

# MEDIUM TERM FINANCIAL PLAN

## 2021/22 to 2025/26

### July 2020

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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 2021/22 to 2025/26 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 2020 the Executive approved the previous version of the MTFP which was based on the objectives of the new Corporate Plan 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 2021/22.

The draft budget report later this year will set out the detailed actions required to deliver a balanced budget for 2021/22 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
- 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 Brexit.** While the Government has underwritten EU funding agreed prior to the 2016 Autumn Statement, the impact of the UK's departure from the EU is one that remains unclear and may impact both politically and economically.
- **Impact of the COVID-19 Pandemic.** The latest assessment of the potential financial impacts for this Council is set out 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 is due to be introduced in 2021.
- **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.
- **A 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.

### 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 COVID-19 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 to April 2021, 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 and are now intended to be implemented for the 2022/23 financial year

#### The Economy and Public Spending

There is now considerable uncertainty in financial and economic forecasts. In July 2020 the Office for Budget Responsibility (OBR) reported

- *The UK is on track to record the largest decline in annual GDP for 300 years, with output falling by more than 10 per cent in 2020 in all three scenarios (and contracting by a quarter between February and April). This delivers an unprecedented peacetime rise in borrowing this year to between 13 and 21 per cent of GDP, lifting debt above 100 per cent of GDP in all but the upside scenario. As the economy recovers, the budget deficit falls back. But public debt remains elevated, continuing to rise in the central and downside scenarios.*
- *That said, the outlook would have been much worse without the measures the Government has taken. These have provided additional financial support to individuals and businesses through the lockdown. They should also help to limit any long-term economic 'scarring', by keeping workers attached to firms and helping otherwise viable firms stay in business.*
- *Our upside scenario assumes that long-term scarring is avoided, but in the central and downside scenarios it reduces output in the medium term by 3 and 6 per cent respectively. By 2024-25 the budget deficit falls back to close to our March forecast of 2.2 per cent of GDP in the upside scenario, but it remains higher – at 4.6 and 6.8 per cent – in our central and downside scenarios. This would represent structural fiscal damage of 2.4 and 4.7 per cent of GDP relative to our March forecast. None of the scenarios assume persistently lower growth*

*in potential GDP, as was the case after the financial crisis and which would result in the loss of output and fiscal damage increasing over time. And they all assume that very low interest rates persist in line with market pricing, cushioning the fiscal blow. This helps stabilise public debt as a share of GDP after it has risen to a six-decade high.*

## Interest Rates

The base rate remains at 0.1% (June 2020). Uncertainty over Brexit caused the Monetary Policy Committee (MPC) to leave Bank Rate unchanged during 2019 and at its January 2020 meeting. However, since then the coronavirus outbreak has transformed the economic landscape: in March, the MPC took emergency action twice to cut Bank Rate first to 0.25%, and then to 0.10%. It is now unlikely to rise for the next two years pending a protracted recovery of the economy from this huge set back.

<b>Table 1: FORECAST INTEREST RATES</b>	<b>June 2020</b>	<b>Dec 2020</b>	<b>June 2021</b>	<b>Dec 2021</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Forecast Bank Rate	0.10	0.10	0.10	0.10

Source: Link Asset Management June 2020

## Inflation

The rate of inflation (as measured by the Consumer Price Index - CPI) currently falls well within the Bank of England target of 2%. The COVID-19 lockdown has prevented the Office for National Statistics from collecting the prices of many items, but it is clear that inflation has fallen. CPI inflation dropped to a four-year low of 0.5% in May and will probably stay close to 0.5% for the next year. Even when the economy recovers low wage growth will mean inflation is unlikely to climb much above 1.0%.

<b>Table 2: FORECAST INFLATION (CPI)</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>	<b>2024/25</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>£%</b>
Forecast CPI	0.5	0.5	1.0	1.0	1.0

Source: Link Asset Management June 2020

## Economic Growth

Economic growth – as measured by Gross Domestic Product (GDP) - fell by 20.4% in April 2020, after the closedown of whole sections of the economy, the biggest monthly fall since the series began in 1997.

*What remains uncertain is the extent of the damage that will have been done to businesses by the end of the lockdown period, how consumer confidence and behaviour may be impacted afterwards, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover to what was formerly regarded as normality. However, some changes during lockdown are likely to be long lasting e.g. a shift to online purchasing, working from home, etc. The lockdown has also had a sharp effect in depressing expenditure by consumers which means their level of savings have increased and debt has fallen. This could provide fuel for a potential surge in consumer expenditure once some degree of normality returns.*

Source: Link Asset Management June 2020

## **Context: Potential implications of the COVID-19 economic situation 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.
- Impacts on our 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 £1.6 million 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 2021/22
- July 2018 – new simplified Business Rates Reset first suggested
- December 2018 – no figures beyond 2020/21 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 2020/21 only



- Spending Review20 – delayed to autumn 2020 due to Government’s COVID-19 pandemic response.

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 now delayed to 2022/23 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 to 2022/23.

#### **Business Rates Revaluation**

- Delayed to 2022 as a consequence of the COVID-19 pandemic.

#### **New Homes Bonus:**

- Alongside the single-year allocation in 2020/21 the Government stated that there will be 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 Review20.

#### **Specific Grants:**

- There is still an expectation that these will be rolled into the funding system when 75% business rates retention is introduced (now expected 2022/23)

#### **Negative RSG Grant**

- It has not been confirmed whether this has also been deferred to 2022/23. Further information may be announced as part of Spending Review20.

#### **Council Tax:**

- There is a possibility of increased freedoms (primarily for social care precepting authorities). Further information may be announced as part of Spending Review20.

### **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 (2020/21) and capital investment plans for two financial years (2020/21 and 2021/22).

The Chancellor announced on 24 March 2020 that the planned Spending Review 2020 would be delayed beyond July to enable the Government to remain focused on responding to the COVID-19 pandemic.

This was followed by the Chancellor's 'Summer Economic Update' on 9 July in response to the coronavirus pandemic, which he called a 'Plan for Jobs'. The Chancellor highlighted:

- The Office for National Statistics (ONS) estimates that Gross Domestic Product (GDP) in April was around 25% below the level recorded in February;
- Over 9m jobs have been furloughed through the Coronavirus Job Retention Scheme – more than a quarter of the UK workforce;
- Universal Credit claims have also been elevated, with 3.4m individual declarations made from 1 March to 23 June; and
- Real time data shows the number of paid employees falling by 612,000 over April and May.

The Chancellor also confirmed that he would introduce a Budget and Spending Review20 in the autumn.

At that stage the Office of Budget Responsibility did not provide an 'economic and fiscal outlook', as is customary at the Budget and Spring Statement. This followed on 14 July.

### **Service & Financial Planning: Government Funding Assumptions**

For the purposes of preparing this MTFP and the draft 2021/22 budget the following has been assumed:

- No changes to total local government funding as a result of Spending Review20.
- The most far-reaching funding changes will be delayed to 2022/23
- When implemented, the funding changes will reduce this Council's Government funding by £0.200 million in year one followed by a further £1.3 million and £0.4 million in each of the two subsequent years (£2.3 million in total). This is as a consequence of the removal of 'Negative RSG' grant and the Business Rates reset.
- No other transitional funding arrangements for these changes
- Council taxbase growth of 1.0% per annum and council tax increases continue to be capped at a maximum of 1.99% or £5
- Funding from New Homes Bonus to cease in 2021/22 (no new allocations).

## **4. Corporate Plan Priorities**

The Council's Corporate Plan 2025 sets out our priorities for the next five years, 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 new 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 new '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
- A new 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.

## 5. Budget-Setting Priorities 2021/22

The Priorities that will be taken into account when preparing the draft Budget for 2022/23 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.
- 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. Pension Fund deficit contributions and treasury management costs and income.  
Also included in this block is the Headroom Contingency budget.  
For 2020/21 this include the one-off advance payment of the employer's three-year secondary pension contribution of £6.204 million.

- **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.  
For 2020/21 it includes the continued impact (benefit) of the one-off elimination of 'Negative Revenue Support Grant' that was announced by the Government in September 2019.
- **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'.
- **Contributions (to)/from Reserves:** This relates to use of Earmarked Revenue Reserves, which have been allocated to fund specific purposes. For example, the use of Reserves to fund the one-off advance pension contribution. 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 (£1.256 million in 2020/21).

