes, consistent with achieving our priorities and managing risks. The use of Earmarked Revenue Reserves will be in line with the Reserves Policy at Appendix 4.1 and will be reviewed annually;
- Help confirm the affordable level of capital investment required to support our strategic and financial priorities while remaining within prudential borrowing limits;
- Ensure that fees and charges are set at an appropriate level and that they take into account comparative levels of charge and ability to pay, in line with the Policy at Appendix 5;
- Demonstrate probity, prudence and strong financial control;
- Manage financial risks;
- Continually review budgets to ensure resources are targeted on key objectives;
- Continue to improve our approach to commissioning and procurement to ensure value for money for local taxpayers;
- Support new ways to ensure financial sustainability and maximise income to deliver our priorities. This includes the development of commercial projects to capture both revenue income and capital growth opportunities;
- Pursue opportunities for securing external funding; and
- Support opportunities for working in collaboration with partners where this will support our priorities and improve service value for money.

2. Medium Term Financial Plan Priorities

In considering future budget projections, it is recognised that there are unknowns which could impact upon forecasts. The MTFP is not a static document but rather one that is constantly evolving as the environment around it changes. Some of the key risks and sensitivities which need to be monitored are set out below.

- **Economic conditions**. The impact of the economic cycle will need to be considered particularly in relation to business growth, inflationary pressures and interest rate movements. The impact of changes and any impact on public finances will need to be fully evaluated on the financial model;

- Impact of the **COVID-19 Pandemic**. The latest assessment of the potential financial impacts for this Council is set out below and at Appendix 8;

- Government **Finance Legislation**. There are key pieces of Government legislation which will impact upon the future financial position of the Council. In particular the impact of the localisation of business rates and any additional responsibilities will need to be fully evaluated as well as the Governments current Fair Funding Review of local Government finance which has been delayed but is still is due to be introduced at some point in the future;

- Other **Government Legislation**. There are a significant number of political initiatives particularly in relation to localisation and the role of local Government. These will need to be assessed for their relevance to Reigate and Banstead and the impact on future finances;

- Buoyancy of **Income Streams**. These will be sensitive to changes in consumer confidence and the economy so will need to be closely monitored;

- **Strategic Investments**: The Council is looking to continue to pursue developments that produce financial returns while at the same time supporting the delivery of housing and regeneration priorities;

- **Commercial Ventures**: The Council will seek to take advantage of commercial opportunities wherever possible to cover costs and to review our fees and charges in order to maximise income in line with corporate objectives. Commercial opportunities will be pursued in line with the guiding principles set out in the commercial strategy part 1 adopted in 2020

- To carry out an annual **Financial Review** of the historic budget outturn position and of our base budget to ensure maximum value is obtained from those resources already allocated – effectively to ensure financial discipline and good housekeeping are maintained;

- Using **Reserves** in a sustainable and prudent manner to support the Council's strategies and priorities. This will be supported by the Reserves Policy which is set out at Appendix 4.1. It is recognised that reserves can only be used on a 'one off' basis. However, they can play an important part in supporting initiatives or investments which can deliver future benefits;

- To maintain the Council's financial standing it is important that it continues its proactive approach to **Service & Financial Planning** and ensures that budget plans are deliverable and that investments are focussed on securing our financial health; and

- To continue to monitor any potential financial impacts of **Brexit** (for example on the Council's procurement plans) following approval of the Withdrawal Agreement Act in January 2020 .

3. Medium Term Financial Plan Context

Service & financial planning takes place within the context of the national economic and public expenditure plans; this MTFP has been formulated within the context of the current UK economic position, continued reductions on local government funding and political uncertainty surrounding the shape of Brexit and the impacts of the COVID-19 pandemic on council finances and the wider economy .

In response to this financial challenge, local government has innovated, streamlined services and increased productivity. The Government's plans to devolve more responsibilities through the localisation of business rates has been delayed (date to be confirmed), however the detail as to whether councils will be required to take on additional responsibilities remains unclear. The devolution of business rates is intended to be fiscally neutral but how this will work in practice is currently being developed alongside the Fair Funding Review. These changes will bring both risks and opportunities.

The Economy and Public Spending

There is now considerable uncertainty in financial and economic forecasts. In June 2021 the Office for National Statistics (ONS) reported

- *The UK economy, measured by gross domestic product (GDP), is estimated to have contracted by 1.6% in Quarter 1 (Jan to Mar) 2021. The level of GDP in the UK is 8.8% below pre-pandemic levels at the end of 2019.*
- *Output, the total value of goods and services produced, fell by 2.1% in the services sector in Quarter 1 2021, compared with Quarter 4 (Oct to Dec) 2019. The largest contributors to this fall were from the education, wholesale and retail trade, and accommodation and food services industries, especially at the beginning of the quarter, in response to the tightening of coronavirus (COVID-19) restrictions.*
- *The national lockdown in January 2021 meant schools switched to remote learning while pubs and restaurants had to offer takeaway only. This resulted in the 14.7% fall in education output and 18.6% fall in accommodation and food services output in Quarter 1 2021.*
- *In contrast, the health industry experienced an increase in output in Quarter 1 2021, reflecting the inclusion of the impact of the NHS Test and Trace service and coronavirus vaccination programme.*
- *In May 2021, the public sector spent more than it received in taxes and other income requiring it to borrow £24.3 billion, the second-highest May borrowing on record.*

- *The public sector is still borrowing a substantial amount to support the economy. While May's borrowing was only around a half of that in May last year, it was still more than four times that of May 2019.*
- *Central government receipts were estimated to have increased by £7.5 billion in May 2021 compared with May 2020, reaching £56.9 billion. Of these receipts, taxes were £41.4 billion, £6.0 billion more than in May last year and broadly in line with those of May 2019.*
- *Central government bodies were estimated to have spent £75.6 billion on day-to-day activities (referred to as current expenditure) in May 2021, £10.6 billion less than a year earlier but £17.3 billion more than in May 2019. Of this, the cost of the government's coronavirus job support schemes in May, scheduled to close in September 2021, was £5.2 billion, £11.7 billion less than a year earlier.*
- *In the financial year ending (FYE) March 2021 (April 2020 to March 2021), the UK public sector borrowed £299.2 billion, reduced by £4.0 billion from April's first provisional estimate but still the highest annual borrowing since records began in FYE March 1946. Official forecasts suggest that borrowing could reach £233.9 billion in FYE March 2022.*
- *Expressed as a ratio of gross domestic product (GDP), public sector net borrowing in FYE March 2021 was 14.3%, the highest such ratio since the end of World War Two, when it was 15.2% in FYE March 1946.*
- *The recent substantial increase in borrowing has led to a sharp increase in public sector net debt, which currently stands at 99.2% of GDP, the highest ratio since the 99.5% recorded in March 1962.*

In July 2021 the Office for Budget Responsibility (OBR) reported:

- *After the second 'once in a century' shock in just two decades, our third Fiscal risks report focuses on three large, and potentially catastrophic, sources of fiscal risks.*
- *The pandemic could leave £10 billion per year in spending pressures and long-term economic scars.*
- *While unmitigated climate change would spell disaster, the net fiscal costs of moving to net zero emissions by 2050 could be comparatively modest.*
- *While interest rates touched historical lows during the pandemic, the public finances are increasingly exposed to future rate rises due to a higher debt stock and a shortening of its effective maturity.*

In summary they concluded that:

- *Catastrophic risks are real and may have become more frequent;*
- *While it is difficult to predict when catastrophic risks will materialise, it is possible to anticipate their effects;*
- *There are advantages in preventing or halting a process that involves rapidly escalating costs early;*
- *When investing in risk prevention, governments have a tendency to 'fight the last war'; and*
- *In the absence of perfect foresight, fiscal space may be the single most valuable risk management tool.*

Office for Budget Responsibility, *Fiscal Risks Report, July 2021*.

Interest Rates

Bank Rate has remained at 0.1% (July 2021) since it was cut in March 2020. In their June meeting the Monetary Policy Committee voted unanimously to keep interest rates on hold at 0.1% and the stock of sterling non-financial investment-grade corporate bond purchases at £20bn. However, they voted by a majority of 8-1 to maintain the existing programme of UK government bond purchases at £875bn. The Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

Table 1: FORECAST INTEREST RATES	**June 2021** **%**	**Dec 2021** **%**	**June 2022** **%**	**Dec 2022** **%**
Forecast Bank Rate	0.10	0.10	0.10	0.10

Source: *Link Asset Management June 2021*

Inflation

The annual inflation rate rose to 2.1% in the 12 months to May 2021, up from 1.5% to April and above market forecasts of 1.7%, with the main upwards contributor being clothing, motor fuels, recreational goods and meals & drinks consumed out. This is the first time that the measure has been above the Bank of England's 2% target since July 2019 and the highest figure since that same period. In a recent press release, the Bank of England noted 'financial market measures of inflation expectations suggest that the near-term strength in inflation is expected to be transitory.'

Table 2: FORECAST INFLATION (CPI)	**2021/22** **%**	**2022/23** **%**	**2023/24** **%**	**2024/25** **%**	**2025/26** **£%**
Forecast CPI	1.7	2.3	2.0	1.9	2.0

Source: *Link Asset Management June 2021*

Economic Growth

UK GDP grew by 1.5% in the three months April 2021, ending a three period streak of contractions and in line with market expectations, a preliminary estimate showed. This is the first expansion since the three months to December 2020. The y/y figure rose to 27.6% for April 2021 compared to the 1.4% y/y growth in March 2021. In the May Monetary Policy Report, the Bank of England revised its GDP growth forecasts upwards for Q2 2021 to 21.5% y/y from 17.6% y/y, but was likewise revised downwards to 7.1% y/y for Q2 2022 from 8.9% y/y.

<u>Impact of COVID-19</u>

The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one. The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy. In addition, the household saving rate has been exceptionally high since the first lockdown in March 2020 and so there is plenty of pent-up demand and purchasing power stored up for services in the still-depressed sectors like restaurants, travel and hotels as soon as they reopen.

Source: Link Asset Management June 2021

Potential ongoing implications of the COVID-19 pandemic for local government

- It may be harder to collect sums due, for example for council tax and business rates. Despite these increasing pressures, to date our performance on income collection remains consistently strong;
- Increased demand for services to assist residents falling into hardship;
- Suppliers and contractors being at risk of liquidation, potentially affecting delivery of services;
- Cost inflation pressures may be greater than assumed; and
- Impacts on the Council's supply chain eg. price increases, impacts on operational delivery of capital schemes, supplier workforce impacts.

Local Government Funding

The local government sector has been one of the areas hardest hit by the Government's deficit reduction plan. For Reigate and Banstead Government Revenue Support Grant reduced from £1.6m in 2014/15 to nil by 2017/18.

Over recent years the framework for local government funding has been subject to a sustained period of change and uncertainty:

- April 2011 – New Homes Bonus introduced
- April 2013 - Business Rates Retention introduced
- October 2015 – 100% BRR and Funding Review announced
- April 2016 – Government and LGA working groups set up and start meeting
- Early 2017 - Call for evidence on Fair Funding and Business Rates Retention consultation
- April 2017 – New Homes Bonus scheme changes
- May 2017 election – Business Rates Retention primary legislation falls; Fair Funding Review to continue
- Summer 2017 – announcement of move to 75% Business Rates Retention; confirmation of new Business Rates Baseline and continuation of Fair Funding Review – all for 2022/23
- July 2018 – new simplified Business Rates Reset first suggested
- December 2018 – no figures beyond 2021/22 available; indications that 'Negative Revenue Support Grant' will result in significant funding reductions for councils like Reigate & Banstead
- December 2018 – new consultations on Fair Funding Review, Business Rates Retention and confirmation of a full Reset of Business Rates growth
- Spending Round19 – one-year settlement for 2021/22 only
- Spending Review20 (SR20) – delayed to autumn 2020 due to the Government's COVID-19 pandemic response - focussed on prioritising funding to support the ongoing response to the pandemic to:

- control and suppress the virus;
- increase support to public services; and
- support jobs and businesses.

- Provisional Local Government Finance Settlement 2021/22 - published in December 2020. Covers one year only; based on Spending Review20 (SR20) funding levels. There remains a commitment from the Government to return to multi-year settlements at some point but that is likely to depend on whether COVID-19 continues to have significant impacts on local government finances during 2021/22. The main points are set out below:

  - **Council Tax** – the council tax referendum limit is 2% for lower tier authorities; it was confirmed that districts would be allowed to apply the higher of the referendum limit or £5;

  - **Business Rates Retention –** the business rates multiplier was frozen for 2021/22 instead of increasing in line with inflation. Therefore. the three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff/Top Up amounts) remain at 2020/21 levels. However, the Under-Indexing Multiplier Grant has been increased to ensure that local authorities' shares of NNDR income is not impacted;

  - **Top Up/Tariff Adjustments ('Negative RSG')** – as in previous years, the Government eliminated the negative RSG impacts;

  - **Lower Tier Services Grant** – a new un-ringfenced lower tier services grant of £111m was announced in the Provisional Settlement. The purpose is to ensure that no authority has a total Core Spending Power less than in 2020/21. It is assumed that this will continue for 2022/23 only;

  - **New Homes Bonus** - 2021/22 allocations to be paid with the legacy payments due from previous years (2018/19 and 2019/20 with no legacy payments for the new 2021/22 in-year allocations and no legacy payment was paid for 2020/21. The 'deadweight' of 0.4% was maintained;

  - **Rough Sleepers** - £750m, a 60% increase on the previous spending review;

  - **Troubled Families Programme** - £165m;

  - **£4bn 'levelling up' fund (UK Shared Prosperity Fund)** - local areas can apply directly with the focus on town centre regeneration and culture;

  - **Redmond Review of external audit** - £15m allocated to implement the review recommendations (audit fee increases);

  - **COVID-19 Funding** – £2.2bn of funding was announced in SR20 to support local government in 2021/22. To include:
    - Hardship Grant – Tranche 5 (£1.55bn)

- Local Council Tax Support Grant (£670m) to help fund the expected increase in demand for local council tax support in 2021/22
- Sales, Fees and Charges compensation scheme (Q1 2021/22 only);
- Tax Income Guarantee Scheme (£790m estimated) to fund 75% of irrecoverable losses in council tax and business rates (in addition to the 3-year collection fund spreading arrangements).

Recent funding announcements include:

- a further £400 million through the Contain Outbreak Management Fund (COMF) which is now being paid direct to lower tier councils (previously distributed via Surrey Country Council. This funding is to help local authorities contain local outbreaks, reduce transmission and protect the vulnerable; and
- Restart Grants worth up to £18,000, further Additional Restrictions grant funding and extension of rates reliefs for businesses.

- **Local Government Funding Reform** – no papers were published relating to the Review of Relative Needs & Resources (Fair Funding), the Business Rates Reset and the Business Rates fundamental review. The Provisional Settlement confirmed that it remains the Government's intention to implement these reforms in 2022/23 but it remains uncertain whether they will be able to do so under the current circumstances.

Consultations and announcements over recent months have covered the following aspects of local government funding:

Fair Funding Review

- Intended to be introduced in 2021/22, but delayed once more as a consequence of the COVID-19 pandemic. The Review will set new funding baselines and confirm any transitional arrangements;

Business Rates Growth: Reset and 'Alternative' System

- The Government's stated aim is to balance risk and reward through a system of *Resets, Safety Nets, Levies, Tier Splits* and *Pooling*. Also to simplify the system by looking again at appeals, while addressing income volatility and introducing more simplification. This too has been put back (new date to be confirmed);

Business Rates Revaluation

- Delayed by an additional year to 2023 as a consequence of the COVID-19 pandemic;
- In June 2021 the Government launched a consultation on revaluations taking take place every three years instead of the current system of every five years;

New Homes Bonus:

- Alongside the latest single-year allocation for 2021/22 the Government confirmed its intention to make further changes to the system, for example further changes to the methodology based on a reduced funding allocation and/or the allocation of higher amounts to fewer authorities (or lower amounts to many). Further information on the future of New Homes Bonus may be announced as part of Spending Review21;

Specific Grants:

- There is still an expectation that these will be rolled into the funding system when 75% business rates retention is introduced (date to be confirmed)
- The Tax Income Guarantee and Lower Tier Services Grant were introduced in 2021/22; for the purposes of this report these are assumed to cease in 2022/23;

Negative RSG Grant

- It has also not yet been confirmed when this will cease. Further information may be announced as part of Spending Review21; for the purposes of this report it is assumed to cease by 2026/27; and

Council Tax:

- There is a possibility of increased freedoms (primarily for social care precepting authorities). Further information may be announced as part of Spending Review21.