### Revenue Budget Outturn 2019/20

In February 2019 the Council set a net Revenue Budget for 2019/20 of £16.3 million. Transfers from the Corporate Plan Delivery Fund and other grants received during the year resulted in a net increase to £17.5 million.

The provisional outturn for Service budgets at the end of Period 12 was £0.470 million (3.5%) higher than the management budget however, the overall provisional outturn, including Central Items, was £2.09 million (11.9%) lower than budget.

Table 3: REVENUE BUDGET OUTTURN 2019/20	Original Budget	Revised Budget	Year End Outturn	Year End Variance
	£m	£m	£m	£m
Service Budget	12.148	13.606	14.076	0.470
Central Budgets	4.147	3.870	1.313	(2.557)
<b>Total</b>	<b>16.295</b>	<b>17.476</b>	<b>15.389</b>	<b>(2.087)</b>

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

- Finance: £0.640m over budget as a result of additional work required during the 2018/19 audit of the Statement of Accounts, additional work relating to major projects including the Horley Business Park land purchase, Marketfield Way and Baseball, and the use of interim staff to both cover vacancies and to improve finance processes.
- Benefits Team and Benefits Paid/Subsidy Received: £0.573m over budget due to reduced DWP grant, additional consultancy and printing costs, increased Bed & Breakfast placement costs, additional statutory costs and income shortfall due to suspension/cessation of Court recovery as a result of COVID 19 at year-end.

- Harlequin Theatre: £0.221m over budget due to delay in cinema opening and staff costs higher than budget.
- Development Services: £0.200m lower than budget due to underspends on Consultancy.
- Fleet: £0.219m above budget due to expenditure on spare parts to keep the ageing Fleet running.
- Projects & Assurance: £0.105m lower than budget due to vacant posts
- Headroom Contingency: £0.737m lower than budget because funds have not been required during the year.
- Interest on borrowing: £0.086m lower than budget.
- Senior Management Team: £0.202m lower than budget due to vacant Director post.
- Property and Facilities: £0.322m lower than budget due to new rental income from Salfords Industrial Units offset by lower income from Warwick Quadrant and Marketfield Way.
- Refuse and Recycling: £0.341m lower than budget net (income is £0.703m higher than budget, offset by overtime and temporary staff costs to cover sickness and additional staff costs for recycling service to flats and extra expenditure on new bins).

Executive agreed that the underspend would be transferred to Reserves, initially to fund the Council's response to the COVID-19 pandemic with any remaining balance used to help rebuild the Pensions Reserve ready for the next revaluation in 2022.

The service & financial planning process for 2021/22 will include an assessment of whether any budgets require realignment to reflect historic outturn trends.

### Revenue Budget 2020/21

The Revenue Budget for 2020/21 was approved in February 2020. In summary it comprises:

<b>Table 4: BUDGET SUMMARY 2020/21</b>	<b>Budget 2020/21 £m</b>
1. Net Cost of Services	14.276
2. Central Budgets	3.980
3. Advance Payment of Employer's Pension Contribution	6.204
<b>NET EXPENDITURE 2020/21 including ADVANCE PENSION CONTRIBUTION</b>	<b>24.460</b>
4. Council Tax	14.100
5. National Non-Domestic Rates	2.900
6. New Homes Bonus – 2020/21 allocation from Central Government	1.789

<b>Table 4: BUDGET SUMMARY 2020/21</b>	Budget 2020/21 £m
7. Net Contribution (to)/from Reserves: <ul style="list-style-type: none"> <li>• New Homes Bonus – 2020/21 allocation paid into Reserves – (£1.789m)</li> <li>• Use of funds from the General Fund Balance and Pension Reserve to fund the advance Employer’s Pension Contribution of £6.204m</li> <li>• Use of funds from the General Fund Balance to support the 2020/21 Revenue Budget £1.256m<sup>1</sup></li> </ul>	5.671
<b>NET SOURCES OF INCOME 2020/21</b>	<b>24.460</b>

1. The actual sum to be drawn from Reserves to support the budget will depend on the budget outturn position for 2020/21. Over recent years the budget outturn has been an underspend position with no requirement to call on Reserves.

### 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.

1. Budget to be transferred to services to reflect 2020/21 allocation virements.

<b>Table 5: CENTRAL BUDGETS</b>	<b>Original Budget 2019/20 £m</b>	<b>Approved Budget 2020/21 £m</b>	<b>Net Budget Increase / (Decrease) £m</b>
Budget Contingencies	1.431	1.941	0.511
New Posts Budget	0.250	0.159	(0.091)
Insurance	0.452	0.482	0.030
External Audit Fees	0.050	0.050	0.000
Treasury Management	(0.404)	0.340	0.744
Minimum Revenue Provision	0.000	0.528	0.528
Employer Secondary Pension Contribution	2.338	0.375	(1.963)
Apprenticeship Levy	0.064	0.069	0.005
Trust Funds	0.036	0.036	0.000
<b>Central Budgets</b>	<b>4.217</b>	<b>3.980</b>	<b>(0.237)</b>
Advance Payment of Employer’s Pension Contribution	0.000	6.204	6.204
<b>Total</b>	<b>4.217</b>	<b>10.184</b>	<b>5.967</b>

Further details are provided at Appendix 1.

### ‘Headroom’ Contingency Budget

The Headroom Contingency Budget was originally established during budget setting in 2012/13 to ‘mitigate the reduction in Central Government revenue funding’.

It is appropriate to retain an adequate level of contingency in the Revenue Budget as well as holding reserves. When assessing the level of contingency required the following are examples of the factors that need to be considered:

- Budget risks (eg. delays or non-delivery of new income streams)
- Unexpected pressures on relatively volatile and/or demand led budgets
- Likelihood of incurring unexpected costs (eg. an uninsured loss, litigation costs)
- New pressures as a consequence of the uncertain economic climate

A Headroom Contingency Budget of £1.0 million was approved during the 2020/21 budget setting process.

<b>Table 6: CHANGES IN THE HEADROOM CONTINGENCY BUDGET 2019/20 to 2020/21</b>	
	£m
<b>Headroom Contingency Budget 2019/20</b>	<b>0.836</b>
Increase approved during 2020/21 service & financial planning	0.164
<b>Headroom Contingency Budget 2020/21 onwards</b>	<b>1.000</b>

The level of Headroom Contingency will be reviewed and reported each year as part of the service & financial planning process.

## 7. Revenue Budget Funding 2020/21

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

<b>Table 7: REVENUE BUDGET FUNDING</b>	Budget 2020/21 £m
National Non-Domestic Rates	2.900
Council Tax	14.100
New Homes Bonus – these funds are transferred to a Reserve	1.789
Net Contribution (to)/from Reserves: <ul style="list-style-type: none"> <li>• New Homes Bonus – 2020/21 allocation paid into Reserves – (£1.789m)</li> <li>• Use of funds from the General Fund Balance and Pension Reserve to fund the advance Employer’s Pension Contribution £6.204m</li> <li>• Use of funds from the General Fund Balance to support the 2020/21 Revenue Budget £1.256m</li> </ul>	5.671
<b>TOTAL</b>	<b>24.460</b>



Factors taken into account include:

Retained Business Rates Income and Negative RSG Grant

- This Council's share of retained business rates will be £2.3 million in 2021/22 (including £1.5m Negative RSG Grant).
- In 2022/23, the Council will see a further decline in Government funding support as retained business rates receipts are cut due to the planned reset.
- In addition, the 'Negative RSG Grant' of £1.500 million will end. It is not yet clear how these reductions will be implemented but are assuming this will be clearer when the outcome of the delayed Fair Funding Review and Business Rates Reset are announced during 2021.

Council Tax

- The forecast level of Council Tax income for 2020/21 based on a £5.00 Band D equivalent increase and the forecast tax base.

New Homes Bonus

- Includes updated forecasts for New Homes Bonus in 2020/21 based on the December 2019 Provisional Settlement announcement. These funds (£1.789m) are transferred to a Reserve.

Contributions (To)/From Reserves

- Includes the net contribution of £1.256 million that will be required from the General Fund Balance to address the forecast remaining Revenue Budget gap in 2020/21 and the £6.204 million advance payment of the employer secondary pension contribution. Also, the transfer to Reserves of the 2020/21 New Homes Bonus Allocation.

## 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 2020/21**

The referendum cap was confirmed with the Provisional Local Government Funding Settlement Announcement in December 2019, 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 £13.700 million to £14.100 million

As reported to Executive in December 2019, the impacts of the forecast increase in the taxbase and collection performance for 2020/21 was 885.8 Band D equivalent properties, an increase of 1.5% compared to 2019/20. This yielded an additional £0.201 million increase in this Council's share of the sums collected.

### **COVID-19 Impacts**

It is still early in the 2020/21 financial year to forecast with any accuracy how the pandemic will impact council tax collection performance. The latest assessment of the potential impacts is set out at Appendix 8.

### **Council Tax Policy**

Changes to council charges on empty homes were also approved during 2019/20 and came into effect in 2020/21:

- Homes that have been empty and substantially unfurnished for more than two years and less than five years will be charged a Council Tax long term empty premium equivalent to 100% of the Council Tax in addition to their current Council Tax.
- Homes that have been empty and substantially unfurnished for five years and more will be charged a Council Tax long term empty premium equivalent to 200% of the Council Tax.

As these changes help deliver a county-wide initiative to reduce the number of empty properties throughout Surrey, the County Council is proposing to reallocate its share of the increased funding that results from changes in Empty Homes policies. Under this commitment the Boroughs and Districts will receive reallocated funding where agreed conditions are met. The Country council has stated that it plans to agree details of the distribution arrangement during 2020/21.

An increase of the empty homes premium to 300% for properties that are empty for 10+ years will be considered as part of the Council Tax setting process for 2021/22.

## Council Tax Precepts 2020/21

Table 8: ANALYSIS OF COUNCIL TAX BY PRECEPTOR 2020/21		
Authority	£000	% share
Surrey County Council	92,393.7	74.94
Surrey Police & Crime Commissioner	16,245.6	13.18
Reigate & Banstead BC	14,210.0	11.53
Horley Town Council	404.7	0.33
Salfords & Sidlow Parish Council	38.5	0.03
	<b>123,292.5</b>	<b>100</b>

Table 9: ANALYSIS OF COUNCIL TAX CHANGES BY PRECEPTOR 2020/21				
Authority	2020/21	2019/20	Increase	
			£	%
Surrey County Council	1,511.46	1,453.50	57.96	3.99
Surrey Police & Crime Commissioner	265.76	260.57	5.19	1.99
Reigate & Banstead Borough Council	232.46	227.46	5.00	2.20
Horley Town Council	39.71	37.86	1.84	4.85
Salfords & Sidlow Parish Council	27.18	22.18	5.00	22.54

### Local Council Tax Support Scheme

The Council funds 10% 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 Government funding is provided; the costs fall on the General Fund.

### Council Tax Collection Performance 2019/20

This Council's collection performance for council tax in 2019/20 was 98.65%; 28<sup>th</sup> highest performance compared to all English local authorities

### Council Tax Options 2021/22

Each 1% increase in Council Tax generates £0.141 million additional income for this borough. A 1.99% increase would yield £0.281 million additional income; a £5 increase would yield £0.303 million.

### Council Tax Forecasts

For MTFP modelling purposes, based on a 1.99% increase and a 1% increase in the taxbase, the Council Tax income forecast at June 2020 is set out below:

Table 10: COUNCIL TAX FORECAST	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m

<b>Table 10: COUNCIL TAX FORECAST</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>
Forecast Resources	13.700	14.100	14.520	14.960	15.410	15.880
Annual Increase in Income	-	0.400	0.420	0.440	0.450	0.460
Cumulative Increase in Income		0.400	0.820	1.260	1.710	2.170
Band D	£227.46	£232.46	£237.09	£241.80	£246.62	£251.52
Band D Increase	-	£5.00	£4.63	£4.71	£4.82	£4.90

## 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.

The Government is currently undertaking a review of how business rates will operate going forward and has stated its intentions to achieve 75% localisation of business rates from 2022. The full impact of this will only become clear later during 2021/22 as proposals are developed

### Appeals

The provision for business rates appeals in the Collection Fund has been reviewed and the outcome is a requirement to plan to increase the provision to bring it in line with the level of income expected and likelihood of successful appeals. The Council's share of the provision will be funded through drawing on the earmarked reserve that has been set aside for this purpose and making provision in the Medium-Term Financial Plan for future years' contributions.

### Business Rates Collection Performance 2019/20

Collection performance for business rates in 2019/20 was 99.94%; this was the highest performance in the country compared to all English local authorities

### Business Rates Forecast at June 2020

<b>Table 11 : NDR FORECAST</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>
Forecast NDR Resources	2.500	2.300	2.300	1.700	1.600	1.400
Less 'Negative RSG Grant'	-	-	-	(0.700)	(1.000)	(1.200)
<b>Net Forecast</b>	<b>2.500</b>	<b>2.300</b>	<b>2.300</b>	<b>1.000</b>	<b>0.600</b>	<b>0.200</b>
Annual Reduction	-	(0.200)	-	(1.300)	(0.400)	(0.400)

<b>Table 11 : NDR FORECAST</b>	<b>2019/20 £m</b>	<b>2020/21 £m</b>	<b>2021/22 £m</b>	<b>2022/23 £m</b>	<b>2023/24 £m</b>	<b>2024/25 £m</b>
Cumulative Reduction	-	(0.200)	(0.200)	(1.500)	(1.900)	(2.300)

### **COVID-19 Impacts**

It is still early in the 2020/21 financial year to forecast with any accuracy how the pandemic will impact business rates collection performance. The latest assessment of the potential impacts is set out at Appendix 8.

The extended deadline for publication of the Statement of Accounts for 2019/20 as a consequence of the COVID-19 pandemic also means that a small number of 2019/20 figures were not available at the time of preparing this report. The final position will be reported later this year.

## **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 2020/21 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 remains unclear due to the delay in the Fair Funding review.

In previous years this funding was set aside in an Earmarked Reserve for general use. During budget-setting 2020/21 the funds were allocated to support implementation of the Housing Delivery Strategy. Details at Appendix 4.2.

## **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.
- 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 2020 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 2020 budget report that a working balance of £3.0 million is considered the minimum level required. This represents just over 15% of the net budget for 2020/21. This minimum level will be reviewed again as part of 2021/22 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.

<b>Table 12 : USEABLE REVENUE RESERVES</b>	<b>2013/14 £m</b>	<b>2014/15 £m</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>	<b>2019/20 £m</b>
General Fund Balance	6.075	6.717	8.737	5.912	12.547	12.547	8.949
Earmarked Reserves	9.526	10.963	13.485	19.075	21.703	25.042	32.646
<b>Total Reserves</b>	<b>15.601</b>	<b>17.680</b>	<b>22.222</b>	<b>24.987</b>	<b>34.250</b>	<b>37.589</b>	<b>41.595</b>
Reserves as a % of the Net Revenue Budget	119.14%	135.01%	169.70%	190.81%	261.55%	287.05%	255.26%

### 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.
- 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 2021/22 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 2021/22 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 2022/23, including the loss of Negative RSHG 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
- 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 will be reported in November.

### Revenue Budget-Setting Assumptions 2021/22

The following assumptions will be used during service & financial planning over coming months when preparing the draft Budget estimates for 2021/22:

- |                    |  |
|--------------------|--|
| Council Tax        | <ul style="list-style-type: none"> <li>• To increase by the referendum limit – assumed to be £1.99%</li> <li>• Plus an increase due to growth in the taxbase of 1% per annum</li> <li>• The impacts of local discounts, exemptions and the local council tax support scheme will be taken into account when preparing income forecasts.</li> </ul> |
| Government Funding | <ul style="list-style-type: none"> <li>• Fair Funding Review and loss of Negative RSG Grant delayed to 2022/23</li> </ul>  |



Retained Business Rates Income	<ul style="list-style-type: none"> <li>• Reset of Business Rates delayed to 2022/23</li> </ul>
Fees & Charges	<ul style="list-style-type: none"> <li>• The Fees &amp; 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.</li> </ul>
Investment Income and Borrowing	<ul style="list-style-type: none"> <li>• Investments and borrowing will be forecast in line with forecast balances (reserves) and capital investment plans</li> </ul>
Pay Inflation	<ul style="list-style-type: none"> <li>• An allowance for a pay award will be included in the draft Budget, in addition to forecast contractual pay increases.</li> <li>• This provides the option for pay rises but the specific rate of increase will be subject to established consultation processes.</li> </ul>
Employer Pension Costs	<ul style="list-style-type: none"> <li>• 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 2022/23.</li> <li>• The 2019 valuation confirmed that the Fund's total assets, which at 31 March 2019 were valued at £4.483 million, 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 £196 million.</li> <li>• 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.</li> <li>• For Reigate &amp; Banstead this is based on a 15% payroll oncost charge plus a £2.2 million lump sum annual deficit payment with the option to pay this in 'Year 1' at a discount.</li> <li>• The next actuarial review will be at 31 March 2022 and any budget implications will be built into budgets for 2023/24 onwards.</li> <li>• National consultation is currently in progress regarding moving to a four-year revaluation cycle going forward.</li> </ul>