Local Government Funding – Current Position

The last three-year Spending Review was in 2015, covering the financial years 2016/17, 2017/18 and 2018/9. The anticipated 2018 Spending Review never took place and departmental budgets were instead ‘rolled over’ into 2019/20, while the Spending Review in 2019 was also cancelled and replaced by an interim Spending Round that set out current spending by departments for one financial year (2021/22) and capital investment plans for two financial years (2021/22 and 2022/23). Spending Review20 was then delayed from July to November 2020 to enable the Government to remain focused on responding to the COVID-19 pandemic.

Spending Review21 is expected in autumn 2021 and there is some speculation that this may be a multi-year settlement, however that is to be confirmed.

In June 2021 the Government launched a consultation which could see business rates revaluations take place every three years instead of the current five. The consultation is part of the fundamental review of business rates which the Treasury now indicated will not conclude in 2021 as previously planned, instead publishing ‘preliminary conclusions in the autumn ahead of ‘final conclusions’ next spring.

Between 1990 and 2010, business rates revaluations took place every five years. The 2015 revaluation was postponed until 2017 and in May 2021, the 2021 revaluation was postponed until 2023 to reduce uncertainty for businesses affected by COVID-19. The Treasury argues that making revaluations more frequent would ensure they better reflect changing economic conditions.

Service & Financial Planning: Government Funding Assumptions

For the purposes of preparing this MTFP and the draft 2022/23 budget the following has been assumed:

- No changes to total local government funding as a result of Spending Review21;
- The most far-reaching funding changes will be delayed until at least 2023/24;
- When implemented, the funding changes are forecast to reduce this Council’s Government funding by £0.0.740m in year one followed by a further £0.220m

and £0.250m in each of the two subsequent years (£2.290m in total). This is as a consequence of the removal of 'Negative RSG' grant and the Business Rates reset. The forecast assumes there will be no other transitional funding arrangements for these changes;

- Council taxbase growth of up to 1.0% per annum and council tax increases continue to be capped at a maximum of 1.99% or £5; and
- Funding from New Homes Bonus to cease in 2022/23 (no new allocations). This does not have any direct implications for budget setting because New Homes Bonus is not treated as a source of funding when balancing the Revenue Budget.

4. Corporate Plan Priorities

The Council's Corporate Plan 2020-2025 sets out our priorities for the five year period, and explains how the Council will focus its resources and deliver services to those living, working and spending time in Reigate & Banstead.

This MTFP has been developed to align with the Plan vision and priorities.

The Corporate Plan includes objectives in relation to Housing, Vulnerable People, Communities & Community Safety, Leisure & Wellbeing, Towns & Villages, Economic Prosperity, Shaping our Places, Clean & Green Spaces, Environmental Sustainability, Financial Sustainability, Commercial Activities, Operational Assets and Skills & Great People.

The Plan includes:

- A set of 'cross-cutting commitments' describing how the Council will deliver services, covering aspects such as communications, customer contact, partnership working and environmental sustainability;
- A 'housing' objective to do more to secure the delivery of homes that are more affordable for local people;
- Expanded objectives about communities and vulnerable people, reflecting the Council's proactive housing, family support and community development activities; and
- An objective that recognises the need for the Council to support towns and villages in the borough to thrive and an updated objective on Shaping our Places recognising the future focus of our work in this area.

To achieve our financial sustainability objective, our Corporate Plan 2025 explains that the Council will:

- Ensure that our budget setting process is transparent and well-managed to deliver a balanced budget outcome each year;
- Run an effective collection team to recover money owed to us;

- Operate in an efficient and rigorous way across all our day-to-day financial operations;
- Publish and keep up-to-date our Capital Investment Strategy; and
- Need to increase Council Tax every year to reflect increasing costs, but the Council will review this position annually.

Commercial Strategy

Following the Member task group review of commercial activity in 2018, and the establishment of the Commercial Ventures Executive Sub Committee and a new Commercial directorate in 2019, Part 1 of the Commercial Strategy was developed in consultation with Commercial Ventures Executive Sub Committee members and approved by the Executive in November 2020.

The definitions and principles that it includes, and the categories of activities it sets out, are intended to assist in the understanding of why this Council needs to undertake commercial activity, and how funding allocated in 2020/21 and 2021/22 will be focused. It also includes a Commercial Activity Action Plan, progress on which will be reported annually. The Action Plan will support delivery of new income generation opportunities for inclusion in future MTFP forecasts.

Part 1 sets out what commercialisation means to this Council, including:

- Income generation for reinvestment into Council frontline services;
- Creating a culture that encourages skills that support an enhanced approach to commercial work, including a positive culture and behaviours;
- Providing a response to reduction of Government grant and the increased need to be financially self-sustaining, whilst creating opportunity to change and supplement existing activities;
- Allowing optimisation of income and identifying new revenue opportunities that fit the remit and ambition of this Council;
- Using resources in an agile fashion to meet changing needs of residents; and
- Promoting internal efficiency and effectiveness when approaching commercial activities;

It is based on three guiding principles:

- **Principle 1:** Our commercial activity will be ethical, and consistent with the Council's statutory responsibility to promote economic, environmental and social wellbeing in the borough, and our corporate objectives as well as in line with all relevant advice and guidance;

- **Principle 2:** Any decisions which have a commercial aspect will be based on a robust assessment of the business case using consistent relevant criteria, and appropriate due diligence and risk assessment; and

- **Principle 3:** Surplus income generated through our commercial activities will be used to ensure the financial sustainability of the Council and continued delivery of services for local people.

Part 2 of the Strategy is now in development and will provide more detail about the implementation of commercial activity, particularly investment activity. The intention is that Part 2 will be regularly updated to take account of market conditions, project progress and MTFP projections.

5. Budget-Setting Priorities 2022/23

The Priorities that will be taken into account when preparing the draft Budget for 2023/24 are set out below:

- To ensure resources are aligned with the emerging **Corporate Plan priorities;**

- To maintain a **balanced budget** such that expenditure matches income from council tax, fees and charges, and government and other grants and to maintain that position;

- To set a rate for **council tax** which maximises income necessary to deliver our strategic objectives while ensuring that Government referendum limits are not exceeded. The percentage increase will be reviewed annually and be approved by Full Council;

- To **maximise other income** by setting fees and charges, where we have the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write-offs;

- To ensure a long-term sustainable view is taken of our **investments** and that appropriate risk analyses are used when considering new investments;

- To consider and take advantage of **commercial opportunities** as they arise to deliver new income streams;

- To maintain an adequate and prudent level of **reserves** and regularly review their planned use and allocation to support delivery of our priorities; and

- To address the legacy financial challenges forecast as a consequence of the **COVID-19 pandemic**.

Value for Money
The Council will assess and challenge the value for money (economy, efficiency and effectiveness) provided by each service through the service & financial planning process.

Information about our performance compared to other councils across a range of published measures is published on the LGA website at https://lginform.local.gov.uk/

6. The Revenue Budget

The Revenue Budget comprises five 'building blocks' as follows:

- **Net Cost of Services**: These are the direct costs incurred in delivering services through the three Directorates, net of specific income generated by them;

- **Central Budgets**: These are costs incurred and income received that are not service-specific, eg. treasury management costs and income and audit fees;

- **Sources of Funding**: These income budgets are general, non-service specific income sources. They include other grant funding from Central Government and our share of Non-Domestic Rate income which includes the continued impact (benefit) of the one-off elimination of 'Negative Revenue Support Grant' that was announced by the Government in September 2019 and has continued in subsequent years pending the outcome of local government funding reforms;

- **Council Tax**: After the budget requirement has been established for the other blocks then the amount required by this Council from council tax can be calculated; known as the 'Demand on the Collection Fund'; and

- **Contributions (to)/from Reserves**: This relates to use of Earmarked Revenue Reserves, which have been allocated to fund specific purposes. The impact of the use of Reserves is a reduction in the total income demand on council taxpayers. It also refers to the use of funds from the General Fund Balance to support the annual revenue budget (£0.235m in 2021/22).

Revenue Budget Outturn 2020/21
In February 2020 the Council set a net Revenue Budget for 2020/21 of £24.459m, including an advance payment of employer's pension contributions of £6.204m. Transfers from the Corporate Plan Delivery Fund and other Earmarked Reserves during the year resulted in a net increase to £25.713m.

<u>Service Budgets</u>
The 2020/21 Original Budget for Services approved by Council in February 2020 was £14.90m. At 31 March 2021 the full year outturn was £17.852m against a management budget of £16.010m resulting in an overspend of £1.841m (11.5%). The primary reason for this overspend is the inclusion of income losses as a consequence of the COVID-19 pandemic.

The table below summarises the 2020/21 provision outturn reported to Executive in June 2021.

Table 3: REVENUE BUDGET MONITORING AT 31.3.21	**Original Budget £m**	**In-Year Adjustments £m**	**Management Budget £m**	**Year-end Outturn £m**	**Year End Variance £m**
Service Budgets – including the impacts of COVID-19 pandemic income losses	14.900	1.110	16.010	17.852	1.841
Central Budgets	9.560	0.142	9.702	6.935	(2.767)
Sub-Total	**24.459**	**1.253**	**25.713**	**24.787**	**(0.925)**
COVID-19 Pandemic – unplanned expenditure					3.782
COVID-19 Pandemic – specific Government Funding					(3.327)
COVID-19 Pandemic - other Government Funding					(4.170)
COVID-19 Pandemic – distribution of discretionary Business Grants to 31 March					(0.238)
Total Revenue Budget Outturn 2020/21 inclusive of COVID-19 Pandemic Expenditure and Funding					**(4.878)**
Transfers to Reserves:					
Contribution to General Fund Balance/Earmarked Reserves					2.184
Unspent balances on specific Government funding for COVID-19 impacts - to be transferred to an Earmarked Reserve					0.456
Balance of COVID-19 Government funding for discretionary business grants - to be transferred to an Earmarked Reserve to fund the ongoing Pandemic Response					0.238
Balance of other COVID-19 Government funding - to be transferred to an Earmarked Reserve to fund the Council's ongoing pandemic response					2.000
Total					**4.878**

The most significant Service Budget variances for the year are summarised below:

Organisation:

- £0.617m overspend in Finance, which is mostly attributable to the costs of interim staff covering vacant posts and additional support for the closure of accounts and advising on development projects. Permanent staff recruitment has now been completed with all staff in post by October. The Head of Finance post is still covered on an interim basis. Other overspends within Finance relate to £0.060m increased cost of financial software and £0.020m transactional related charges from the Council's banking provider. These pressures have been addressed during 2021/22 Service & financial Planning.

- £0.231m underspend in ICT due to lower software costs, hardware maintenance costs and staff vacancies.
- £0.231m underspend in Legal Services due to vacancies. These posts have now been recruited.
- £0.094m underspend in Democratic Services
- £0.184m underspend in Elections due to cancelled local elections
- £0.116m increased income for Land Charges
- £0.070m underspend in Organisation Development & Human Resources due to vacancies earlier in the year.

Place:

- £0.074m net overspend in Refuse and Recycling due to additional temporary staff and overtime; offset in part by fuel price decreases and increased income
- £0.105m additional Fleet costs of older vehicles
- £1.702m income losses from Parking
- £0.097m savings on fuel costs and vacant posts for Street Cleansing

People:

- Housing – the underspend reflects receipt of £0.402m additional funding that will be carried forward for use in 2021/22
- Revenues &, Benefits & Fraud – the primary underlying causes contributing to the £1m overspend at year end (20/21) are:
    - loss of income due to the COVID-19 pandemic: £0.179m was lost due to courts being closed and therefore costs from council tax summonses were not recovered. Another £0.070m was lost from the service’s external contracts for commercial work.
    - Irrecoverable bad debts were written off - £0.200m for Fraud/Compensation cases; £0.101m Council Tax Benefits debts balance; £0.095m Housing Benefit Overpayments.
    - £0.095m reduction in Housing Benefit subsidy due to an increase in private supported accommodation in the borough for which the Council does not get fully reimbursed by the Government. The subsidy rate on all Housing Benefit expenditure was 99.3% of net expenditure, less than the usual rate of 99.6% in previous years. £0.140m against Software Acquisitions and External printing. Budget growth has been approved for these two areas for 2021/22.
    - £0.160m of Printing and Software related cost pressures. This budget has also been reviewed as part of the 2021/22 Service & financial Planning process.
- Supporting Families – the underspend reflects receipt of £0.240m additional funding that will be carried forward for use in 2021/22

- Harlequin Theatre – income losses due to the COVID-19 pandemic £0.266m
- Leisure Services – management fee income losses due to the COVID-19 pandemic £0.240m

Senior Management Team

- £0.266m underspend in the Chief Executive's Office due to reduced salary costs

The service & financial planning process for 2022/23 will include an assessment of whether any Service budgets require realignment to reflect historic outturn trends.

COVID-19 Expenditure and Funding

The Revenue Budget for 2020/21 that was approved by Council in February 2020, was agreed before the impacts of the COVID-19 pandemic became apparent. It did not therefore consider the significant additional financial impacts that have been faced during 2020/21 on Service income and expenditure budgets and on Collection Fund income forecasts for council tax and business rates.

Throughout the year the pandemic has represented a potentially material financial risk to the Council's budget and financial position. The underlying analyses have evolved throughout the year therefore it is only now, at the close of the year that the final outcomes can be reported. Initially there was genuine concern across the local government sector that funding provided by the Government would not match the additional expenditure incurred or the income that was being lost. The final outcome is much more positive; for 2020/21 at least.

Wherever practicable the additional costs of delivering the Council's response to the pandemic have been recorded separately in order to track costs and ensure that all available Government funding was being claimed. As explained above, the primary exception was income losses as a consequence of the pandemic which have had to continue to be recorded against service income budgets.

The table below sets out a summary of the additional pandemic-related expenditure and the funding that has been received to offset it, as reported to Executive in June 2021.

Table 4: COVID-19 EXPENDITURE AND FUNDING AT 31.3.21	**Additional Expenditure £m**	**Additional Funding £m**	**Net Expenditure / (Funding) £m**
COVID-19 Pandemic - Expenditure less specific grants & funding	3.782	(3.327)	**0.455**
COVID-19 Pandemic - other Government funding	-	(4.170)	**(4.170)**
COVID-19 Pandemic - discretionary business grants for distribution/retention (remaining balance at 31 March)	0.102	(0.340)	**(0.238)**

Further detail is provided at Appendix 8.

Total additional expenditure as a consequence of the pandemic was £3.782m. The most significant areas of activity included:

- Supporting Shielded Residents and contributions to Voluntary Sector activities - £1.921m
- Council-wide expenses including staff redeployment, supporting remote working and compliance checks on grants - £0.631m
- Garden Waste additional expenses - £0.148m and customer refunds £0.475m
- Environmental & Regulatory checks and control measures - £0.220m
- Provision of support for the homeless - £0.156m
- Cultural services additional expenses - £0.080m
- Marketing and Public Notices - £0.071m
- Purchase of PPE - £0.153m

Specific grants and donations to support the above included:

Table 5: COVID-19 Specific Government Grants	**£m**
Contain Outbreak Management Funding (COMF) to support vulnerable residents	1.331
Hardship Funding – to support council tax benefit claimants	0.755
Homelessness Support Grants	0.289
New Burdens Funding – for additional admin costs	0.275
Clinically Extremely Vulnerable Funding	0.253
Reopening the High Street Safely Grant	0.132
Emergency Assistance Funding	0.089
Other Funding & Donations	0.058
Compliance & Enforcement Grants	0.058
Environmental Response Funding	0.040
Environmental Health Grant	0.040
Winter Grant Funding – for food for families	0.007
Total	**3.327**

The majority of this funding was received direct from the Government but some came via Surrey County Council and also from the general public.