- For 2020/21 this budget has been updated to reflect the outcome of the 2019 Pension Fund Revaluation and the funding options offered to employers by the Fund.
- As part of budget-setting 2020/21 The approved approach was:
  - To maintain the primary employer contribution rate at 15% of salaries. This has been factored into the 2020/21 base budget.
  - To pay the secondary employer rate as an advance lump sum of £6.204 million in April 2020 funded from the earmarked reserve set aside for this purpose plus a contribution from General Fund Reserves at the beginning of 2020/21. This represents a saving of £0.397 million compared to payment in three annual instalments from 2020/21 to 2023/24.
  - 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 £0.400 million 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 2020/21 onwards). This budget will therefore be deleted in 2021/22 onwards.

#### 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.

### Forecast Budget Gap

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

<b>Table 13: MEDIUM TERM REVENUE BUDGET FORECAST</b>	Approved Budget 2020/21	Forecast Budget 2021/22	Forecast Budget 2022/23	Forecast Budget 2023/34	Forecast Budget 2024/25	Forecast Budget 2025/26
	£m	£m	£m	£m	£m	£m
<b>FORECAST GAP</b>	<b>nil</b>	<b>1.866</b>	<b>3.956</b>	<b>4.626</b>	<b>5.286</b>	<b>5.536</b>
Annual Increase in Gap	-	1.866	2.090	0.670	0.660	0.250
Gap as % of 2020/21 budget requirement	-	10.1%	21.5%	25.1%	28.7%	30.1%

The key factors that will influence the forecast gap include:

- |                     |  |
|---------------------|--|
| Service Expenditure | <ul style="list-style-type: none"><li>• No significant budget pressures have been identified to date but this will be subject to further review as part of the service and financial planning process</li><li>• Legacy impacts of the COVID-19 pandemic on service income budgets</li></ul>  |
| Central Budgets     | <ul style="list-style-type: none"><li>• Treasury Management costs will rise significantly over the MTFP period as a consequence of the borrowing requirement to fund the approved Capital programme</li><li>• A one-off pension budget reduction</li></ul>   |
| Council Tax         | <ul style="list-style-type: none"><li>• Council tax setting assumptions</li><li>• Legacy impacts on recovery performance of the COVID-19 pandemic</li></ul>  |
| NNDR                | <ul style="list-style-type: none"><li>• Removal of Negative RSG Grant and the Business Rates reset</li><li>• Legacy impacts on recovery performance of the COVID-19 pandemic</li></ul>   |
| Use of Reserves     | <ul style="list-style-type: none"><li>• Funding for the 2019/20 budget includes drawing £1.256 million from the General Fund Reserve. If equivalent savings, efficiencies or new sources of income are not identified for 2021/22 this requirement to call on Reserves will continue to increase and further reduce available balances.</li><li>• In previous years the budget outturn position has been a revenue budget underspend of at least £1.0 million. If this were to continue the net impact on reserves would not be significant, however the COVID-19 pandemic means that there is a reduced likelihood of an underspend on this scale in 2020/21.</li></ul> |

## 13. Capital Investment Strategy

The latest Capital Investment Strategy is reported to Executive in July 2020 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.
- To use internal resources alongside external resources where appropriate to support the Capital Programme and minimise any borrowing costs.

### Capital Programme 2020/21 to 2024/25

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 2020.

Table 14: CAPITAL PROGRAMME 2020/21 to 2024/25	2020/21	2021/22	2022/23	2023/24	2024/25	
	Projected	Projected	Projected	Projected	Projected	TOTAL
	£m	£m	£m	£m	£m	£m
<b>ORGANISATION SERVICES:</b>						
Strategic Property	4.385	1.332	1.658	1.374	1.258	<b>10.007</b>
IT Services	0.225	0.425	0.375	0.385	0.325	<b>1.735</b>
Organisational Development	0.280	0.260	0.260	0.260	0.260	<b>1.320</b>
<b>PEOPLE SERVICES:</b>						
Housing	16.990	11.405	11.334	1.334	1.334	<b>42.400</b>
Wellbeing & Intervention	0.140	0.040	0.040	0.040	0.040	<b>0.300</b>
Community Partnerships	0.030	0.030	0.030	0.030	0.030	<b>0.150</b>
<b>PLACE SERVICES:</b>						
Neighbourhood Operations	3.927	2.822	1.202	1.202	1.202	<b>10.353</b>
Place Delivery	20.021	24.442	15.100	0.000	0.000	<b>59.563</b>
Economic Prosperity	0.100	0.100	0.100	0.100	0.100	<b>0.500</b>
<b>CORPORATE:</b>						

Table 14: CAPITAL PROGRAMME 2020/21 to 2024/25	2020/21	2021/22	2022/23	2023/24	2024/25	
	Projected	Projected	Projected	Projected	Projected	TOTAL
	£m	£m	£m	£m	£m	£m
Commercial Investment Strategy	50.000	0.000	0.000	0.000	0.000	50.000
<b>TOTAL CAPITAL EXPENDITURE</b>	<b>96.100</b>	<b>40.856</b>	<b>30.099</b>	<b>4.725</b>	<b>4.549</b>	<b>176.328</b>

### Capital Programme Funding

Sources of funding for the 2020/21 to 2024/25 Capital Programme are summarised below:

Table 15: CAPITAL PROGRAMME FUNDING 2020/21 to 2024/25	2020/21	2021/22	2022/23	2023/24	2024/25	
	Projected	Projected	Projected	Projected	Projected	Total
	£m	£m	£m	£m	£m	£m
<b>TOTAL CAPITAL EXPENDITURE 2020/21 - 2024/25</b>	<b>96.100</b>	<b>40.855</b>	<b>30.099</b>	<b>4.725</b>	<b>4.549</b>	<b>176.328</b>
<b>FUNDED BY:</b>						
Capital Grants & Contributions	1.843	1.600	1.187	1.187	1.187	7.006
Capital Receipts	8.805	24.488	26.778	0.000	0.000	60.072
Funding equivalent to historic New Homes Bonus allocation - to support implementation of the Housing Delivery Strategy <sup>1</sup>	10.000	7.000	-	-	-	17.000
Prudential Borrowing	75.451	7.767	2.133	3.537	3.361	92.250
<b>TOTAL CAPITAL FUNDING 2020/21 to 2024/25</b>	<b>96.100</b>	<b>40.855</b>	<b>30.099</b>	<b>4.725</b>	<b>4.549</b>	<b>176.328</b>

Sources of funding for the 2020/21 to 2024/25 Capital Programme are explained below:

Table 16: CAPITAL FUNDING	
Capital Reserves	<ul style="list-style-type: none"> <li>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. The remaining balance was less than £0.700 million at March 2019.</li> </ul>

Table 16: CAPITAL FUNDING	
Capital Receipts	<ul style="list-style-type: none"> <li>• Sale of capital assets results in a capital receipt that can be used to invest in new capital assets or to repay prudential borrowing.</li> <li>• 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.</li> </ul>
Capital Grants & Contributions	<ul style="list-style-type: none"> <li>• Forecasts of the future grant funding allocation for Disabled Facilities works have been updated to reflect forecast allocations.</li> <li>• They also include the Council's share of Section 106 and CIL funding. A review of historic allocations of Section 106 funds to the Capital Programme is planned during year-end closedown for 2019/20 to confirm that the funds allocated reconcile to Planning team records.</li> <li>• Funding equivalent to the historic New Homes Bonus grant allocation is to be allocated to support implementation of the Housing Delivery Strategy</li> </ul>
Prudential Borrowing	<ul style="list-style-type: none"> <li>• The primary source of long-term funding for the Capital Programme is now prudential borrowing, mainly from the Public Works Loans Board (PWLB).</li> <li>• Loans are managed through the approved Treasury Management Strategy and policies.</li> <li>• 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.</li> <li>• 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.</li> </ul> <p><u>Example Investment Returns</u></p> <ul style="list-style-type: none"> <li>• Following the significant increase in PWLB borrowing costs, that was announced in October 2019, in order to generate (for example) £2.0 million additional net income to the revenue budget would require borrowing and re-investment in income-generating assets of circa £93.5 million [based on prevailing PWLB rates at the time of preparing this report].</li> </ul>
Revenue Budget Contributions	<ul style="list-style-type: none"> <li>• There is no expectation that significant capital expenditure will be funded from the revenue budget in 2021/22.</li> </ul>

### 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 2020/21 onwards net of interest on forecast balances. Details are set out in the Treasury Management Strategy for 2020/21 that was approved in April 2020.