The general funding support from Government has comprised:

Table 6: COVID-19 General Government Funding Support	**£m**
Sales Fees & Charges Compensation Grant – representing c65% of all losses incurred	2.337
Emergency Grant for general COVID expenditure	1.833
Total	**4.170**

On balance the position at year end is much more encouraging than initially feared; all costs have been funded and income losses made good for 2020/21. There is also a healthy funding balance to carry forward to 2021/22 to help fund the ongoing pandemic response and impacts on service delivery, including income losses. In the budget report for 2021/22 these were forecast to be in the region of £2.220m:

Income losses

- Community Centres - £0.200m
- Harlequin - £0.180m
- Parking - £1.200m
- Commercial Waste - £0.160m
- Property Rents - £0.270m

Expenditure pressures

- Homelessness prevention - £0.210m

Other potential pressures relate to the Council's leisure provider who may not be able to pay their management fee in full again in 2021/22.

Updated forecasts for 2021/22 will be reported to Executive in the first quarter's budget monitoring report.

Additional Government COVID-19 funding for 2021/22 includes a confirmed £0.638m grant for general COVID expenditure and a further contribution towards Sales, Fees & Charges losses in quarter one (amount to be confirmed). This will supplement the £2.000m that was set aside in an Earmarked Reserve (details above) at year end. A further allocation of Contain Outbreak Management Funding (COMF) is also expected.

Looking forward beyond 2021/22 there remain concerns that ongoing costs and residual income losses may ultimately add to the forecast budget gap over the medium term as there is no current prospect of further Government funding for the majority of these pressures beyond the end of June 2021. When the carried-forward funds and any new Government grants have been exhausted any ongoing unfunded impacts will have to be accommodated within future budget-setting decisions and may result in a call on Reserves until sustainable solutions are implemented.

As previously-reported, over the medium term, the main options for mitigating the financial impacts of COVID-19 include:

- Continue to lobby Central Government for additional funding in recognition of the residual impacts on district Councils and their ability to deliver services;
- Look to make offsetting savings and efficiencies where possible before calling on Reserves; and
- Make use of Earmarked Revenue Reserves to close the gap. This has implications for the projects and services and other potential risks that were intended to be funded from these resources.

As a final resort it would be necessary to apply for permission from Government to capitalise some of the costs and financial impacts to enable the Council to borrow and fund them on a long-term basis. This would place the Council in the spotlight as being at risk of financial failure.

Further updates on forecast impacts on costs and income and how they might be funded will continue to be included in the quarterly budget monitoring reports throughout 2021/22.

Central Budgets

The 2020/21 Original Budget for Central budgets approved by Council in February 2020 was £9.560m. At 31 March the outturn was £6.935m against a management budget of £9.702m resulting in an underspend of £2.767m (28.52%).

This underspend is mainly as a result of:

- £1.586m forecast underspend in Treasury Management: this is due to the net effect of increased income from loans and investments, including interest on the second loan to Greensand Holdings Limited (for the purchase of land at Horley) and lower than forecast borrowing costs due to Capital Programme slippage; and
- £0.722m forecast underspend in Budget Contingencies.

COVID-19 Business Grants & Reliefs

During the year the Council's Revenues, Benefits & Fraud team was required by the Government to administer grants and additional business rate reliefs for local businesses and also Test & Trace payments to individuals to help them mitigate the financial impacts of the pandemic.

As reported to Executive in June 2021, these grants included:

Table 7: COVID-19 Government Funding for Distribution/Repayment	**Funding Received for Grants & Reliefs to Businesses £m**	**Funding Received for Payment to Individuals £m**
Additional Restrictions Grants	4.295	
Local Restrictions Support Grants	9.833	
Christmas Support Payments (Pubs)	0.032	
Closed Business Lockdown Payments	6.282	
Additional Business Rate Reliefs	23.680	
Test & Trace Payments		0.213

At 31 March £34.505m had been distributed. The unspent balance on these sums (£9.835m) will be accounted for at year end but does not form part of the Council's resources. Any unspent balances when these individual grant schemes end will eventually have to be paid back to the Government.

As reported to Executive in June 2021, the only exceptions are the following grants where the Council has discretion over how the funds are distributed and can retain the funds until distributed in full. The unallocated balance will be held in an earmarked COVID-19 Reserve at year-end for ongoing distribution in 2021/22.

Table 8: COVID-19 Business Grants for Distribution/Retention	Funding Received for Grants to Businesses £m
Local Discretionary Grants Fund	0.130
Local Restriction Support Grants (Open)	0.210

Revenue Budget 2021/22

The Revenue Budget for 2021/22 was approved in February 2021. In summary it comprises:

Table 9: BUDGET SUMMARY 2021/22	Budget 2021/22 £m
1. Net Cost of Services	14.903
2. Central Budgets	2.492
NET EXPENDITURE 2021/22	**17.395**
3. Council Tax	14.365
4. National Non-Domestic Rates (NNDR)	1.819
5. Un-ringfenced Grants – transferred to Reserves	2.193
6. Other Un-ringfenced Grants	0.734
7. Contribution to Earmarked Reserves:	(2.193)
8. Call on Earmarked Reserves in 2021/22:	0.242
9. Use of funds from the General Fund Balance to support the 2021/22 Revenue Budget[1]	0.235
NET SOURCES OF INCOME 2021/22	**17.395**

NOTE 1: The actual sum to be drawn from Reserves to support the budget will depend on the budget outturn position for 2021/22. Over recent years the budget outturn has been an underspend position with no requirement to call on Reserves.

Service Budgets

Table 10: SERVICE BUDGET PROPOSALS	Budget 2021/22 £m
ORGANISATION	
Communications / Customer Service	1.052
Finance	1.168
ICT	1.810

Table 10: SERVICE BUDGET PROPOSALS	Budget 2021/22 £m
Legal & Governance	2.022
Organisational Development & HR	0.785
Corporate Policy, Projects & Performance (inc environmental sustainability)	0.420
Property / Commercial	(1.510)
PLACE	
Economic Prosperity	0.398
Neighbourhood Operations	3.119
Place Delivery	0.326
Planning	0.548
PEOPLE	
Community Development	1.588
Housing	0.950
Revenues, Benefits & Fraud	0.525
Wellbeing & Intervention	0.537
SENIOR MANAGEMENT TEAM	1.166
TOTAL	**14.903**

Central Budgets

Central budgets are summarised in the table below. They comprise those budget items that are corporate in nature and are not associated with delivery of specific services. Further details are provided at Appendix 1.

Table 11: CENTRAL BUDGETS	Budget 2021/22 £m
Insurance	0.460
Treasury Management	
○ Interest on Investments and Company Loans	(1.218)
○ Interest on Borrowing	0.165
○ Minimum Revenue Provision	1.361
○ Interest on Trust Funds and Treasury transaction costs	0.041
External Audit Fees[1]	0.067
Budget for Staff Salary Increases[2]	1.428
Preceptor Grants	0.038

Table 11: CENTRAL BUDGETS	Budget 2021/22 £m
Apprenticeship Levy[3]	0.069
Visa Sponsorship Budget	0.005
Central Training Budget	0.077
Central Salary Contingencies	-
Central Budgets	**2.492**

NOTES
1. 2021/22 audit fees were subject to confirmation at the time of preparing this report. The Provisional Settlement included an additional £15m to help fund increased fees following the Redmond review of external audit. Individual allocations are to be confirmed.
2. To be transferred from Central to Service budgets in April 2021 to reflect allocation of the pay increase across services
3. To be confirmed when final salary costs are confirmed

7. Revenue Budget Funding 2021/22

The sources of funding for the revenue budget are set out in the table below.

Table 12: REVENUE BUDGET FUNDING	Budget 2021/22 £m
1. Council Tax	14.365
2. National Non-Domestic Rates (NNDR)	1.819
3. Un-ringfenced Grants – transferred to Reserves	
• COVID-19 Emergency Funding - Allocation 5	0.638
• New Homes Bonus	0.887
• Homelessness Prevention	0.668
4. Other Un-ringfenced Grants	
• Lower Tier Services Grant	0.394
• COVID-19 Tax Income Guarantee Grant (estimate)	0.150
• COVID-19 Local Council Tax Support Grant	0.190
5. Contribution to Earmarked Reserves:	
• COVID-19 Emergency Funding – transferred to new COVID-19 Reserve	(0.638)
• New Homes Bonus – 2021/22 allocation transferred to Government Funding Risks Reserve	(0.887)

Table 12: REVENUE BUDGET FUNDING	Budget 2021/22 £m
• Homelessness Prevention – 2021/22 allocation transferred to Earmarked Reserve	(0.668)
6. Call on Earmarked Reserves in 2021/22:	
• Government Funding Risks Reserve *(Housing Benefit subsidy reduction)*	0.104
• Commercial Risks Reserve *(Redhill hotel rent income reduction and Revenues & Benefits trading income)*	0.138
7. Use of funds from the General Fund Balance to support the 2021/22 Revenue Budget[1]	0.235
NET SOURCES OF INCOME 2021/22	**17.395**

Factors taken into account include:

Retained Business Rates Income and Negative RSG Grant	• This Council's share of retained business rates will be £2.620m after taking account of the historic Collection Fund deficit brought forward plus the first of three instalments of £0.578m relating to recovery of the 2020/21 deficit.
Council Tax	• The forecast level of Council Tax income for 2021/22 is based on a £5.00 Band D equivalent increase and the forecast tax base.
New Homes Bonus	• Includes forecasts for New Homes Bonus in 2021/22 based on the December 2020 Provisional Settlement announcement. These funds (£0.887m) have been transferred to Reserves.
Contributions (To)/From Reserves	• Includes the net contribution of £0.235m that will be required from the General Fund Balance to address the forecast remaining Revenue Budget gap in 2021/22 and contributions from Earmarked Reserves for specific risks. Also, the transfer to Reserves of the 2021/22 New Homes Bonus Allocation and Homelessness Prevention Grant.

8. Council Tax

Decisions around the annual council tax increase and taxbase growth are two key variables in the MTFP.

Although this is a significant funding source, it remains subject to restrictions by Government. The Localism Act included a requirement to hold a local referendum if any council tax increase is deemed ‘excessive’ and the limit for increases is set each year.

The forecast amount of council tax to be collected takes into account local decisions on discounts, exemptions and reliefs and the local council tax support scheme.

Council Tax 2021/22

The referendum cap was confirmed with the Provisional Local Government Funding Settlement Announcement in December 2020, being the higher of 1.99% or £5.00 for district councils. £5.00 (2.20%) is to this Council’s advantage as it yields a higher level of income. This was the approved recommended increase

The Council Tax increase of £5.00 increased a Band D charge from £227.46 to £232.46, an increase of 10 pence per week. The total income from council tax for this council therefore increased from £14.100m to £14.365m.

As reported to Executive in November 2020, the impacts of the forecast increase in the taxbase and collection performance for 2021/22 was 225.5 Band D equivalent properties, an increase of 0.37% compared to 2020/21, after allowing for growth of 1.56% offset in part by an increase in local concessionary tax support as a result of the pandemic.

COVID-19 Impacts

As forecast, overall collection rates were lower in 20/21 due to the disruption caused by the pandemic; recovery action through the courts was not possible for several months and Revenues team capacity was reduced due to the competing demands of processing business grants. Nevertheless recovery performance in comparison to other councils remained strong. During the year the Government introduced measures to help councils manage disrupted cashflows and to spread the Collection Fund deficit over three years to help offset the financial impacts of reduced income compared to the original budget.

Council Tax Policy

Changes to council charges on empty homes were approved during 2021/22: homes that have been empty and substantially unfurnished for more than ten years will be charged a Council Tax long term empty premium equivalent to 300% of the Council Tax in addition to their current Council Tax.

As these changes help deliver a county-wide initiative to reduce the number of empty properties throughout Surrey, the County Council has agreed to reallocate its share of the increased funding that results from changes in Empty Homes policies to participating boroughs and districts in the years in which the policies apply, where agreed conditions are met. The funding is intended to be used for new schemes that cannot be funded within existing budgets.

The County Council plans to invite bids in September in each year. This Council’s share of the funding for 2021/22 is £0.041m and a proposal has been submitted and agreed to use the funds to support delivery of the Environmental Sustainability Strategy.

Further submissions will be made in future years when invited to do so by the County

Council.

Council Tax Precepts 2021/22

Table 13: ANALYSIS OF DRAFT COUNCIL TAX BY PRECEPTOR		
Authority	£000	% share
Surrey County Council[1]	94,061.1	74.48%
Surrey Police & Crime Commissioner[1]	17,339.8	13.73%
Reigate & Banstead Borough Council	14,418.6	11.42%
Horley Town Council	428.1	0.34%
Salfords & Sidlow Parish Council	42.0	0.03%
	126,289.6	**100.00%**

Table 14: ANALYSIS OF DRAFT COUNCIL TAX CHANGES BY PRECEPTOR				
Authority	**2021/22**	**2020/21**	**Increase**[1]	
			£	**%**
Surrey County Council	1,549.10	1,511.46	37.64	2.49%
Surrey Police & Crime Commissioner	285.57	270.57	15.00	5.54%
Reigate & Banstead Borough Council	237.46	232.46	5.00	2.15%
Horley Town Council	41.51	39.71	1.80	4.53%
Salfords & Sidlow Parish Council	29.72	27.18	2.54	9.35%
	2,143.36	2,081.38	61.98	2.89%

Local Council Tax Support Scheme

The Council funds c10% of council tax for eligible claimants. This reduction in income is taken into account when the taxbase is calculated as part of budget-setting. No general Government funding is provided; the costs fall on the General Fund.

The Council's Scheme is scheduled for review during 2021/22.

During 2021/22 the Government provided a one-off grant of £0.190m to help fund the potential additional costs of the scheme due to increased applicants following the pandemic. This is not expected to continue in 202/23.

Council Tax Collection Performance 2020/21

This Council's collection performance for council tax in 2020/21 was 98.06% (98.65% in 2019/20); 37th highest performance compared to all English local authorities

Council Tax Options 2022/23

Each 1% increase in Council Tax generates £0.144m additional income for this borough. A £5 increase in 22/23 would yield £0.510m additional income

Council Tax Forecasts

For MTFP modelling purposes, the Council Tax income forecast at June 2021 is set out below:

Table 15: COUNCIL TAX FORECAST	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Forecast Resources	14.360	14.900	15.410	15.940	16.330	16.650
Annual Increase in Income	-	0.540	0.510	0.530	0.390	0.320
Cumulative Increase in Income		0.540	1.050	1.580	1.970	2.290
Band D	£237.46	£242.46	£247.46	£252.46	£257.46	£262.46
Band D Increase	-	£5.00	£5.00	£5.00	£5.00	£5.00
Taxbase Increase	1.15%	1.5%	0.7%	0.4%	0.5%	0.5%

9. Business Rates (National Non-Domestic Rates)

In 2013, the Government introduced a scheme through which local authorities retain a proportion of any business rates growth above a set 'baseline'. The purpose was to give authorities a financial incentive to encourage and foster economic growth within their area and to work collaboratively with other authorities and business organisations to achieve that growth.

While this scheme was broadly welcomed by the sector, there remain concerns over the potential volatility of this income stream due to the level of appeals; even a small variation in the overall revenue generated can result in a significant financial impact.

Over recent years the Government has ben undertaking a review of how business rates will operate going forward and has stated its intentions to achieve 75% localisation of business rates. The full impact of this cannot be assessed until the details of these changes are release by the Government.

Appeals

Business rate forecasts include an assessment of the likelihood of successful appeals.

Business Rates Collection Performance 2020/21

Collection performance for business rates in 2020/21 was 99.8% (99.94% in 2019/20); this was the 2nd highest performance in the country compared to all English local authorities

Business Rates Forecast at June 2020

Table 16 : NNDR FORECAST	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Forecast NNDR Resources	1.819	1.710	2.060	2.690	2.750	2.980

Table 16 : NNDR FORECAST	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m
Less 'Negative RSG Grant'	-	-	-	(0.740)	(0.980)	(1.230)
Net Forecast	**1.819**	**1.710**	**2.060**	**1.950**	**1.770**	**1.750**
Annual Increase / (Reduction)	-	(0.109)	0.350	(0.110)	(0.180)	(0.020)
Cumulative Increase / (Reduction)	-	(0.109)	0.241	0.131	(0.049)	(0.069)

These forecasts take into account the impacts of spreading 2021/22 collection fund losses over three years and the removal of one-off support measures after 2021/22.