## 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 2020/21.

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
- 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.

## 15. Medium Term Financial Plan Risks & Sensitivities

The Council's Strategic Risk Register contains 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.*

Details of the mitigating actions are 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:

<b>Perceived Risk</b>	<b>Impact</b>	<b>Likelihood</b>	<b>Preventative Action</b>
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.
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.

Perceived Risk	Impact	Likelihood	Preventative Action
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 discussed in more detail at Annex 8.

### Sensitivity Analysis

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

Table 17: SENSITIVITY	Change	Estimated Annual Impact £000
Business Rates Income	+/- 1%	£8
Staff Costs		£285
Non-Pay Costs		£140
Fees & Charges		(£160)
Council Tax/Taxbase		£141

### Budget Uncertainties & Risks

While the approved budget for 2020/21 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 planned 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 recycle prices) and increases in demand (benefits and statutory duties such as homelessness).

- 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.
- 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.
- Funding reductions to County Councils are having an impact on boroughs and districts. Significant income streams received from upper-tier councils are being reviewed, with potential ongoing impacts on local residents.

#### Revenue Budget Savings:

- 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' is likely to 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.
- 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.

- 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 set out at Appendix 8. It is likely to be some time before the full impacts are confirmed.

#### **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.

## **16. Budget Equalities Impact Assessments**

The annual service & financial planning reports include information about the 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 2021/22**

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	<p>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.</p> <p>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.</p>
Capital Programme	<p>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.</p>
Capital Investment Strategy	<p>Updated on an annual basis and sets out the framework for investing in capital assets over the medium term. Objectives:</p> <ul style="list-style-type: none"><li>• Ensure capital expenditure contributes to the achievement of the Council’s organisational strategy</li><li>• Set a Capital Programme which is affordable and sustainable</li><li>• Maximise the use of assets</li><li>• Provide a clear framework for decision making and prioritisation relating to capital expenditure</li><li>• Establish a corporate approach to the review of asset utilisation</li></ul>
Treasury Management Investment Strategy.	<p>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.</p>

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 2021/22 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 2020. Work will be undertaken as part of 2020/21 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.
- 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.
- 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:

<b>Table 18: CIPFA FINANCIAL MANAGEMENT STANDARDS</b>	
<b>FM Standard Reference</b>	
<b>Section 1: The responsibilities of the chief finance officer and leadership team</b>	
<b>A</b>	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
<b>B</b>	The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> .



<b>Table 18: CIPFA FINANCIAL MANAGEMENT STANDARDS</b>	
<b>FM Standard Reference</b>	
<b>Section 2: Governance and financial management style</b>	
<b>C</b>	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
<b>D</b>	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).
<b>E</b>	The financial management style of the authority supports financial sustainability.
<b>Section 3: Long to medium-term financial management</b>	
<b>F</b>	The authority has carried out a credible and transparent financial resilience assessment.
<b>G</b>	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
<b>H</b>	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.
<b>Section 4: The annual budget</b>	
<b>I</b>	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
<b>J</b>	The authority complies with its statutory obligations in respect of the budget setting process.
<b>K</b>	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.
<b>Section 5: Stakeholder engagement and business plans</b>	
<b>L</b>	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
<b>M</b>	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
<b>Section 6: Monitoring financial performance</b>	
<b>N</b>	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
<b>O</b>	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
<b>Section 7: External financial reporting</b>	
<b>P</b>	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.

Table 18: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

## 21. CIPFA Resilience Index

As part of the service and 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
- 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 Accounts
- Asset Management Plan
- key governance documents, eg annual governance statement, risk register, etc

The Council's position at March 2020 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/financial-resilience>.

<b>Table 19: CIPFA RESILIENCE INDEX INDICATORS</b>	<b>This Council's Relative Risk Compared to Similar Councils</b>	<b>This Council's Prospects over the Medium Term</b>
Reserves Sustainability – increase in reserves over recent years	Medium	Planned use of previously un-allocated reserves (for example for investment in Housing) means that this position will be harder to maintain
Level of Reserves – compared to the annual revenue budget	Low	
Changes in reserves over recent years	Low	
Interest payable compared to recent budget	Low	Planned growth in the Capital Programme and associated borrowing means that this position will not be maintained.
Gross external debt	Low	
Fees & Charges - as % of service budgets	Higher than Average	Implementation of the new Fees & Charges Policy and planned review should 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	Low	Risk may increase if budget increases without the ability to levy a proportionate increase in council tax.
Funding growth - compared to Government baseline	Medium	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 2021/22.

## **APPENDICES**

1. Revenue Budget 2020/21
2. Medium Term Revenue Budget Forecast 2021/22 to 2025/26
- 3.1 Capital Programme 2020/21 to 2024/25
- 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 2021/22
8. COVID-19 Pandemic – Financial Implications

## REVENUE BUDGET 2020/21

REVENUE BUDGET 2020/21	Approved Budget 2020/21 £m
<b>ORGANISATION</b>	
Organisational Development	0.852
Finance	1.123
Projects & Performance	1.859
Legal & Governance (including Assets)	0.232
IT	1.784
<b>PLACE</b>	
Planning	0.755
Economic Prosperity	0.398
Place Delivery	0.275
Neighbourhood Operations	3.110
<b>PEOPLE</b>	
Community Partnerships	1.583
Communications & Customer Contact	0.851
Wellbeing & Intervention	0.443
Housing, Revenues, Benefits & Fraud	1.012
<b>TOTAL NET SERVICE EXPENDITURE</b>	<b>14.276</b>
Central Budgets	3.980
Advance Payment of Employer's Pension Contribution	6.204
<b>NET EXPENDITURE 2020/21 including ADVANCE PENSION CONTRIBUTION</b>	<b>24.460</b>
Council Tax	(14.100)
National Non-Domestic Rates	(2.900)
New Homes Bonus – 2020/21 allocation from Central Government	(1.789)
8. Net Contribution (to)/from Reserves:	(5.671)
<ul style="list-style-type: none"> <li>• New Homes Bonus – 2020/21 allocation paid into Reserves – (£1.789m)</li> <li>• Use of funds from the General Fund Balance and Pension Reserve to fund the advance Employer's Pension Contribution of £6.204m</li> <li>• Use of funds from the General Fund Balance to support the 2020/21 Revenue Budget £1.256m<sup>1</sup></li> </ul>	
<b>NET SOURCES OF INCOME 2020/21</b>	<b>(24.460)</b>
<b>BUDGET GAP</b>	<b>Nil</b>

## NOTE

1. The actual sum to be drawn from Reserves to support the budget will depend on the budget outturn position for 2020/21. Over recent years the budget outturn has been an underspend position with no requirement to call on Reserves.

## MEDIUM TERM REVENUE BUDGET FORECAST 2021/22 to 2025/26

MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2020/21  £m	Cumulative Impact 2021/22  £m	Cumulative Impact 2022/23  £m	Cumulative Impact 2023/24  £m	Cumulative Impact 2024/25  £m	Cumulative Impact 2025/26  £m
<b>20/21 Budget Requirement</b>	<b>24.600</b>					
LESS: one off pension payment in 20/21	(6.200)					
<b>20/21 Adjusted Budget Requirement</b>	<b>18.400</b>					
Pressure • Reversal of one-off use of Reserves in 2020/21		1.256	1.256	1.256	1.256	1.256
Pressure • Pay cost inflation/contractual increases		0.710	1.420	2.130	2.840	3.550
Pressure • Additional borrowing costs for previously-approved Capital Programme commitments		0.500	1.000	1.000	1.000	1.000
Pressures • Service budget growth • Investment in new Corporate Plan priorities and COVID-19 Recovery • COVID-19 ongoing impacts on income budgets		<i>To be confirmed as part of service &amp; financial planning</i>				
Opportunities • Employer Pension Contribution - one-off reduction in 2021/22		(0.400)	(0.400)	(0.400)	(0.400)	(0.400)
Opportunities • Service efficiencies and other budget savings • Commercial Strategy - new income streams		<i>To be confirmed as part of service &amp; financial planning</i>				
Council Tax • Assumed 1.99% pa. increase plus 1.0% taxbase growth		(0.400)	(0.820)	(1.260)	(1.710)	(2.170)
NNDR • Reflects loss of 'Negative RSG' grant in 2021/22 and Business Rates Reset in 2022/23		0.200	1.500	1.900	2.300	2.300
<b>Forecast Gap Compared to 2020/21 Budget</b>	<b>0.000</b>	<b>1.866</b>	<b>3.956</b>	<b>4.626</b>	<b>5.286</b>	<b>5.536</b>
Annual Increase in Gap		1.866	2.090	0.670	0.660	0.250
Gap as % of 2020/21 budget requirement		10.1%	21.5%	25.1%	28.7%	30.1%

## CAPITAL PROGRAMME 2020/21 to 2024/25

<b>CAPITAL PROGRAMME 2020 to 2025 - DETAILS</b>						
	2020/21 (Yr 1)	2021/22 (Yr 2)	2022/23 (Yr 3)	2023/24 (Yr 4)	2024/25 (Yr 5)	Total
	£000	£000	£000	£000	£000	£000
<b>ORGANISATION SERVICES</b>						
<b>PROPERTY SERVICES</b>						
<b>Rolling Property Maintenance Programmes:</b>						
Beech House, London Road, Reigate	3,000.0	0.0	0.0	0.0	0.0	<b>3,000.0</b>
Forum House, Brighton Road, Redhill	70.0	100.0	100.0	150.0	150.0	<b>570.0</b>
Unit 61E, Albert Road North	55.0	11.5	200.0	11.5	11.5	<b>289.5</b>
Regent House	25.0	50.0	100.0	90.0	90.0	<b>355.0</b>
Linden House , 51b High Street, Reigate	17.3	11.3	28.8	11.5	11.5	<b>80.3</b>
Units 1-5 Redhill Distribution Centre. Salfords	40.3	17.3	57.5	17.3	17.3	<b>149.5</b>
Crown House	75.0	135.0	75.0	75.0	75.0	<b>435.0</b>
Tenanted properties - occupied by third-parties - planned building maintenance	100.0	100.0	100.0	100.0	100.0	<b>500.0</b>
Commercial Investment Properties	50.0	76.0	76.0	76.0	76.0	<b>354.0</b>
Operational Buildings	115.0	145.0	110.0	95.0	80.0	<b>545.0</b>
Priory Park Maintenance	198.0	10.0	10.0	10.0	30.0	<b>258.0</b>
Public Conveniences	5.0	4.0	4.0	4.0	20.0	<b>37.0</b>
Infrastructure (Walls etc.)	55.0	10.0	60.0	10.0	60.0	<b>195.0</b>
Allotments	14.0	12.0	12.0	12.0	22.0	<b>72.0</b>
Cemeteries & Chapels	40.0	20.0	20.0	20.0	40.0	<b>140.0</b>
Leisure Centres	30.0	30.0	210.0	190.0	30.0	<b>490.0</b>
Pavilions	90.0	110.0	50.0	50.0	50.0	<b>350.0</b>
Car Parks Capital Works	190.0	195.0	190.0	195.0	170.0	<b>940.0</b>
Earlswood Depot/Park Farm Depot	50.0	20.0	20.0	20.0	20.0	<b>130.0</b>

### CAPITAL PROGRAMME 2020 to 2025 - DETAILS

	2020/21 (Yr 1)	2021/22 (Yr 2)	2022/23 (Yr 3)	2023/24 (Yr 4)	2024/25 (Yr 5)	Total
	£000	£000	£000	£000	£000	£000
Day Centres	75.0	85.0	75.0	67.0	65.0	367.0
Harlequin Property Maintenance	40.0	140.0	110.0	120.0	100.0	510.0
Building Maintenance – consultancy/capitalised staff costs.	50.0	50.0	50.0	50.0	40.0	240.0
	<b>4,384.5</b>	<b>1,332.0</b>	<b>1,658.3</b>	<b>1,374.3</b>	<b>1,258.3</b>	<b>10,007.3</b>
<b>IT SERVICES</b>						
<b>Rolling Investment Programmes:</b>						
ICT Replacement Programme	225.0	425.0	325.0	325.0	325.0	1,625.0
Disaster Recovery Systems Upgrade	0.0	0.0	50.0	0.0	0.0	50.0
Replacement Photocopiers/ Printers	0.0	0.0	0.0	60.0	0.0	60.0
	<b>225.0</b>	<b>425.0</b>	<b>375.0</b>	<b>385.0</b>	<b>325.0</b>	<b>1,735.0</b>
<b>ORGANISATIONAL DEVELOPMENT</b>						
Workplace Facilities: Estate/Asset Development	250.0	250.0	250.0	250.0	250.0	1,250.0
Workplace Facilities: additional IT requirement for increase in workforce.	30.0	10.0	10.0	10.0	10.0	70.0
	<b>280.0</b>	<b>260.0</b>	<b>260.0</b>	<b>260.0</b>	<b>260.0</b>	<b>1,320.0</b>
<b>COMMERCIAL SERVICES</b>						
<b>COMMERCIAL INVESTMENT</b>						
Commercial Investment	50,000.0	0.0	0.0	0.0	0.0	50,000.0



<b>CAPITAL PROGRAMME 2020 to 2025 - DETAILS</b>						
	<b>2020/21 (Yr 1)</b>	<b>2021/22 (Yr 2)</b>	<b>2022/23 (Yr 3)</b>	<b>2023/24 (Yr 4)</b>	<b>2024/25 (Yr 5)</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>PEOPLE SERVICES</b>						
<b>HOUSING</b>						
<b>Grant-Funded Schemes</b>						
Disabled Facilities Grant	1,134.0	1,134.0	1,134.0	1,134.0	1,134.0	<b>5,669.8</b>
Home Improvement Agency (Part Grant Funded)	120.0	120.0	120.0	120.0	120.0	<b>600.0</b>
Handy Person Scheme (Housing Assistance Programme)	50.0	50.0	50.0	50.0	50.0	<b>250.0</b>
Repossession Prevention Fund	30.0	30.0	30.0	30.0	30.0	<b>150.0</b>
<b>Housing Development</b>						
Lee Street Bungalows	234.0	0.0	0.0	0.0	0.0	<b>234.0</b>
Cromwell Road Redevelopment	3,680.0	0.0	0.0	0.0	0.0	<b>3,680.0</b>
Pitwood Park	1,745.0	71.0	0.0	0.0	0.0	<b>1,816.0</b>
<b>Housing Delivery Strategy</b>						
Housing Delivery	10,000.0	10,000.0	10,000.0	0.0	0.0	<b>30,000.0</b>
	<b>16,993.0</b>	<b>11,405.0</b>	<b>11,334.0</b>	<b>1,334.0</b>	<b>1,334.0</b>	<b>42,399.8</b>
<b>WELLBEING &amp; INTERVENTION</b>						
<b>Rolling Maintenance Programmes:</b>						
Harlequin Facilities Maintenance	40.0	40.0	40.0	40.0	40.0	<b>200.0</b>
Harlequin - Service Development	100.0	0.0	0.0	0.0	0.0	<b>100.0</b>
	<b>140.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>40.0</b>	<b>300.0</b>
<b>COMMUNITY PARTNERSHIPS</b>						