COVID-19 Impacts
From the onset of the pandemic local businesses in the retail, hospitality, leisure and nursery sectors were awarded £23.68m in additional business rate relief as part of the Government's support to those parts of the economy that experienced the most significant impacts during lockdown.

As forecast, overall collection rates were lower in 20/21 due to the disruption caused by the pandemic; recovery action through the courts was not possible for several months and Revenues team capacity was reduced due to the competing demands of processing business grants. Nevertheless recovery performance in comparison to other councils remained strong.

Spending Review20 in November 22020 confirmed that the Government planned to fund 75% of business rate and council tax losses for 2020/21. However it was not until June 2021 that the methodology for the Tax Income Guarantee Scheme to be applied to business rates losses was finally confirmed. This significantly reduced compensation from the scheme for the majority of authorities compared with projections based on the Settlement announcement.

10. New Homes Bonus

The New Homes Bonus was introduced in 2011/12. Authorities are rewarded with a financial bonus, equal to the national average council tax on each additional property built which is paid for a number of years as a non-ring-fenced Government grant. 80% of the Bonus is paid to the district council and 20% to the county council. here is an enhanced payment for new affordable homes.

New Homes Bonus was revised for the 2017/18 financial year with the length of time it is paid reducing from six to five years (for the 2017/18 award) and to four years from 2021/22 onwards. A new 'baseline' of +0.4% growth was also introduced before any Bonus is paid. The retained funds were used by the Government to support authorities with adult social care responsibilities.

The Government originally set out its intention to end New Homes Bonus as part of the Fair Funding Review. The objective is to replace this mechanism with a different means of incentivising and rewarding housing growth. The detail and timing remain unclear due to the delay in the Fair Funding review.

New Homes Bonus funds are transferred to Reserves each year to help manage future financial risks; they are not used to fund the Revenue Budget.

11. Revenue Reserves

The Council holds Reserves to provide protection against financial risks. Our current level of reserves provides a relatively secure financial base compared to many authorities; it is important to ensure an appropriate balance between securing the financial position of the Council and investing in delivery of services.

Reserves can be held for four reasons:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events or emergencies;
- A means of building up funds to meet known or predicted liabilities; and
- A means of setting aside sums for future identified uses and / or investments

There is an opportunity cost of holding reserves in terms of restricting capacity to invest in current service delivery but this is offset by the additional flexibility that reserves provide when manage budget risks and adverse variations.

Our Reserves Policy is set out at Appendix 4.1 with details of revenue reserve balances held at 31 March 2021 at Appendix 4.2. The level of Reserves be reviewed during service & financial planning over the summer with the aim of presenting the recommended use of reserves in 2022/23 onwards as part of the November budget report. This will include an assessment of the adequacy and allocation of current reserves and the associated risks and opportunities.

General Fund Balance
The General Fund Balance Reserve is held to manage the impact of any unexpected events/emergencies. The Section 151 Officer is required to review the level of the General Fund Balance annually in relation to the overall financial position of the Council. CIPFA guidance on Local Authority Reserves and Balances (2003) and the Local Government Act of 2003 do not recommend a specific value or budget %.

The Council’s Section 151 Officer advised in the January 2021 budget report that a working balance of £3.0m is considered the minimum level required. This represents just over 15% of the net budget for 2021/22. This minimum level will be reviewed again as part of 2022/23 service & financial planning.

Earmarked Revenue Reserves
Earmarked Revenue Reserves may be used as part of a planned process to balance the budget in order to avoid short term actions which may not be in the best interests

of the Council. They also allow funds to be set aside for specific purposes, often spanning more than one financial year.

Useable Revenue Reserves
Revenue Reserves have increased steadily over recent years.

Table 17 : USEABLE REVENUE RESERVES	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m	2019/20 £m	2020/21 £m	2021/22 £m
General Fund Balance	6.075	6.717	8.737	5.912	12.547	12.547	8.949	3.000
Earmarked Reserves	9.526	10.963	13.485	19.075	21.703	25.042	32.646	38.738
Total Reserves	**15.601**	**17.680**	**22.222**	**24.987**	**34.250**	**37.589**	**41.595**	**41.738**
Reserves as a % of the Net Revenue Budget	119.14%	135.01%	169.70%	190.81%	261.55%	287.05%	255.26%	240.00%

COVID 19 Reserves
The 2021/22 Reserves include sums set aside following the COVID-19 pandemic:

- £2.000m to cover ongoing general expenditure and to help mitigate the impacts of income losses;
- £0.108m Government funding for discretionary business grants received in 2020/21 and carried forward to 2022/23; and
- £0.534m for other pandemic funding received in 2020/21 and to be used in 2021/22 to help fund general costs.

Opportunity Cost of Holding Reserves
The opportunity cost of holding reserves has to be considered. Unused balances are used to either reduce temporary borrowing or are invested to generate income. In measuring the opportunity cost of holding reserves, consideration needs to be taken of the interest earned. The opportunity cost of holding reserves is therefore a judgment whether the 'worth' of expenditure foregone is more than the income generated. Given the current economic climate it is a balanced judgement as to whether to invest / spend reserves or to retain them.

Assessing the Adequacy of Reserves
The Chartered Institute of Public Finance and Accountancy (CIPFA) state that the Institute 'does not accept a case for introducing a statutory minimum level of reserves, even in exceptional circumstances'. It does however confirm that authorities should make their own judgment on such matters, taking into account all relevant local circumstances on the advice of their Chief Finance Officer.

The Local Government Act 2003 requires the Chief Finance Officer to formally report on the adequacy of the proposed financial reserves. To arrive at assessing the adequacy of reserves a number of issues need to be addressed:

- What are the strategic, operational and financial risks facing the Council?

- Does the Council comply with the requirements to ensure that there is an adequate system of internal control?
- Are the key financial assumptions in formulating the Council's budget robust and reasonable?
- Does the Council have adequate financial management and cash flow arrangements?

In addition there are a number of questions an authority can ask to demonstrate that it is managing its affairs satisfactorily:

- What is the track record of the Council in its budgetary and financial management?
- What is the Council's record regarding council tax collection?
- What is the Council's capacity to manage in-year budgetary pressures?
- What is the strength of the Council's financial reporting?
- What are the procedures to deal with under and over spends during and at the year end?
- In the case of Earmarked Revenue Reserves, will there be expected calls on the reserves that prompted the setting up of the reserves in the first place?

Finally, there is a need to look at the assumptions made in setting the budget, not just for the coming year but also under the MTFP. The budgetary assumptions cover:

- Inflation and interest rate projections;
- Estimate and timings of capital receipts;
- Treatment of planned efficiency savings; and
- Financial risks involved in major funding arrangements.

It is likely that the current allocation of funds to Reserves will have to be reviewed as part of the Council's response to any ongoing financial impacts of the COVID-19 pandemic.

12. Medium Term Financial Plan Forecast 2022/23 onwards

An early review of Medium-Term Financial Plan budget forecasts has identified a number of new budget pressures that will need to be addressed through service & financial planning in 2022/23 onwards.

They include:

- Making budget provision for future pay and pensions increases;
- Budgeting for the costs of approved borrowing to fund planned Capital Programme commitments;

- The impacts on available resources of Government funding reductions in future years, including the loss of Negative RSG Grant, the Fair Funding Review and Business Rates Reset;
- Revenue and capital budget growth to deliver priorities in the new Corporate Plan – details to be confirmed during service & financial planning; and
- The ongoing financial impacts of the COVID-19 pandemic; for example continued reductions in income forecasts.

The service & financial planning process over the summer will focus on quantifying the impacts of these potential pressures as the details are confirmed; also identifying the new sources of income that are to be delivered to help address them. The outcome of service & financial planning will be reported in November.

Revenue Budget-Setting Assumptions 2022/23

The following assumptions will be used during service & financial planning over coming months when preparing the draft Budget estimates for 2022/23:

Council Tax	• To increase by the referendum limit – assumed to be £5 for this report • Plus an increase to reflect forecast growth in the taxbase • The impacts of local discounts, exemptions and the local council tax support scheme will be taken into account when preparing income forecasts
Government Funding	• Fair Funding Review and loss of Negative RSG Grant will not take place in 2022/23
Retained Business Rates Income	• Reset of Business Rates will not take place in 2022/23
Fees & Charges	• The Council’s Fees & Charges Policy is attached at Appendix 5. For budgeting purposes it is assumed that fees and charges will increase in line with the Policy and that all fees and charged will be reviewed to ensure they comply.
Investment Income and Borrowing	• Investments and borrowing will be forecast in line with forecast balances (reserves) and capital spending plans
Pay Inflation	• An allowance for a pay award will be included in the draft Budget, in addition to forecast contractual pay increases. • This provides the option for pay rises but the specific rate of increase will be subject to established consultation processes.
Employer Pension Costs	• The approach will be consistent with the actions agreed following the latest actuarial review of the Surrey Local Government Pension Fund at 31 March 2019; the outcome has been profiled into the budget for the three years to 2023/24. • The 2019 valuation confirmed that the Fund’s total assets, which at 31 March 2019 were valued at £4.483m, were sufficient to meet 96% of liabilities (ie. the present value of promised retirement benefits) accrued up to that date. The resulting total Fund deficit at the 2019 valuation was £196m.

- Each employer has a contribution requirement set at the valuation, with the aim of achieving full funding within an agreed time horizon and probability measure, as set out in the Fund's Funding Strategy Statement. Individual employers' contributions for April 2020 to March 2023 have been set in accordance with this requirement.
- For Reigate & Banstead this is based on a 15% payroll oncost charge plus a £2.2m lump sum annual deficit payment with the option to pay this in 'Year 1' at a discount.
- The next actuarial review will be at 31 March 2022 and any budget implications will be built into budgets for 2024/25 onwards.
- National consultation is currently in progress regarding moving to a four-year revaluation cycle going forward.
- For 2021/22 this budget reflects the outcome of the 2019 Pension Fund Revaluation and the funding options offered to employers by the Fund.
- As part of budget-setting 2021/22 The approved approach was:
    - To maintain the primary employer contribution rate at 15% of salaries. This has been factored into the 2021/22 base budget.
    - To pay the secondary employer rate as an advance lump sum of £6.204m in April 2020 funded from the earmarked reserve set aside for this purpose plus a contribution from General Fund Reserves at the beginning of 2021/22. This represents a saving of £0.397m compared to payment in three annual instalments from 2021/22 to 2024/25.
    - To plan to rebuild the Pensions Reserve ready for the next revaluation in 2022
- Subsequent to budget-setting Surrey Pension Fund confirmed that it is no longer necessary to budget for £0.400m each year for historic pension costs because they have been taken into account in the 2019 fund revaluation and reflected in updated employer contribution rates for 2021/22 onwards). This budget was therefore deleted when the 2021/22 budget was set

Price Inflation

- The general assumption is that services should first seek to cover price inflation from their existing budgets, unless tied contractually to significant cost increases that warrant additional funding. Significant increases would be subject to approval of budget growth through the service & financial planning process

Forecast Budget Gap

The forecast budget gap over the next five years is set out below. Further details are provided at Appendix 2

Table 18: MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2021/22 £m	Forecast Budget 2022/23 £m	Forecast Budget 2023/24 £m	Forecast Budget 2023/34 £m	Forecast Budget 2025/26 £m	Forecast Budget 2026/27 £m
FORECAST GAP	**-**	**1.863**	**2.367**	**2.855**	**4.014**	**4.514**
Annual Increase in Gap	-	1.863	0.504	0.488	1.159	0.500

Table 18: MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2021/22 £m	Forecast Budget 2022/23 £m	Forecast Budget 2023/24 £m	Forecast Budget 2023/34 £m	Forecast Budget 2025/26 £m	Forecast Budget 2026/27 £m
Gap as % of 2021/22 budget requirement	-	10.7%	13.6%	16.4%	23.1%	25.9%

The key factors that influence the forecast gap include:

Service Expenditure

- No significant budget pressures have been identified to date but this will be subject to further review as part of the service & financial planning process.
- Legacy impacts of the COVID-19 pandemic, in particular on service income budgets, will become clearer when the first quarter's budget monitoring position is reported to Executive in September.
- While an estimate for the 2022/23 pay award has been included in modelling this is subject to negotiation and has to be considered in the context of the significant financial challenges faced over the medium term. Employee costs comprise 34.6% of gross direct expenditure in the 2021/22 budget

Central Budgets

- Treasury Management costs will rise over the MTFP period as a consequence of the borrowing requirement to fund the approved Capital programme. They also take into account forecast repayments from loans to the council's companies. Over the MTFP period net borrowing costs are forecast to increase from 10% of the net Revenue Budget to 14.5%.

Council Tax

- Council tax setting assumptions are based on a £5 increase and forecast movements in the taxbase.
- Legacy impacts the COVID-19 pandemic on recovery performance and council tax support demand have not yet been forecast; they will be considered when the taxbase for 2022/23 is prepared in the autumn.

NNDR

- Removal of Negative RSG Grant and the Business Rates reset are forecast to take place in 2024/25; they have the effect of negating the benefit of all forecast business rates growth over the MTFP period.
- Legacy impacts the COVID-19 pandemic on recovery performance have not yet been forecast; they will be considered when the final forecasts for 2022/23 are prepared in the autumn

Use of Reserves

- Funding for the 2021/22 budget includes drawing £0.235m from the General Fund Reserve. If equivalent savings, efficiencies or new sources of income are not identified for 2022/23 this requirement to call on Reserves will continue to increase and further reduce available balances.
- The 2021/22 budget also depends on drawing £0.104m from the Government Funding Risks Reserve (Housing Benefit subsidy reduction) and £0.138m from the Commercial Risks Reserve (Redhill hotel rent income and Revenues & Benefits trading income reduction). The ongoing requirement for this funding will have to be assessed.

In summary, as for the majority of councils, this authority is facing a challenging financial future. Over recent years budget efficiencies have been achieved to address the forecast gap, specifically through deletion of central budgets that were not required; these options are no longer available. While Reserves remain buoyant there is an underlying budget gap that must be addressed through the services & financial planning process; through reducing costs or generation of new sustainable sources of income.

13. Capital Investment Strategy

The latest Capital Investment Strategy is reported to Executive in July 2021 and sets out a framework for funding and investment decisions in respect of capital assets, in the context of our vision and priorities and available financial resources.

The Capital Investment Strategy demonstrates that we take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long-term context in which capital expenditure and investment decisions are made, and takes into account to both risk and reward and impact on the achievement of priority outcomes.

When setting its capital programme, each authority must have regard to:

- Service objectives – the capital spending plans should be consistent with the Corporate Plan;
- Stewardship of assets – as demonstrated by our asset management planning approach;
- The value for money offered by investment plans – as demonstrated by the appraisal of the options;
- The prudence and sustainability of investment plans – their implications for external borrowing;
- The affordability of capital investment plans – the implications for the council tax; and
- The practicality of capital expenditure plans – whether the forward plan is achievable.

Decisions on the Capital Programme have an impact on the Revenue Budget, in relation to:

- The revenue costs of financing capital, including prudential borrowing; and
- The ongoing running costs and/or income generated by new capital assets such as buildings.

Capital investment decisions therefore have implications for the Revenue Budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within our financial plans and to demonstrate that the capital investment is affordable.

Our revenue and capital budgets are integrated with the financial impact of the proposed Capital Programme, being reflected in the Revenue Budget estimates.

The Council will only invest where capital spending plans are affordable, prudent and sustainable. The key constraint on capital investment is the scope to afford the financial implications in terms of acceptable council tax levels.

As supported by the Capital Investment Strategy, the Council's capital investment plans over the next 5 years are set out in the Capital Programme. The efficient and effective use of capital resources, including sound asset management, is fundamental to achieving our long- and medium-term aims and objectives. It is also critical to achieving the delivery of the required savings and income across the Council to secure a balanced budget.