<b>CAPITAL PROGRAMME 2020 to 2025 - DETAILS</b>						
	<b>2020/21 (Yr 1)</b>	<b>2021/22 (Yr 2)</b>	<b>2022/23 (Yr 3)</b>	<b>2023/24 (Yr 4)</b>	<b>2024/25 (Yr 5)</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Rolling Maintenance/Investment Programmes:</b>						
CCTV	30.0	30.0	30.0	30.0	30.0	<b>150.0</b>
	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>	<b>30.0</b>	<b>150.0</b>
<b>PLACE SERVICES</b>						
<b>PLACE DELIVERY</b>						
Marketfield Way Redevelopment	18,858.6	23,212.0	15,100.0	0.0	0.0	<b>57,170.6</b>
Preston Regeneration	362.1	0.0	0.0	0.0	0.0	<b>362.1</b>
Horley Public Realm Improvements - Phase 4	100.0	500.0	0.0	0.0	0.0	<b>600.0</b>
Merstham Recreation Ground	700.0	700.0	0.0	0.0	0.0	<b>1,400.0</b>
Redhill Public Realm Improvements	0.0	30.0	0.0	0.0	0.0	<b>30.0</b>
	<b>20,020.7</b>	<b>24,442.0</b>	<b>15,100.0</b>	<b>0.0</b>	<b>0.0</b>	<b>59,562.7</b>
Economic Prosperity - Vibrant towns & villages	100.0	100.0	100.0	100.0	100.0	<b>500.0</b>
<b>TOTAL APPROVED CAPITAL PROGRAMME</b>	<b>96,100</b>	<b>40,855</b>	<b>30,099</b>	<b>4,725</b>	<b>4,549</b>	<b>176,328</b>

## 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.
- 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.
- We aim to balance the Revenue Budget over the period of the MTFP without reliance on the use of reserves

**July 2020**

## REVENUE RESERVE BALANCES AT 31 MARCH 2020

	<b>Balance at 1.4.20 £m</b>	<b>Purpose</b>
General Fund Balance	<b>£7.693m</b>	Acts as a buffer against unpredicted budget pressures. The minimum level required is £2.6m

<b>Earmarked Revenue Reserves</b>	<b>Balance at 1.4.20 £m</b>	<b>Purpose</b>
Housing Delivery Strategy Reserve	18.581	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 previous years’ New Homes Bonus grant allocations plus the 2020/21 allocation.
Government Funding Reduction Risks Reserve	3.688	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.
Commercial Risks & Volatility Reserve	4.000	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.
Pension Reserve	1.507	Established to manage increases in employer pension contributions. Previous balance has been used to fund the advance payment of the employer’s secondary pension contribution for 2020 to 2023. Reserve to be re-built over the medium term ready for the next Pension Fund revaluation in 2022.
Corporate Plan Delivery Fund (CPDF)	1.000	Provides time-limited funding to deliver key priorities, Corporate Plan objectives and invest-to-save initiatives, including investment in new technology.
Insurance Reserve	0.250	Provides cover against uninsured losses.
New Posts Reserve	0.750	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.
Homelessness Prevention	0.915	Established to account separately for the funding set aside for homelessness prevention.
Feasibility Studies (Commercial Ventures) Reserve	1.934	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. To be managed by the Commercial Ventures Sub-Committee.

<b>Earmarked Revenue Reserves</b>	<b>Balance at 1.4.20 £m</b>	<b>Purpose</b>
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	0.250	Established at the end of 2019/20 to fund Investment in delivery of the Environmental Sustainability Strategy.
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.
<b>Total Earmarked Revenue Reserves:</b>	<b>£33.902m<sup>1</sup></b>	

<b>Total Revenue Reserves:</b>	<b>£41.595m</b>
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Note1: During April 2020 £6.2m was drawn from Reserves to fund the Employers Pension Contribution for 2020/21 to 2022/23, comprising £1.507m from the Pension Reserve and £4.693m from the General Fund Balance.

## 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
- 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.
- 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 council's 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.
- 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)
- 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	<p>Full Cost Recovery is defined in this Policy as the Chartered Institute of Public Finance and Accounts' (CIPFA's) 'total cost' model.</p> <p>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.</p> <p>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</p>	<p>This is the Council's 'default' charging principle.</p>

Charge	Definition	Application
	premises, central services and other overheads	
Direct Cost Plus	<p>As a minimum the Council would recover the direct cost of providing the service plus wherever possible, a contribution to overheads.</p> <p>The level of overhead contribution is an operational decision, and will be dependent upon the particular circumstances and objectives.</p>	<p>This allows flexible pricing decisions to take account of external market conditions. For instance, there are circumstances where setting charges 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).</p> <p>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.</p>
Subsidised	<p>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.</p>	<p>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:</p> <ul style="list-style-type: none"> <li>• providing a public good</li> <li>• encouraging service take up</li> <li>• the user group's ability to pay.</li> </ul> <p>The financial impact of subsidy decisions on the budget will be identified both individually and collectively, and actively managed and reviewed.</p>

### 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 2020**

## 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	<p><b>Financial sustainability</b></p> <p>The Council is now operating in a uniquely challenging and uncertain financial context.</p> <p>In the wake of the COVID-19 pandemic and likely recession which will follow, the Council faces a period of unprecedented financial uncertainty.</p> <p>The ongoing financial settlement with the Government also remains unclear with the Fair Funding Review and Business Rate Reset and Revaluation being delayed.</p> <p>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</p>	<p>PM</p> <p>Portfolio Holder: Cllr Schofield</p>	<p>Updated Medium-Term Financial Plan (MTFP) revenue budget forecasts are being prepared to set the scene for service &amp; financial planning 2021/22.</p> <p>These will be used to confirm the extent of the financial challenges faced and support strategic service and financial planning decisions.</p> <p>We will continue to implement the actions detailed in the Capital Investment Strategy that was approved by Executive in January 2020. This too is being updated in Q1 to form the basis for development of the updated Capital Programme. This will help ensure that capital investment decisions support delivery of the Council's strategic and financial objectives.</p>	<p>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.</p> <p>The Council's Medium-Term Financial Plan was reported to the Executive in January 2020. This sets out the forecast budget challenges over the coming five years. It will form the basis for service &amp; financial planning for 2021/22 onwards.</p> <p>The specific outcomes of the Fair Funding Review and Business Rates Reset remain unknown; however it is expected to result in significantly reduced funding.</p> <p>COVID-19 has resulted in material new financial risks,</p>	<b>R</b>			

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
	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.		<p>We prepared the Treasury Management Strategy 2020/21 for approval (under COVID-19 delegation powers) in April 2020.</p> <p>This will ensure that treasury investments achieve target returns within approved security and liquidity limits and that the financial impacts of borrowing requirements are taken into account during budget-setting.</p>	<p>both in 2020/21 and potentially 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.</p> <p>Government funding received to date is likely to address a significant proportion of the one-off cost pressures but there remains uncertainty about funding support for lost income from fees &amp; charges and local taxes in 2020/21 as well as about whether income levels will return to pre-COVID levels in the remainder of the year and beyond.</p>				
<b>SR4</b>	<p><b>Partner public sector funding decisions</b></p> <p>The public sector is experiencing significant funding pressures. Budgetary decisions made by other public service providers will impact this borough's residents and businesses as well as the Council itself.</p> <p>The COVID-19 pandemic has increased pressure on public</p>	<p>PM</p> <p>Portfolio Holder: Cllr Schofield</p>	<p>We will continue to maintain relationships with key partners across the public sector. This supports good information sharing, including future service and financial information</p>	<p>We expect to continue to hold meetings to discuss priorities and funding between the Leader, Executive and key partners such as SCC, Police and Raven Housing Trust.</p> <p>We will seek to align Council and partner priorities around the new Corporate Plan wherever possible, to ensure that all services are meeting</p>	<b>A</b>			

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
	<p>services. These pressures will result in reduced partner capacity which may require the Council to increase services and support provided. This could have negative funding and resource implications.</p>			<p>the needs of our residents and businesses.</p> <p>We will seek to understand the funding decisions taken by partners at the earliest opportunity and engage with them to consider the implications and avoid/minimise any negative impact on the borough.</p>				

## Service & Financial Planning Timetable 2021/22

Date	Event	Purpose
July 2020	Management Team away day	Consider service position and initial forecasts
	Executive away day	Discuss budget setting priorities and 'direction of travel'
28 July 2020	Executive	Medium Term Financial Plan Update
10 September 2020	Overview and Scrutiny	Capital Strategy Update
September 2020	Management Team away day	Consider draft Budget proposals
October 2020	Executive away day	Agree draft Budget proposals
19 November 2020	Executive	Agree draft Budget
3 December 2020 9 December 2020	Budget Scrutiny Panel Overview and Scrutiny	Review of draft Budget
17 December 2020	Executive	Receive Scrutiny Panel Feedback
28 January 2021	Executive	Final Budget and Council Tax proposals
11 February 2021	Full Council	Approve Budget and Council Tax

## COVID-19 Pandemic – Financial Implications

at June 2020

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

### Government Funding

The Government originally indicated an intention to fully-compensate councils for the financial impacts of COVID-19, however it remains unclear whether this commitment is just in relation to the additional costs incurred or whether it will also cover loss of income.