Medium Term Capital Programme

While Revenue Budget expenditure is concerned with the day-to-day running of services our Capital Programme is concerned with investment in the assets required to deliver services or delivery new income streams. The Medium-Term Capital Programme sets out how capital resources will be used to achieve our vision and corporate priorities.

The Council must have an affordable Capital Programme; affordability is assessed against business cases taking into account the level of future resources required to support project delivery and ongoing asset maintenance.

The strategic objectives of our Capital Programme can be summarised as follows:

- To maintain a five-year rolling Capital Programme which remains within the approved affordable, sustainable and prudential limits;
- To ensure capital resources are aligned with our strategic vision and corporate priorities by ensuring all schemes are prioritised according to the Council's prioritisation methodology;
- To identify opportunities for investment in new schemes that result in capital growth and/or new revenue income streams;
- To maximise available resources by actively seeking external funding to support Council priorities and disposing of surplus assets; and
- To use internal resources alongside external resources where appropriate to support the Capital Programme and minimise any borrowing costs.

Capital Programme 2021/22 to 2025/26

The Council forecasts its Capital Programme over a 5-year period and the latest position is set out in the report to Executive in January 2021.

Table 19: CAPITAL PROGRAMME 2021/22 to 2025/26 by SERVICE	**2021/22** Projected £m	**2022/23** Projected £m	**2023/24** Projected £m	**2024/25** Projected £m	**2025/26** Projected £m	**TOTAL £m**
ORGANISATION SERVICES:						
Property Services	1.332	1.658	1.374	1.258	-	5.623
IT Services	1.175	0.375	0.385	0.375	0.060	2.370

Table 19: CAPITAL PROGRAMME 2021/22 to 2025/26 by SERVICE	2021/22 Projected £m	2022/23 Projected £m	2023/24 Projected £m	2024/25 Projected £m	2025/26 Projected £m	TOTAL £m
Organisational Development	0.260	0.260	0.260	0.260	-	1.040
PEOPLE SERVICES:						
Housing	11.405	11.355	1.355	1.355	0.021	25.491
Wellbeing & Intervention	0.140	0.140	0.140	0.140	0.140	0.700
Community Partnerships	0.030	0.030	0.030	0.030	-	0.120
PLACE SERVICES:						
Neighbourhood Operations	2.397	1.049	1.457	1.030	0.339	6.270
Place Delivery	24.442	15.100	-	-	-	39.542
Economic Prosperity	0.100	0.100	0.100	0.100	-	0.400
CORPORATE:						
Commercial Investment Strategy	-	-	-	-	-	-
TOTAL APPROVED CAPITAL PROGRAMME	41.281	30.067	5.101	4.548	0.560	81.556

In addition previously-approved schemes with an approved budget of £99.5m have been brought forward from previous years, principally due slippage in the original forecast delivery date. These include:

Regeneration	Marketfield Way - £9.661m
	Merstham Recreation Ground - £0.740m
	Preston Regeneration - £0.718m
Rolling Programmes	Beech House, London Road. Reigate - £3.00m
	Priory Park Maintenance - £0.203m
	Car Parks Capital Works - £0.239m
	Earlswood Depot/Park Farm Depot - £0.069m
	Unit 61E, Albert Road North - £0.055m
	Infra-structure walls - £0.045m
	Units 1-5 Redhill Dist Centre Salfords - £0.040m
	Cemeteries & Chapel - £0.040m
Housing Development	Housing Delivery Programme - £10.0m
	Cromwell Road Development - £5.81m
	Unit 1 Pitwood Park Tadworth - £2.28m
	Lee Street Bungalows - £603k
Commercial Investments	£62.991m remains available for investment from the £75m that was allocated in the approved Capital Programmes for 2019/20 and 2020/21.

Capital Programme Funding

Sources of funding for the 2021/22 to 2025/26 Capital Programme are summarised below:

Table 20: CAPITAL PROGRAMME FUNDING 2021/22 to 2025/26	2021/22 Projected £m	2022/23 Projected £m	2023/24 Projected £m	2024/25 Projected £m	2025/26 Projected £m	Total £m
TOTAL CAPITAL EXPENDITURE 2021/22 - 2025/26	**41.279**	**30.067**	**5.101**	**4.548**	**0.560**	**81.555**
Funded by:						
Capital Reserves	-	-	-	-	-	-
Capital Receipts	4.187	26.778	0	0	-	30.965
Capital Grants & Contributions	2.385	1.187	1.187	1.187	-	5.946
Earmarked Reserves – Housing Delivery Strategy	9.520	-	-	-	-	9.520
Prudential Borrowing	25.187	2.102	3.914	3.361	0.560	35.124
TOTAL CAPITAL FUNDING 2021/22 to 2025/26	**41.279**	**30.067**	**5.101**	**4.548**	**0.560**	**81.555**

Key sources of capital funding:

Capital Reserves

- Previously the Council benefitted from access to significant capital reserves following the sale of its housing stock. Over recent years these reserves have been utilised to invest in the capital programme.

Capital Receipts

- Sale of capital assets results in a capital receipt that can be used to invest in new capital assets or to repay prudential borrowing.
- The main source of capital receipts over the duration of this Capital programme relate to delivery of major schemes including Marketfield Way redevelopment, Pitwood Park and the Cromwell Road Housing developments. These capital receipts have been factored into forecast funding requirements.

Capital Grants & Contributions

- Forecasts of the future grant funding allocation for Disabled Facilities works have been updated to reflect forecast allocations.
- They also include the Council's share of Section 106 and CIL funding.

Prudential Borrowing

- The primary source of long-term funding for the Capital Programme is now prudential borrowing, mainly from the Public Works Loans Board (PWLB).
- Loans are managed through the approved Treasury Management Strategy and policies.
- Interest on borrowing is paid to the PWLB and charged to the annual revenue budget along with the Minimum Revenue Provision that is necessary to set aside funds for eventual

	repayment of the loan principal. These costs have to be taken into account when setting a balanced Revenue Budget. • There are increasing restrictions on the type of capital expenditure that is eligible for prudential borrowing. Borrowing to fund investment solely for commercial gain is not permitted.
Revenue Budget Contributions	• There is no expectation that significant capital expenditure will be funded from the revenue budget in 2022/23.

Capital Programme – Revenue Budget Implications

As explained above, with the exception of earmarked s106 funds, the Council no longer has significant capital reserves, therefore, while a small number of schemes will be continued to be funded from capital grants and other contributions, the majority of the approved Capital Programme must be funded through prudential borrowing. The costs of repaying this borrowing fall on the revenue budget as treasury management costs in Central budgets.

Treasury management budgets have been updated to reflect the costs of borrowing for the approved Capital Programme for 2021/22 onwards net of interest on forecast balances and company loan repayments. Details are set out in the Treasury Management Strategy for 2021/22 that was approved in April 2021.

14. Treasury Management & The Prudential Code

CIPFA defines treasury management as:
"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management function is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested with low risk counterparties in line with our risk appetite, ensuring adequate security and liquidity before considering investment return.

The second main function of treasury management is funding our Capital Programme. Our capital investment plans provide a guide to borrowing need, essentially for longer-term cash flow planning purposes, to ensure that the Council can meet our capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. We anticipate taking on long-term borrowing for the first time during 2021/22.

The contribution that the treasury management function makes is important, as the balance of debt and investment operations ensure liquidity and/or ability to meet budget commitments as they fall due, both on day-to-day revenue-funded activity and for larger capital projects. The treasury function balances interest costs of debt and investment income arising from cash deposits which in turn affect available resources. Cash balances generally result from our reserves and balances, therefore it is important to ensure adequate security of the sums invested, as a loss of principal will in effect result in a call on the General Fund Balance.

Our company investments are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

The Prudential Code

CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the 'Prudential Code') provides the framework for councils' capital investments. The key feature of the prudential system is that councils should determine the level of their capital investment – and how much they borrow to finance that investment – based on their own assessment of what they can afford, not just for the current year but also for future years.

The statutory basis for the prudential system is set out in the Local Government Act 2003, which:

- Confirms councils' power to borrow – which in the medium term must only be for capital purposes, while short-term borrowing can be for cash flow purposes;
- Makes it clear that, as previously, councils may not mortgage assets;
- Places a duty on councils not to exceed their prudential borrowing limits, or any national limits imposed by central government;
- Places a duty on councils to determine – and review – their own borrowing limits in accordance with the Prudential Code;
- Gives the Government a reserve power to impose borrowing limits that would override councils' own borrowing limits for national economic reasons;
- Makes it clear that credit arrangements should be treated as borrowing under the prudential system; and
- Confirms that councils may invest both for the prudential management of their financial affairs and for purposes relevant to their functions.

Following two consultations intended to take into account the changing landscape for local government following the sustained period of reduced public spending and the developing localism agenda, the Prudential Code was updated in December 2017. One of the main changes was to introduce the requirement to publish a Capital Investment Strategy.

In July 2021 CIPFA announced that a strengthened Prudential Code will be published by the end of 2021. The revised Code will include clarification and examples of what is and is not classified as prudent borrowing activity.
Other key changes that will be implemented following consultation include:

- The inclusion of proportionality as an objective, so that an authority incorporates an assessment of risk against levels of resources;
- Clarifications to better define commercial activity and investment; and

- The introduction of the Liability Benchmark as a Treasury Management indicator for local government bodies

CIPFA also plan to revise the Treasury Management Code to integrate Environmental, Social and Governance risks into the policy framework and update the guidance on development, retention of knowledge, skills, and training in this area.

15. Medium Term Financial Plan Risks & Sensitivities

The Council's Strategic Risk Register includes the following risk:

SR2: Financial sustainability

The Council is now operating in a uniquely challenging and uncertain financial context.

- *In the wake of the COVID-19 pandemic and likely recession which will follow, the Council faces a period of unprecedented financial uncertainty.*

- *The ongoing financial settlement with the Government also remains unclear with the Fair Funding Review and Business Rate Reset and Revaluation being delayed.*

- *There most significant risks relate to the extent to which the Government will fund the unplanned expenditure that is being incurred to deliver the Council's COVID-19 responsibilities at the same time as experiencing material reductions in income from fees and charges and local taxes. If this substantial financial burden is not mitigated through direct Government support these unplanned financial pressures will have an adverse impact on the Council's capacity to deliver against its Corporate Plan ambitions in future years.*

A summary of the mitigating actions is set out at Appendix 6.

Operational Risk Register – Budget-Setting

The principles and assumptions contained within this MPFP are aimed at ensuring that the Council is financially sustainable and continues to deliver high quality services.

Individual revenue and capital budget proposals will be subject to risk assessment as part of the service & financial planning process.

The Council, in common with most local authorities, continues to be at risk from a range of financial risks. They include:

Table 21: BUDGET RISKS **Perceived Risk**	**Impact**	**Likelihood**	**Preventative Action**
Failure to remain up to date with changes in relevant legislation, regulations and guidance	High	Low	Ensure that all relevant information is taken into account when producing MTFP and budget forecasts.

Table 21: BUDGET RISKS **Perceived Risk**	**Impact**	**Likelihood**	**Preventative Action**
Changes in legislation affecting the scope of services and the cost of carrying them out	Medium	Medium	Maintain regular contact with Heads of Service regarding developments that have potential financial implications.
Local Government Financial Settlement worse than forecast	High	Medium	Model a range of MTFP and budget scenarios and strategies.
Outdated MTFP assumptions Significant variations due to economic factors	High	Low	Regularly review and update assumptions.
Inaccurate budget assumptions	High	Medium	Regularly review and update assumptions.
Unexpected financial events	High	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Deliverability of new income streams against forecast timescales	High	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Demographic and demand-led pressures	Medium	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Reduction in existing fees & charges income	Medium	Low	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Contract risks e.g. contractor viability, non-delivery	Medium	Low	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks. Maintain regular contact with Heads of Service regarding developments that have potential financial implications.
COVID-19 risks	High	High	Legacy impacts of the pandemic include ongoing cost pressures and income reductions. These are

Table 21: BUDGET RISKS Perceived Risk	Impact	Likelihood	Preventative Action
			explained in more detail above and at Annex 8.
Commercial Risks	High	Medium	Treasury management budget forecasts include assumptions regarding the accrued interest on loans to the council's companies. If the companies cannot repay their loans the sums outstanding and accrued interest may have to be written off (if not covered by sale of company assets).

Sensitivity Analysis
A small change in key underlying assumptions can produce a significant change in the budget.

Table 22: SENSITIVITY	Change	Estimated Annual Impact £000
Council Tax/Taxbase		(144)
Business Rates Income	+/- 1%	(18)
Staff Costs		235
Non-Pay Costs		120
Fees & Charges		(174)

Budget Uncertainties & Risks
While the approved budget for 2021/22 is robust, there remain, a number of uncertainties and risks to be addressed over the medium-term which are set out below.

The Economy:

- There is still uncertainty and a lack of confidence about the future of the economy as consequence of the COVID-19 pandemic and the UK's exit from the European Union;
- Preparations for exit continue and may affect investor confidence, whilst the lower value of the Pound may increase inflationary pressures;
- Any future economic slowdown nationally or globally - could result in lower income (through - for example - reduced discretionary spending or lower than anticipated recyclate prices) and increases in demand (benefits and statutory duties such as homelessness); and
- Any reduction in the number of employers in the Borough could also have an impact on our retained Business Rates income.

Future Government Funding:

- The outcome of the Fair Funding Review and Business Rates reset along with the end of Negative RSG Grant;
- The end of New Homes Bonus payments over the coming years will have an impact on reserves, but no direct budget impact; and
- The Homelessness Reduction Act requires Councils to provide more support to homeless people and people at risk of becoming homeless. The Government has committed ring-fenced funding towards this duty but there remains a question mark over the longer term.

Revenue Budget Savings and Income Generation:

- Following the significant budget reductions in recent years, it has become increasingly difficult to generate additional ongoing savings. If the Council is to deliver financial sustainability then we will need to continue our efforts to become a more commercial organisation and fully explore income generating opportunities involving, for example, property investment, partnership working and providing services for other organisations. Government and CIPFA guidance on 'borrowing in advance of need' will limit some of the options that may otherwise have been considered to deliver new commercial income streams.

Corporate Plan 2025:

- The Corporate Plan sets out the Council's vision and objectives over the medium term and will enable it to target its resources in the most efficient and effective way; and
- The main challenge, as ever, will be balancing our ambitions as a high performing council with our ability to resource those ambitions. The prioritisation of services like Housing Delivery and Environmental Sustainability will place new demands on existing resources. A combination of careful stewardship and an innovative approach to service delivery will be required to ensure that we achieve our goals.

Budget Risks:

- Given the uncertainty over future economic conditions and the business rates regime, it is prudent to maintain our capacity to protect services from unforeseen financial pressures. Once used, however, it may prove difficult to replenish reserves; and
- Despite significant improvements in recent years the Pension Fund remains a risk over the longer term as the future economic downturns may impact on the value of Fund investments and liabilities.

COVID-19 Pandemic

- The potential financial risks and uncertainties arising from the COVID-19 pandemic are explained this MTFP and at Appendix 8.

MTFP and Budget Monitoring and Review

The updated MTFP position will be reported as part of the draft Budget report in November.

The processes and procedures relating to the monitoring of the Revenue Budget and Capital Programme are set out in the Council's Financial Procedure Rules and supporting guidance.

16. Budget Equalities Impact Assessments

The annual service & financial planning reports include information about the equality implications of budget proposals. Where new service changes, projects or policies are proposed, equalities impact assessments will be carried out by the responsible officers. Changes that affect Council staff will be discussed directly with individuals affected and with their representatives.

17. Budget Scrutiny

The annual draft budget proposals are considered by the Budget Scrutiny Panel of the Overview & Scrutiny Committee in December and the conclusions and recommendations of the Panel and the Committee are reported to the Executive for consideration when the final budget proposals are presented to them in January.

18. Consultation

The MTFP is published on the Council's website.

The annual budget proposals are circulated to the business community via the Business e-bulletin (which has in excess of 1,500 recipients).

19. Service & Financial Planning Process and Timetable 2022/23

As explained above, this MTFP represents an overarching view of our finances and looks to anticipate future demands and pressures so that we can take timely decisions to secure financial sustainability.

The MTFP is supported by a number of key documents which contribute to management of the overall financial position. These are:

Revenue Budget Report	Produced on an annual basis – draft in November and final in the following January. It sets out the plan for setting and managing a balanced budget for the following financial year. It is here the detailed decisions on revenue and capital expenditure are presented, including proposed budget savings and growth. The recommended Budget is

	supported by operational budget detail that forms the basis for in-year budget monitoring and management.
Capital Programme	Sets out capital expenditure plans over the medium term. This is aligned with the Revenue Budget where it results in costs of borrowing and income streams.
Capital Investment Strategy	Updated on an annual basis and sets out the framework for investing in capital assets over the medium term. Objectives: • Ensure capital expenditure contributes to the achievement of the Council's organisational strategy • Set a Capital Programme which is affordable and sustainable • Maximise the use of assets • Provide a clear framework for decision making and prioritisation relating to capital expenditure • Establish a corporate approach to the review of asset utilisation
Treasury Management Investment Strategy.	Sets out the approach to managing the cash available to the Council and how to maximise its value. Also sets out the Council's investment and borrowing arrangements and controls.
Reserves Policy	Sets out the reasons for holding reserves and how they will be used, including financial limits where appropriate. The Policy is attached at Appendix 4.1.
Fees & Charges Policy.	Sets out a corporate view of the fees and charges levied by the Council for consideration each year. The Policy is attached at Appendix 5.
Annual Council Tax Report	Approved by Full Council in February each year

Service & Financial Planning Objectives

The objectives for service & financial planning each year are to:

- Help Members determine budget priorities and their timing;
- Forecast the changes in demand for services and match demand with likely resources;
- Assess the likely implications of changes in legislation on resources;
- Model the future costs of alternative policies; and
- Provide a framework for programming activities by individual services.

Service & Financial Planning Timetable

The timetable for Service & Financial Planning 2022/23 is set out at Appendix 7.

20. CIPFA Financial Management (FM) Code

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code.

The CIPFA FM Code was therefore introduced in October 2019 and will be applicable from 1 April 2021. Work was undertaken as part of 2021/22 budget-setting to review compliance with the Principles and Standards in the Code and to identify any actions required to address any gaps identified.

CIPFA explain that reasons for introducing the Code include: '… *the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely*….'.

The Code has several components, comprising:

- An introduction explaining how the FM Code applies, a principles-based approach and how it relates to other statutory and good practice guidance on the subject;
- The CIPFA Statement of Principles of Good Financial Management, the benchmarks against which financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles; and
- The FM Code then translates these principles into financial management standards which will have different practical applications according to the circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within the code, reflecting the non-prescriptive approach adopted by CIPFA.

The Principles focus determining whether, in applying standards of financial management, a local authority is financially sustainable. They cover:

- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture;
- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs;

- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making;
- Adherence to professional standards is promoted by the leadership team and is evidenced;
- Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection; and
- The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The supporting financial management Standards are summarised in the table below:

Table 23: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
Section 1: The responsibilities of the chief finance officer and leadership team	
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.* <u>Areas for Development:</u> • Finance team development now that all permanent vacancies are filled
Section 2: Governance and financial management style	
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control. <u>Areas for Development:</u> • Review and update the Financial Procedure Rules and Scheme of Delegation in the Constitution to ensure they are current and relevant
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).
E	The financial management style of the authority supports financial sustainability. <u>Areas for Development:</u> • Review and update the Financial Procedure Rules and Scheme of Delegation in the Constitution to ensure they are current and relevant
Section 3: Long to medium-term financial management	
F	The authority has carried out a credible and transparent financial resilience assessment.

Table 23: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
	Areas for Development: • Annual MTFP review and reporting, including financial risks assessment
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members. Areas for Development: • Annual MTFP review and reporting, including financial risks assessment
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.
Section 4: The annual budget	
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans. Areas for Development: • Annual MTFP review and reporting, including financial risks assessment
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
Section 5: Stakeholder engagement and business plans	
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions. Areas for Development: • Development of the Council’s business case model and toolkit to ensure it reflects good practice relating to preparation of the financial case
Section 6: Monitoring financial performance	
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability. Areas for Development:

Table 23: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
	• Implementation of internal audit recommendations relating to contract management
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
Section 7: External financial reporting	
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. Areas for Development: • Continued development of the closedown plan and supporting processes to improve the quality and timeliness of the annual accounts
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

The main areas for further development during 2021/22 are set out above.

21. CIPFA Resilience Index

As part of the service & financial planning process officers undertake a financial resilience assessment by that considers principally whether the authority has in place a credible plan and planning process that gives confidence that it can deliver a sustainable budget over the medium term. The scope of this assessment includes:

- the authority’s current financial position;
- an assessment of its future financial prospects;
- the extent to which the authority has embraced the financial resilience factors set out below;
- the key financial risks facing the authority, drawing on potential future scenarios including ‘best’ and ‘worst’ case scenarios – for the environment in which the authority operates and for the services that it provides;
- the use of independent, objective measures wherever possible to assess the risks to the authority’s financial resilience and sustainability;
- the authority’s understanding of the risks associated with all resources used for service delivery, including its workforce, its physical assets, its strategic business partners (including ‘group’ entities such as its companies), its information technology infrastructure, etc;

- the robustness of the plans that the authority has put in place to address these risks; and
- the capacity and capability of the authority, its leadership team and its officers to manage the authority's finances in a sustainable manner.

The assessment makes reference to the following:

- Medium-Term Financial Plan;
- Capital Investment Strategy;
- Treasury Management Strategy;
- Planned medium-term use of Reserves;
- the most recent Budget Report;
- approach to the service & financial planning process;
- Budget monitoring reports and out-turn reports and Statement of Accounts;
- Asset Management Plan; and
- Key governance documents, eg Annual Governance Statement, Risk Register, etc

The Council's position at March 2021 against a range of financial measures compared to similar councils is available online through the CIPFA Financial Resilience Index at https://www.cipfa.org/services/financial-resilience-index-2021/resilience-index-2021.

Table 24: CIPFA RESILIENCE INDEX INDICATORS	**This Council's Relative Risk Compared to Similar Councils**	**This Council's Prospects over the Medium Term**
Reserves Sustainability – increase in reserves over recent years	*Higher than Average*	*These scores are not accurate because CIPFA's model is based on an incorrect (significantly reduced) value for Reserves at 31 March 2020. CIPFA have been informed*
Level of Reserves – compared to the annual revenue budget	*Medium*	
Changes in reserves over recent years	*Higher than Average*	
Interest payable compared to recent budget	Lower Risk than Average	Planned growth in the Capital Programme and associated borrowing means that this position will not be maintained.
Gross external debt	Lower Risk than Average	
Fees & Charges - as % of service budgets	Lower Risk than Average	Implementation of the new Fees & Charges Policy and planned review should further improve the Council's position against this indicator if it results in new and/or increased sources of income.
Ratio of Council tax contribution to revenue budget	Lower Risk than Average	Risk may increase if the budget increases without the ability to levy a proportionate increase in council tax.

Table 24: CIPFA RESILIENCE INDEX INDICATORS	This Council's Relative Risk Compared to Similar Councils	This Council's Prospects over the Medium Term
Funding growth - compared to Government baseline	Medium Risk	This risk is expected to increase as Government funding reduces.

22. Conclusion

This MTFP presents a summary of the key financial processes and policies that help us forecast the likely financial position that Council will be facing over coming years.

It is the Council's primary financial planning tool and will form the basis for ongoing discussions throughout service & financial planning for 2022/23.

APPENDICES

1. Revenue Budget 2021/22
2. Medium Term Revenue Budget Forecast 2022/23 to 2026/27

3.1 Capital Programme 2021/22 to 2025/26

4.1 Reserves Policy

4.2 Revenue Reserve Balances at 31 March 2019

5. Fees & Charges Policy
6. Strategic Financial Risks
7. Service & Financial Planning Timetable 2022/23
8. COVID-19 Pandemic – Financial Implications

APPENDIX 1

REVENUE BUDGET 2021/22

REVENUE BUDGET 2021/22	**Approved Budget 2021/22 £m**
ORGANISATION	
Communications / Customer Service	1.052
Finance	1.168
ICT	1.810
Legal & Governance	2.022
Organisational Development & HR	0.785
Corporate Policy, Projects & Performance (inc environmental sustainability)	0.420
Property / Commercial	(1.510)
PLACE	
Economic Prosperity	0.398
Neighbourhood Operations	3.119
Place Delivery	0.326
Planning	0.548
PEOPLE	
Community Development	1.588
Housing	0.950
Revenues, Benefits & Fraud	0.525
Wellbeing & Intervention	0.537
SENIOR MANAGEMENT TEAM	1.166
SERVICE BUDGETS TOTAL	**14.903**
Central Budgets	2.492
NET EXPENDITURE 2020/21	**17.395**
Council Tax	14.365
National Non-Domestic Rates	1.819
Un-ringfenced grants – transferred to Reserves:	
COVID-19 Emergency Funding – Allocation 5	0.638
New Homes Bonus – 2020/21 allocation from Central Government	0.887
Homelessness Prevention grant	0.668
Other Un-ringfenced grants	
Lower Tier Services Grant	0.394

REVENUE BUDGET 2021/22	**Approved Budget 2021/22 £m**
COVID-19 Tax Income Guarantee (estimate)	0.150
COVID-19 Local Council Tax Support Grant	0.190
Contribution to Earmarked Reserves:	
COVID-19 Emergency Funding – to COVID-19 Reserve	(0.638)
New Homes Bonus – to Government Funding Risks Reserve	(0.887)
Homelessness Prevention Grant	(0.668)
Call on Earmarked Reserves in 2021/22	
Government Funding Risks reserve	0.104
Commercial Risks reserve	0.138
Use of funds from the General Fund Balance to support the 2021/22 revenue Budget	0.235
NET SOURCES OF INCOME 2020/21	**17.395**
Budget Gap	Nil

NOTE: The actual sum to be drawn from Reserves to support the budget will depend on the budget outturn position for 2021/22.

APPENDIX 2

MEDIUM TERM REVENUE BUDGET FORECAST 2022/23 to 2026/27

MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2020/21 £m	Cumulative Impact 2022/23 £m	Cumulative Impact 2023/24 £m	Cumulative Impact 2024/25 £m	Cumulative Impact 2025/26 £m	Cumulative Impact 2026/27 £m
2021/22 Budget Requirement	**17.395**					
Service Budgets - Pay		0.800	1.600	2.400	3.200	4.000
Service Budgets – net service growth / savings 2022/23		TBC	TBC	TBC	TBC	TBC
New Sources of Income – Fees & Charges / Commercial		TBC	TBC	TBC	TBC	TBC
Central Budgets - Treasury Management – net borrowing costs		0.540	1.050	1.580	1.970	1.970
Council Tax						
£5 per Band D equivalent plus impact of forecast taxbase		(0.540)	(1.050)	(1.580)	(1.970)	(2.290)
Business Rates		0.109	(0.241)	(0.871)	(0.931)	(1.161)
Negative RSG Grant		-	-	0.740	0.981	1.230
Government Grants						
Lower Tier Services Grant		-	0.394	0.394	0.394	0.394
Tax Income Guarantee		0.104	0.104	0.104	0.104	0.104
LCTS Grant		0.138	0.138	0.138	0.138	0.138
Call on Reserves 2021/22						
One-off call on Earmarked Reserves		0.242	0.242	0.242	0.242	0.242
General Fund Balance Contribution		0.235	0.235	0.235	0.235	0.235
Forecast Gap at July 2021 Compared to 2021/22 Budget *before ongoing COVID-19 Impacts*	**-**	**1.863**	**2.367**	**2.855**	**4.014**	**4.514**
Annual Increase in Gap		1.863	0.504	0.488	1.159	0.500
Gap as % of 2020/21 budget requirement		10.7%	13.6%	16.4%	23.1%	25.9%

Potential Impacts on MTFP Forecasts of the COVID-19 Pandemic

MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2020/21 £m	Cumulative Impact 2022/23 £m	Cumulative Impact 2023/24 £m	Cumulative Impact 2024/25 £m	Cumulative Impact 2025/26 £m	Cumulative Impact 2026/27 £m
Estimated Income Losses						
COVID-19 – estimated 2021/22 income impacts • Community Centres - £0.200m • Harlequin - £0.180m • Parking - £1.200m • Commercial Waste - £0.160m • Property Rents - £0.270m		2.010	TBC			
COVID-19 – estimated 2021/22 expenditure impacts • Homelessness support - £0.100m		0.100				
Government COVID-19 Funding in 2021/22						
COVID-19 emergency funding		(0.638)	TBC			
Sales, Fees & Charges Q1 Claim (est)		(0.750)	TBC			
Additional One-Off Funding Drawdown in 2021/22						
Call on the COVID-19 Reserve *[if no other Government support is received]*		(0.722)	TBC			
Forecast Gap at July 2021 Compared to 2021/22 Budget – *including estimate for ongoing COVID-19 impacts*	**0.000**	**Balanced**	TBC			

Work is continuing on forecasts for income and expenditure impacts beyond 2021/22 and updated forecasts will be provided in future in-year budget monitoring reports as the current year position becomes clearer.

APPENDIX 3

CAPITAL PROGRAMME 2021/22 to 2025/26

CAPITAL PROGRAMME 2021 to 2025 - DETAILS						
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
ORGANISATION SERVICES						
PROPERTY SERVICES						
Rolling Property Maintenance Programmes						
Forum House, Brighton Road, Redhill	0.100	0.100	0.150	0.150	-	**0.500**
Unit 61E, Albert Road North	0.012	0.200	0.012	0.012	-	**0.235**
Regent House, Queensway, Redhill	0.050	0.100	0.090	0.090	-	**0.330**
Linden House , 51b High Street, Reigate	0.011	0.029	0.012	0.012	-	**0.063**
Units 1-5 Redhill Distribution Centre. Salfords	0.017	0.058	0.017	0.017	-	**0.109**
Crown House, Gloucester Road, Redhill	0.135	0.075	0.075	0.075	-	**0.360**
Tenanted properties - occupied by third-parties - planned building maintenance	0.100	0.100	0.100	0.100	-	**0.400**
Commercial Investment Properties	0.076	0.076	0.076	0.076	-	**0.304**
Operational Buildings	0.145	0.110	0.095	0.080	-	**0.430**
Priory Park Maintenance	0.010	0.010	0.010	0.030	-	**0.060**
Public Conveniences	0.004	0.004	0.004	0.020	-	**0.032**
Infrastructure (walls, etc.)	0.010	0.060	0.010	0.060	-	**0.140**
Allotments	0.012	0.012	0.012	0.022	-	**0.058**

CAPITAL PROGRAMME 2021 to 2025 - DETAILS						
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Cemeteries & Chapels	0.020	0.020	0.020	0.040	-	**0.100**
Leisure Centres	0.030	0.210	0.190	0.030	-	**0.460**
Pavilions	0.110	0.050	0.050	0.050	-	**0.260**
Car Parks Capital Works	0.195	0.190	0.195	0.170	-	**0.750**
Earlswood Depot/Park Farm Depot	0.020	0.020	0.020	0.020	-	**0.080**
Community & Day Centres	0.085	0.075	0.067	0.065	-	**0.292**
Harlequin Theatre	0.140	0.110	0.120	0.100	-	**0.470**
Building Maintenance – consultancy/capitalised staff costs	0.050	0.050	0.050	0.040	-	**0.190**
Total	**1.332**	**1.658**	**1.374**	**1.258**	**-**	**5.623**
IT SERVICES						
Rolling Investment Programmes:						
ICT Replacement Programme	0.425	0.325	0.325	0.375	0.060	**1.510**
Disaster Recovery Systems Upgrade	0.200	0.050	-	-	-	**0.250**
Replacement Photocopiers/ Printers	-	-	0.060	-	-	**0.060**
Investment in Technology Projects	0.300	-	-	-	-	**0.300**
Total	**1.175**	**0.375**	**0.385**	**0.375**	**0.060**	**2.370**
ORGANISATIONAL DEVELOPMENT						
Workplace Facilities: Estate/Asset Development	0.250	0.250	0.250	0.250	-	**1.000**
Workplace Facilities: additional IT requirement for increase in workforce.	0.010	0.010	0.010	0.010	-	**0.040**

CAPITAL PROGRAMME 2021 to 2025 - DETAILS						
	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m	£m
Total	**0.260**	**0.260**	**0.260**	**0.260**	**-**	**1.040**
Environmental Strategy Delivery						
Environmental Strategy Delivery	0.250	-	-	-	-	**0.250**
COMMERCIAL SERVICES						
COMMERCIAL INVESTMENT						
Commercial Investments *Investment during this period will be focussed on use of previously-allocated sums brought forward from previous years.*	-	-	-	-	-	**-**
PEOPLE SERVICES						
HOUSING						
Grant-Funded Schemes						
Disabled Facilities Grant	1.134	1.134	1.134	1.134	-	**4.536**
Home Improvement Agency (Part Grant Funded)	0.120	0.120	0.120	0.120	-	**0.480**
Handy Person Scheme (Housing Assistance Programme)	0.050	0.050	0.050	0.050	-	**0.200**
Repossession Prevention Fund	0.030	0.030	0.030	0.030	-	**0.120**
Cromwell Road Redevelopment	-	0.021	0.021	0.021	0.021	**0.084**
Pitwood Park	0.071	-	-	-	-	**0.071**
Housing Delivery Strategy						
Housing Delivery	10.000	10.000	-	-	-	**20.000**

CAPITAL PROGRAMME 2021 to 2025 - DETAILS						
	2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**	**£m**
Total	**11.405**	**11.355**	**1.355**	**1.355**	**0.021**	**25.491**
WELLBEING & INTERVENTION						
Rolling Maintenance Programmes						
Harlequin Facilities Maintenance	0.040	0.040	0.040	0.040	0.040	**0.200**
Harlequin - Service Development	0.100	0.100	0.100	0.100	0.100	**0.500**
Total	**0.140**	**0.140**	**0.140**	**0.140**	**0.140**	**0.700**
COMMUNITY DEVELOPMENT						
Rolling Maintenance Programmes						
CCTV	0.030	0.030	0.030	0.030	-	**0.120**
PLACE SERVICES						
NEIGHBOURHOOD OPERATIONS						
Rolling Maintenance/Investment programmes						
Refuse Vehicle Replacement	1.620	-	-	-	-	**1.620**
Vehicles & Plant	0.294	0.533	1.101	0.674	0.339	**2.941**
Play Areas Improvement	0.230	0.230	0.230	0.230	-	**0.920**
Air Quality Monitoring Equipment	0.040	0.040	0.040	0.040	-	**0.160**
Parks & Countryside – Infrastructure & Fencing	0.045	0.045	0.045	0.045	-	**0.180**
Contaminated Land – Investigation Work	0.030	0.030	0.030	0.030	-	**0.120**
Workshop Refurbishment	-	0.160	-	-	-	**0.160**

CAPITAL PROGRAMME 2021 to 2025 - DETAILS						
	2021/22	2022/23	2023/24	2024/25	2025/26	Total
	£m	£m	£m	£m	£m	£m
Contribution to Surrey Transit Site	0.127	-	-	-	-	**0.127**
Land Flood Prevention	0.011	0.011	0.011	0.011	-	**0.042**
Total	**2.397**	**1.049**	**1.457**	**1.030**	**0.339**	**6.270**
PLACE SERVICES						
PLACE DELIVERY						
Marketfield Way Redevelopment	23.212	15.100	-	-	-	**38.312**
Horley Public Realm Improvements - Phase 4	0.500	-	-	-	-	**0.500**
Merstham Recreation Ground	0.700	-	-	-	-	**0.700**
Redhill Public Realm Improvements	0.030	-	-	-	-	**0.030**
Total	**24.442**	**15.100**	**-**	**-**	**-**	**39.542**
Economic Prosperity - Vibrant towns & villages	0.100	0.100	0.100	0.100	-	**0.400**
TOTAL APPROVED CAPITAL PROGRAMME	**41.280**	**30.067**	**5.101**	**4.548**	**0.560**	**81.556**

APPENDIX 4.1

RESERVES POLICY

Introduction
The establishment, monitoring and review of the levels of reserves and balances are an important element of the Council's financial management systems and financial standing.

The Chief Finance Officer (Section 151 Officer) is required by law to formally report to the Council their opinion on the adequacy of the Council's reserves. Irrespective of this, a well-managed authority is clear about the reserves it needs now and, in the future, to support its service aspirations, while at the same time delivering value for money within a climate of significant resource pressure and economic/social risk.

This Policy does not cover non-distributable reserves required to support financial accounting transactions e.g. the Revaluation Reserve, Capital Adjustment Account and Pension Reserve. (Non-distributable reserves are those that cannot be used for revenue or capital purposes.)

Reserves can be held for four reasons:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events or emergencies;
- A means of building up funds to meet known or predicted liabilities; and
- A means of setting aside sums for future identified uses and / or investments

Such reserves are generally referred to as Earmarked Revenue Reserves.

What are Reserves?
There is no clear definition of reserves even though reference is made to reserves in legislation. The Chartered Institute of Public Finance and Accountancy (CIPFA) states 'amounts set aside for purposes falling outside the definition of provisions should be considered as reserves.' Provisions are required for any liabilities of uncertain timing or amount that have been incurred.

Generally there are two types of reserves, those that are available to meet revenue or in some cases capital expenditure (Usable) and those that are not available to finance revenue or capital expenditure (Unusable). Useable reserves result from events that have allowed monies to be set aside, surpluses or decisions causing anticipated expenditure to have been postponed or cancelled. They can be spent or earmarked at the discretion of the Council.

The Council must manage its reserves in accordance with its strategic longer-term planning process.

Policy principles:

- The General Fund Balance will be maintained at a minimum of 15% of the net Revenue Budget to cover any major unforeseen expenditure;
- Earmarked revenue reserves will be maintained for specific purposes that are consistent with achieving Corporate Plan priorities and/or where they are required to account separately for Government funding streams;
- Reserves must only be used to fund one-off expenditure;
- Recurring expenses may only be funded from reserves if plans are in place to fund the ongoing costs and replenish the reserve within 12 months;
- Unplanned revenue income receipts will be held in a reserve pending future decisions as to their use; and
- We aim to balance the Revenue Budget over the period of the MTFP without reliance on the use of reserves.

July 2021

APPENDIX 4.2

REVENUE RESERVE BALANCES AT 31 MARCH 2021

	Balance at 31.3.21 £m	Purpose
General Fund Balance	**£3.000m**	Acts as a buffer against unpredicted budget pressures. The minimum level required is £2.6m

Earmarked Revenue Reserves	Balance at 31.3.21 £m	Purpose
Housing Delivery Strategy Reserve	19.079	Established as part of budget-setting 2020/21 – to support delivery of the Council's Housing Delivery Strategy. Funded from the equivalent of the balance on historic New Homes Bonus grant allocations.
Government Funding Reduction Risks Reserve	2.849	Reviewed as part of budget-setting 2020/21 – earmarked for the purpose of mitigating the planned reduction in Government funding pending delivery of new sustainable income streams. Includes £0.848m set aside for Business Rates recovery pressures in 2020/21.
Commercial Risks & Volatility Reserve	5.000	New reserve created as part of budget-setting 2020/21 - earmarked for the purpose of mitigating the impacts of delays in delivery of new sustainable commercial income streams.
Capital Schemes Feasibility Studies Reserve	2.335	Established to ensure that funding is available to prepare business cases and obtain external professional advice for new initiatives designed to deliver new sustainable commercial income streams.
Pension Reserve	2.000	Established to set aside funds in anticipation of the next Pension Fund Revaluation.
Corporate Plan Delivery Fund (CPDF)	0.861	Provides time-limited funding to deliver key priorities, Corporate Plan objectives and invest–to–save initiatives, including investment in new technology.
Homelessness Prevention	0.810	Established to account separately for the funding set aside for homelessness prevention.
Economic Development Initiatives Reserve	0.777	Established as part of budget-setting 2020/21 – to fund initiatives to raise awareness amongst local people of quality local employment opportunities.
New Posts Reserve	0.690	Established to provide initial funding for new permanent posts created during the year to support delivery of new corporate initiatives. Thereafter the intention is to build these posts into the approved budget in the following year.

Earmarked Revenue Reserves	Balance at 31.3.21 £m	Purpose
Insurance Reserve	0.500	Provides cover against uninsured losses.
Feasibility Studies (Infrastructure Initiatives) Reserve	0.250	Established as part of budget-setting 2020/21 – to fund the Council's contribution to councils in Surrey collectively funding the development of infrastructure feasibility studies so that bids can be made for full project funding when bidding rounds become available.
Environmental Sustainability Reserve	0.248	Established at the end of 2019/20 to fund Investment in delivery of the Environmental Sustainability Strategy.
Refugee Family Support Reserve	0.318	Established at the end of 2020/21 to carry-forward unused funding for use in future years.
Family Support Programme	0.239	Established at the end of 2020/21 to carry-forward unused funding for use in future years.
Business Engagement Funding Reserve	0.036	Established at the end of 2020/21 to carry-forward unused funding for use in future years.
Brexit Funding Reserve	0.052	Established at the end of 2020/21 to carry-forward unused funding for use in future years.
Total Earmarked Revenue Reserves:	**£36.044m**	

COVID-19 Revenue Reserves	Balance at 31.3.21 £m	Purpose
COVID-19 Impacts - Funding Reserve	2.000	Established at the end of 2020/21 to fund ongoing income losses and expenditure pressures arising from the pandemic.
COVID-19 Specified Government Funding Reserve	0.456	Established at the end of 2020/21 to carry-forward unused COVID-19 funding for use in future years.
COVID-19 Government Business Grants (Discretionary) Reserve	0.238	Established at the end of 2020/21 to carry-forward unused COVID-19 funding for use in future years.
Total COVID-19 Reserves:	**£2.694m**	

Total Reserves	**£41.738m**

Note: balances as reported the Executive in June 2021 (subject to final review as the Statement of Accounts for 2021/22 is finalised)

APPENDIX 5

FEES & CHARGES POLICY

The Council's Medium-Term Financial Plan (MTFP) sets out our financial objectives to support delivery of the Corporate Plan. These plans remain challenging in the context of an uncertain economic future, on-going austerity measures, significant reductions in funding from Government and the move towards more locally-generated income streams.

In the future we will need to be financially self-sufficient and less reliant on central government funding. Maximising the potential for increased income will be integral to supporting delivery of the MTFP.

Seeking opportunities for income generation is a priority for the Council, alongside broader proposals for the trading and commercialisation of some services.

This Fees & Charges Policy outlines the key principles to be considered in charging for Council services in a transparent and consistent manner.

Scope

This Policy applies to the setting and reviewing of all fees and charges for Council services, where the Council has discretion to apply a charge and discretion over the level of charge applied.

The Policy excludes:

- Charges that are determined by Central Government;
- Council Tax;
- Business Rates;
- Property rents;
- Any charges where there are legal or contractual reasons for exclusion; and
- Any charges levied by Trading Companies or other third parties delivering services on behalf of the Council.

Application

Directorates should refer to this Policy when reviewing current charges or proposing new charges as part of the service & financial planning process for the forthcoming financial year, and for any other in-year consideration of service charging.

Understanding the relationship between cost and charges is vital when determining charges for services and support and advice should be sought from the Finance team when applying this Policy.

Aims and Objectives

The overarching aim of the Policy is to embed a commercial approach to setting fees and charges. An aim of commercialism is to ensure the Council thinks consistently in a business-like manner and clearly articulates the costs and benefits associated with the activities it carries out.

The objectives of the Fees & Charges Policy are:

- To promote efficiency and support the commercialisation of our business in order to support the MTFP and deliver the Corporate Plan;
- To minimise the draw on local taxpayers of discretionary services and promote fairness by fostering a culture where discretionary services are supported largely by users rather than the council tax payer;
- To set a clear, flexible and equitable framework of standards and procedures for applying charges and fees to relevant Council services for both individuals and organisations. The level of charge will reflect the cost plus a return where this is permissible/appropriate; and
- To meet the aim of being ‘business like’ through service areas understanding and reviewing the costs and charges for their service areas.

Charging and Trading Legislation

The legislation and case law that governs Councils’ ability to charge and generate income is complex. Specific powers to charge for services are contained in a variety of local government statutes.

These include:

- Local Authorities (Goods and Services) Act 1970 – introduced powers for councils to enter into agreement with other Local Authorities and public bodies for the supply of goods and services. Any agreement may contain such terms as to payment or otherwise as the parties consider appropriate;
- Local Government Act 2003 – added further opportunities to the above. This act enables councils to trade in activities related to their functions on a commercial basis and make a profit, which may be reinvested in services, through a trading company; and
- Localism Act 2011 – the General Power of Competence (GPC) introduced a power to allow councils to do anything that an individual may do. However, for the purposes of charging, this should not exceed the cost of provision of the service in question, as operating for a commercial purpose (i.e. to make a profit) must be done through a trading company.

Standard Charging Principles

Standard principles will be applied to all fees and charges (within the scope of this Policy) set by the Council. Where a service plans deviate from these principles, the basis and reason for variation will be clearly documented and approved in accordance with the Council’s Constitution/scheme of delegation.

Services that have discretion over charging are encouraged to operate more commercially in order to maximise efficiency and reduce dependence on corporate funding support. The ability of services to operate in this way is dependent on services being able to set and amend their charges with a level of flexibility, including consideration of current market rates and demand for the service. The Policy will also make decision making simpler and more timely.

This Policy enables us to apply differential charging, discounting and alternative pricing structures in order to maximise commercial benefit and target service take-up. Individual service areas can vary charge rates on a case by case basis, taking into account relevant market rates and the need to maximise income and operate efficiently.

All fees and charges will:

- Demonstrate how they contribute to the achievement of corporate and service objectives;
- Maximise potential income, to achieve financial objectives, unless there is an explicit policy decision to subsidise a service;
- Be subject to equality impact assessment screening and consultation where appropriate;
- Minimise the costs of collection;
- As a minimum be increased annually from 1 April each year in line with Consumer Price Index (CPI) inflation increases (rate published for the preceding September each year); and
- Be subject to a scheduled review at least every 3-5 years.

Charging Models

When introducing or reviewing a charge the Council will follow one of three models:

Charge	Definition	Application
Full Cost recovery	Full Cost Recovery is defined in this Policy as the Chartered Institute of Public Finance and Accounts' (CIPFA's) 'total cost' model. When charging 'total cost' the Council is aiming to charge the user the full cost to the Council of providing that service. The 'total cost' to the Council is calculated following CIPFA methodology. The cost of the charge will include, in addition to the direct cost of providing the service, costs such as fair and appropriate proportion of the cost of premises, central services and other overheads	This is the Council's 'default' charging principle.

Charge	Definition	Application
Direct Cost Plus	As a minimum the Council would recover the direct cost of providing the service plus wherever possible, a contribution to overheads. The level of overhead contribution is an operational decision, and will be dependent upon the particular circumstances and objectives.	This allows flexible pricing decisions to take account of external market conditions. For instance, there are circumstances where setting changes at a level more than full cost recovery may be appropriate (e.g. when trading with other local authorities or public bodies the Council is not limited in the amounts it can charge). This charging model also allows charges to be set below full cost recovery to achieve a particular objective – for example entering into a new market or attracting new business. However, in line with the Standard Charging Principles, the aim will always be to recover the full cost of a service over time.
Subsidised	A subsidised charge requires the Council to contribute to the direct cost of the service. Where the Council is not covering the direct costs of the service, it will require a contribution from the Council. All subsidies will be subject to the approval of the Executive.	This model provides the Council with the option to provide a service with full or partial subsidy. The level of subsidy will be determined by reference to the nature of the service and the rationale for any subsidy for example: • providing a public good • encouraging service take up • the user group's ability to pay. The financial impact of subsidy decisions on the budget will be identified both individually and collectively, and actively managed and reviewed.

Authority to Set and Vary Charges

The decision on charging levels will be based on the relevant charging method: full cost recovery, direct cost plus or subsidised.

All charging decisions must be made in accordance with the Council's Constitution (Budget and Policy Framework, Scheme of Delegation and Financial Procedure

Rules) and be able to demonstrate consistency with our strategic priorities, policies and statutory obligations.

The decision to vary charges for existing chargeable services which are not subsidised is an operational decision, which will be taken by the appropriate Director/Head of Service in consultation with the Chief Finance Officer.

Policy Review

This Policy will be reviewed periodically, taking into account developing Council policies and priorities and any changes in legislation.

July 2021

APPENDIX 6

EXTRACT: STRATEGIC RISK REGISTER
STRATEGIC FINANCIAL RISKS

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
SR2	**Financial sustainability** In the wake of the COVID-19 pandemic and resultant recession, the Council faces a period of unprecedented financial uncertainty. The most significant risks relate to the extent to which the Government will fund the unplanned expenditure that is being incurred to deliver the Council's COVID-19 responsibilities at the same time as experiencing material reductions in income from fees and charges and local taxes. If this substantial financial burden is not mitigated through direct Government support, then these unplanned financial pressures will have an adverse impact on the Council's capacity to deliver against its Corporate Plan ambitions. The delivery of corporate plan objectives will similarly be jeopardised if the Council is unable to secure additional income streams.	PM Portfolio Holder: Cllr Schofield	The Medium-Term Financial Plan (MTFP) revenue budget forecasts and a five-year capital programme during service & financial planning for 2020/21 onwards, sets out the forecast budget challenges over the coming five years. It will form the basis for service & financial planning for 2022/23 onwards. These are being used to confirm the extent of the financial challenges faced and support strategic service & financial planning decisions. We will continue to implement the actions detailed in the Capital Investment Strategy that was approved by Executive in January 2020.	We will continue to ensure that strong financial management arrangements are in place and continue to invest in skills and expertise to support delivery of the council's financial and commercial objectives while managing associated risks. The Council's updated Medium-Term Financial Plan was reported to the Executive in January 2021. This sets out the forecast budget challenges over the coming five years. It will form the basis for service & financial planning for 2022/23 onwards. The specific outcomes of the Fair Funding Review and Business Rates Reset remain unknown; however, it is expected to result in significantly reduced funding. COVID-19 has resulted in material new financial risks,	**R**	Treat	June 2021	-

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
	The ongoing financial settlement with the Government also remains uncertain. The Council is therefore increasingly reliant on income derived, and to be derived and generated, from investments, fees and charges and commercial activities – the ability to do so, however, may be further restricted by changes in legislation, regulations and codes of practice. Commercial activity and investments are similarly not without risk.		This will help ensure that capital investment decisions support delivery of the Council's strategic and financial objectives. We prepared the Treasury Management Strategy 2020/21 for approval (under COVID-19 delegation powers) in April 2020. This will ensure that treasury investments achieve target returns within approved security and liquidity limits.	both in 2020/21 and over the medium term. Additional unbudgeted expenditure has been incurred to deliver the authority's response and budgeted sources of income have been impacted by reduced demand during lockdown. At the close of the 2020/21 financial year the overall budget outturn is a net underspend for the council, with reserves remaining healthy. Government funding received to date is likely to address a significant proportion of the one-off cost pressures and lost income, but there remains uncertainty about funding support for lost income from fees and charges and local taxes in 2021/22 as well as about whether income levels will return to pre-COVID levels in the remainder of the year and beyond. In Q4 the Council submitted its a third claim to Central Government for lost income as a result of the COVID-19 pandemic.				

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
				Despite the impact of COVID-19 on priorities and workloads, the Council adopted Part 1 of its Commercial Strategy in Q3 demonstrating the continued importance of: (i) adopting and implementing strategies that support sustainable income generation and (ii) taking forward income generating projects such as Horley Business Park, and a crematorium. The Council is now in receipt of external advice on how to deliver appropriate commercial structures, roles and responsibilities and the relevant sub-committee is considering how to take this forward.				

APPENDIX 7

SERVICE & FINANCIAL PLANNING TIMETABLE 2022/23

Date	Event	Purpose
June/July 2021	Management Team away day	Consider service position and initial forecasts
	Executive away day	Discuss budget setting priorities and 'direction of travel'
15 July 2021	Overview & Scrutiny	Medium Term Financial Plan Update Capital Strategy Update
22 July 2021	Executive	
September 2021	Management Team away day	Consider draft Budget proposals
November 2021	Executive away day	Agree draft Budget proposals
18 November 2021	Executive	Agree draft Budget
1 December 2021 9 December 2021	Budget Scrutiny Panel Overview and Scrutiny	Review of draft Budget
16 December 2021	Executive	Receive Scrutiny Panel Feedback
28 January 2022	Executive	Final Budget and Council Tax proposals
10 February 2022	Full Council	Approve Budget and Council Tax

APPENDIX 8

COVID-19 PANDEMIC – FINANCIAL IMPLICATIONS

Expenditure Analysis 2020/21
MHCLG COVID-19 Return at 31 March 2021

MHCLG Category	£m	Type(s) of Expenditure
Housing / Rough Sleeping	0.156	Temporary accommodation for rough sleepers & increased B&B placements
Cultural & Related	0.080	Refunds of venue hire & tickets paid in advance; Harlequin-based casual staff costs
Environmental & Regulatory	0.148	Garden waste refunds & associated admin costs; vehicle hire, cleaning & fuel
	0.072	Social distancing signage & related stationery/postage costs
Finance & Corporate	0.071	ICT licences, hardware & support costs related to remote working
	0.561	Temporary staff/support; staff training; other staff-related costs not included in other categories
Shielding	1.755	Food parcels; staff/travel costs (all related to welfare response)
PPE	0.153	PPE for staff & volunteers (masks, gloves, respirators, sanitiser, wipes)
Compliance & Re-opening	0.009	Temporary staff
Elections	0.002	Miscellaneous costs incurred in 2020/21
Other	0.166	Publicity & marketing materials (eg social distancing notices); Communications additional resources
Total	**3.173**	

Sales Fees & Charges Compensation Analysis 2020/21
MHCLG COVID-19 Return at 31 March 2021

MHCLG Category	Gross Losses (a) £m	MHCLG 'Deductible' (b) £m	25% Losses Not Reimbursed (a+b)*25% £m	Final Compensation (d) £m	Type(s) of Income
Off(Street Parking	1.670	(0.176)	(0.373)	0.001	Reduction in carpark use, cancelled season tickets etc
On(Street Parking	0.126	(0.013)	(0.028)	0.085	Reduction in on(street parking, season tickets etc
Recreation & Sport	0.358	(0.038)	(0.080)	0.240	Waived management fee from leisure contractor; lost income from community centre room hire, facilities, etc
Harlequin	0. 314	(0.033)	(0.070)	0.211	Lost income from ticket sales, room hire, concessions, catering etc
Planning	0.216	(0.023)	(0.048)	0.145	Reduced fee income from planning applications
Regulatory Licencing	0.101	(0.011)	(0.023)	0.068	Includes reduced fees for private hire taxi licences
Garden Waste	0.478	(0.050)	(0.107)	0.321	Service suspension resulted in repayment of prepaid fees
Commercial Waste	0.221	(0.023)	(0.049)	0.148	Service suspension resulted in repayment of prepaid fees
Total	**3.484**	**(0.368)**	**(0.779)**	**2.337**	
				67%	% reimbursed

Notes:
Under the terms of the compensation scheme, a 'deductible' (column b) is initially levied against gross losses, with the remaining qualifying losses being reimbursed at 75%. MHCLG argue that this takes account of an ‘acceptable’ level of volatility whilst shielding authorities from the worst losses'. This deduction is the Government’s stated attempt to incentivise authorities to mitigate their losses themselves and to seek out alternative sources of income wherever possible.

The Council has therefore received compensation totalling £2.337m (67% of gross losses); other authorities participating in the scheme are expected to be receiving a similar level of compensation, however the actual % compensation will vary depending on local circumstances. It is also not possible to claim for lost income that was reported in the approved budget. This has impacted some authorities more than others if they habitually under-budgeted for income.

The majority of these losses are recorded against service budgets in the outturn report; the notable exception is the reimbursement of garden waste subscriptions which is reported as a COVID-19 unbudgeted expense.

The above does not include compensation for income losses that MHCLG deemed to be outside the compensation scheme – primarily commercial income losses. These losses have had to be funded in full by the Council. For this authority they are relatively low; the Property team report that 95% of rents were paid by tenants.

Further compensation can be claimed for April to June (only) losses in 2021/22.

GLOSSARY OF TERMS

Actuarial Valuation
An independent report of the financial position of the Surrey Local Government Pension Fund carried out by an actuary every three years. The actuary reviews the pension fund assets and liabilities as at the date of the valuation and makes recommendations such as, employer's contribution rates and deficit recovery period, to the Council.

Baseline Funding Level
The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate at the outset of the scheme as forecast by the Government. It forms the baseline against which tariffs and top- ups are calculated.

Billing Authority
Reigate & Banstead Council is the Billing Authority with responsibility for calculating the amount to be raised through the council tax in this borough after taking into account the precepts levied by the major precepting authorities.

Budget Requirement
The Council's Revenue Budget after deducting funding streams such as fees and charges and any funding from reserves (excludes council tax and business rates income).

Capital Expenditure
Spend on assets that have a lasting value, for example, commercial investments including land and buildings and large items of equipment such as vehicles. This can also include indirect expenditure in the form of grants or loans to other persons or bodies.

Capital Programme
The Council's plan for future spending on capital projects such as buying land, buildings, vehicles and equipment.

Capital Receipts
Proceeds from the disposal of land or other assets and can be used to finance new capital expenditure; but cannot be used to finance revenue expenditure.

Capping
This is the power under which the Government may limit the maximum level of local authority spending or increases in the level of spending year on year, which it considers excessive. It is a tool used by the Government to restrain increases in council tax.

CIPFA
The Chartered Institute of Public Finance and Accountancy is one of the UK accountancy institutes. Uniquely, CIPFA specialises in the public sector. Consequently, CIPFA holds the responsibility for setting accounting standards for local government.

Collection Fund
A statutory account maintained by the Council recording the amounts collected from council tax and business rates and from which it pays precepts to Surrey County Council, the Police & Crime Commissioner, Towns, Parishes and the Ministry for Housing, Communities and Local Government for business rates.

Collection Fund Surplus (or Deficit)
If the Council collects more or less than it expected at the start of the financial year, the surplus or deficit is shared with the major precepting authorities, Surrey County Council and the Police & Crime Commissioner, in proportion to the respective council taxes. These surpluses or deficits have to be returned to the council taxpayer in the following year through lower or higher council taxes. If, for example, the number of properties or the allowance for discounts, exemptions or appeals vary from those used in the council tax base, a surplus or deficit will arise. From 2013/14 onwards the collection

fund has included business rates income. The business rates surplus or deficit is shared with the Ministry for Housing, Communities and Local Government.

Headroom Contingency
This is money held centrally in the base budget to meet the cost of unbudgeted items of expenditure.

Council Tax Base
The council tax base for a Council is used in the calculation of council tax and is equal to the number of Band D equivalent properties. To calculate this, we count the number of properties in each band and work out an equivalent number of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992. They are: A 6/9, B 7/9, C 8/9, D 9/9, E 11/9, F 13/9, G 15/9 and H 18/9, so that Band A is six ninths of the 'standard' Band D, and so on.

The Council Tax Calculation
The formal calculation of council tax as presented in the Council Tax Resolution to Full Council in February each year.

CPI and RPI
The main inflation rate used in the UK is the CPI (Consumer Price Index); the Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is currently set at 2%. The CPI differs from the RPI (Retail Price Index) in that CPI excludes housing costs. Also used is RPIX, which is a variation on RPI, which excludes mortgage interest payments.

Earmarked Revenue Reserves
These balances are not a general resource but earmarked by the Council for specific purposes.

Financial Procedure Rules
These are a written code of procedures in the Council's Constitution, which provide a framework for the proper financial management of the authority. They cover rules for accounting and audit procedures, and set out administrative controls over the authorisation of payments, etc.

Financial Year
The local authority financial year commences on 1 April and finishes on the following 31 March.

General Fund
This is the main revenue fund of the local authority; day-to-day revenue budget spending on services is met from this fund.

General Fund Balance
This is the main unallocated reserve that is held to meet any unforeseen budget pressures.

Gross Domestic Product (GDP)
GDP is defined as the value of all goods and services produced within the UK economy.

Gross Expenditure
The total cost of providing Council services, before deducting income from Government or fees and charges for services.

Housing Benefit Subsidy
Local authorities determine and pay applications for housing benefit in accordance with the national scheme and receive a Subsidy grant from Government to fund the costs. The Government is moving to a national scheme of universal credit which includes an element of housing benefit.

Individual Authority Business Rates Baseline
This is derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.

'Local Share'

From April 2013, local councils have been allowed to keep a proportion of the business rates they collect from businesses in their area. In most areas, half of business rates will have to be paid over to central government (the 50% scheme), with some piloting 100% business rates retention. Billing authorities continue to collect all of the business rates in their area on behalf of the major precepting authorities and central government. Reigate & Banstead's share of the 50% retained is 40%.

Net Expenditure
This is gross expenditure less service income, but before deduction of government grant.

National Non-Domestic Rates
Also known as 'Business Rates', National Non-Domestic Rates are collected by billing authorities including Reigate & Banstead and, up until 31 March 2013 were all paid into a central national pool, then redistributed to authorities according to resident population. From 2013/14 local authorities have retained a 'Local Share', see above, the aim of which is to provide an incentive for councils to help local businesses set up and grow.

New Homes Bonus
Under this scheme councils receive a New Homes Bonus per each new property built in the borough for the first four years following completion. Payments are based on match-funding the council tax raised on each property with an additional amount for affordable homes. It is paid in the form of an un-ring-fenced grant. Since 2017/18 the scheme excludes the first 0.4% of growth to 'sharpen the incentive'.

Prudential Borrowing
Set of rules governing local authority borrowing for funding capital projects under a professional code of practice developed by CIPFA to ensure that capital investment plans are affordable, prudent and sustainable. Local authorities generally borrow from the National Loans Fund via the Public Works Loan Board (PWLB), a statutory body operating within the UK Debt Management Office, an executive agency of the Treasury.

Reserves
We set aside resources to provide protection against difficult economic times. The level of reserves helps ensure a relatively secure financial base. It is important to carry out regular reviews to ensure an appropriate balance between securing the future financial position of the Council and investing in current delivery of services.

Revenue Expenditure
The day-to-day running cost of services provided by Council.

Safety Net
In order to prevent local authorities having to drastically cut services as a result of a significant fall in business rate income and to provide some protection against major economic shocks, the government introduced a safety net mechanism to ensure that no local authority will experience a fall in business rate income of more than 7.5% in any one year under the 50% scheme. This safety net is paid for by a Levy on what the government deems to be 'excessive growth'.

Section 151 Officer
Legally councils must appoint under section 151 of the Local Government Act 1972 a named Chief Finance Officer to provide professional financial advice. In Reigate & Banstead this is the post of Head of Finance.

Service & Financial Planning
The annual process for reviewing service priorities and preparing budget forecasts.

Settlement Funding Assessment (SFA)
A local authority's share of the local government spending control total which comprises its baseline funding level (in 2013/14 this was called the 'start-up funding allocation').

Specific Grants

As the name suggests, funding through a specific grant is provided for a specific purpose and cannot be spent on anything else e.g. Homelessness Prevention.

Spending Review
The Spending Review is an internal Government process through which the Treasury negotiates budgets for each Government department. The 2015 Spending Review set Government spending for the four financial years up to 2021/22. Spending Review20 is expected this year ready for implementation in 2021.

Tariffs and Top-Ups
Because the amount of business rates an individual authority is able to collect will vary enormously depending upon location and the characteristics of the authority, the government introduced a system of top-ups and tariffs to redistribute business rates around the country. Local councils with a relatively high level of business rates pay a tariff into a national pot which is used to pay top-ups to those local authorities with relatively low levels of business rates. Reigate & Banstead is a 'tariff' authority.

Treasury Management
The process of managing cash flows, borrowing and cash investments to support our finances. Details are set out in the Treasury Management Strategy which is approved by Executive and Full Council each year.