To date, relative to the scale of forecast financial impacts, the Council has received fairly limited financial support from Government to offset the impacts on its budget.

### **Emergency Grant allocation 1 - £42k.**

- Equates to 64p per household.

### **Emergency Grant allocation 2 - £1.481m**

- Equates to £22.70 per household.

### **Emergency Grant allocation 3 - £0.203m**

- The Government announced a further round of £500m on 2 July
- Equates to 3.09p per household.

### **Funding support for Council income losses**

- The Government also announced proposals to fund 75% of specified income losses after the first 5% on 2 July.
- This council's share of that funding had not been confirmed at the time of preparing this report

### **Rough Sleepers accommodation funding - £2k.**

- In addition, £40k has been received from Surrey County Council from their Emergency Grant allocation to contribute to the cost of temporary accommodation for rough sleepers.

The total COVID-19 Emergency funding allocated so far to this Council to cover expenditure incurred and lost income is therefore £1.726m. However, as set out below, the forecast costs and loss of income forecast are potentially significantly in excess of the grants awarded to date.

Through the Local Government Association, Surrey Leaders, the Society of District Council Treasurers and the Surrey Treasurers' Association we have continued to make clear to the MHCLG and HM Treasury the scale of the financial impact and the case for additional funding.



While the Government has now published 'Our Plan to Rebuild' it remains uncertain as to how long the lockdown restrictions are likely to last and when the Recovery phase will end. This means that accurate forecasting of the full financial impacts for this Council is not possible at this time and other updates will be provided through in year financial monitoring reports.

Other COVID-19 Funding

The Council has also received the following funding from Government:

**Council Tax Hardship funding - Round 1 - £0.754m**

**Business Grants funding - Round 1 - £23.m**

**Business Grants funding – Discretionary Scheme - £1.2m**

**Business rates – extended retail relief funding - £18.4m**

**Business rates – nursery/local newspapers relief funding - £0.718m**

How they have been utilised is explained in the sections on the Collection Fund and Business Grants below.

Expenditure Pressures

Since the outset of the pandemic the Finance Team has been tracking the financial impacts of the Council's COVID-19 response. New cost codes have been established to identify expenditure and an income and expenditure impacts model has been set up.

These detailed records are being maintained so that the impacts are readily identifiable to facilitate reimbursement wherever possible either from the Government or from Surrey County Council. For example, the costs incurred when providing support to residents in Category A (shielded) which is the responsibility of the County Council.

To date the financial impacts have been modelled based on lockdown restrictions lasting for four months from April to July 2020 in line with the parameters specified in the MHCLG's monthly COVID-19 financial impacts monitoring return. These assumptions are subject to regular review. The next return to MHCLG was due to be submitted on 31 July. The figures quoted in this report for cost and income pressures are based on actual figures and forecast at the time of preparing the 19 June MHCLG return.

The forecast additional expenditure for April to July 2020 is summarised in the table below which follows the categories specified by MHCLG for the monthly financial data return:

Table 8.1: MHCLG Expenditure Category	Full Year £M	Type of Expenditure Incurred
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<b>Table 8.1: MHCLG Expenditure Category</b>	<b>Full Year £M</b>	<b>Type of Expenditure Incurred</b>
Housing Rough Sleepers	0.179	Temporary accommodation for Rough Sleepers and additional demand for B&B accommodation
Environment & regulatory – waste Management	0.031	Garden Waste changes – admin costs Vehicle Hire – cemetery
Finance & Corporate	0.026	Staff remote working – IT systems and support
Finance & Corporate	0.063	Staff and Volunteer Training and Professional Support
Other - PPE (non-Adult Social Care) April 2020	0.088	Purchase of PPE for staff and volunteers
Other	1.004	Publicity materials – e.g. social distancing banners Support for Shielded Residents – including welfare calls, visits, foodbank and meals Support for Leisure Services provision Funding support - Voluntary Sector contributions
<b>Total</b>	<b>1.391</b>	

### Income Reduction Pressures

In addition to incurring additional expenditure, the Council is also impacted by a significant reduction in budgeted income streams.

Overall, COVID-19 financial impacts are forecast to be more significant for the Council's income budgets compared to the additional expenditure incurred. This is in line with other district and borough councils, which tend to rely on fees and charges income as a greater portion of their budget.

<b>Table 8.2: MHCLG Income Category</b>	<b>Full Year £M</b>	<b>Type of Income Loss</b>
Cultural & Related SFC losses	0.659	Harlequin – income reduction
		Leisure Services Provider - reduced Management Fee
Planning & Development	0.329	Reduction in Planning Fee income
Other Sales, Fees & Charges income losses	1.883	Reduction in Car Parking income
Commercial Income losses	0.263	Commercial Rents – income reduction (including Redhill Market)
Other income losses	0.477	Garden Waste - income reduction
Other SFC income losses	0.171	Reduction in Rev and Bens Income from 3rd Party Clients
<b>Total</b>	<b>3.782</b>	

The main areas impacted include:

- Car parks usage and income from season tickets has fallen significantly following closure of council car parks on 30 March and the announcement that councils were required to make parking free for key workers. Income from Pay and Display until the end of July is forecast to reduce by £490k compared to budget. whilst the bulk of expenditure associated with car parks, such as business rates and insurance, will still be incurred. The Council's policy with regard to residents who have paid for annual parking permits has been reviewed and an extension has been agreed, reducing forecast income by £200k. A further impact is the reduction on forecast parking ticket revenue: the predicted loss of income until the end of July is £36k
- It is anticipated that across a range of other services including Planning, Building Control, Local Land Charges and Redhill Market income will fall significantly below budget in 2020/21 and there has been a temporary waiver of the monthly management fee received from the Leisure services provider - £88k.
- The increased risk to recovery of commercial rental income is estimated to be £116k
- The Revenues, Benefits and Fraud team are forecasting a reduction in recovery costs of £127k while magistrates courts are closed. Their income from contracted work for other councils has also reduced due to decisions by client authorities to pause recovery action.
- Pausing the garden waste collection service from March to June 2020 has resulted in a £470k reduction in income.

It is important to note that the Council's income budgets are not all based on an assumption of a 100% collection rate. Where appropriate, a level of arrears is assumed and a provision is made for bad debts. It is currently too early in the financial year and the pandemic to forecast whether the existing bad debt provisions will be sufficient to address all non-recovery as a consequence of COVID-19. An increase in the provision would require a call on revenue Reserves.

#### Property Rental Income

The Council has actively engaged with its tenants to support the transition back to normal trading and where appropriate has had discussions on repayment plans for the March and June quarters over the next 12 months.

<b>Business Type</b>	<b>No. of Tenants</b>	<b>Budget</b>	<b>Forecast</b>	<b>Shortfall</b>
Hotel	1	0.317	0	(0.317)
Catering	11	0.214	0.214	-
Retail	2	0.245	0.245	-
Industrial	7	0.861	0.861	-

<b>Table 8.3: Commercial Rental Income - Forecast by Business Type at June 2020</b>				
Other Commercial	3	0.039	0.039	-
Leisure	2	0.139	0.139	-
Nursery	2	0.030	0.030	-
Third Sector	5	0.052	0.028	(0.024)
<b>TOTAL</b>	<b>33</b>	<b>1.897</b>	<b>1.556</b>	<b>(0.340)</b>

The effect of COVID-19 will become clearer at the June quarter-end where we should be in a better position to understand the transition back to 'normal' trading and assess public confidence as the easing of the lockdown progresses. This in turn will ultimately influence decision-making process on how we support our commercial tenants and confirm the financial impact this may have.

The most significant risk relates to Travelodge which has applied for a Company Voluntary Arrangement (CVA), a legally binding agreement with the company's creditors to allow a proportion of the debts to be paid back over time, and some to be written off, typically lasting between two and five years. The creditors of Travelodge including the Council are opposing the application. If it is successful it could result in a shortfall in the region of £0.317m.

The forecast shortfall of £24k for the Third Sector relates to a combination of two Charity Properties where rent free periods have been agreed until the re-opening of the centres.

#### Capital Programme Impacts

The Capital Programme 2020/21 to 2024/25 was approved in February 2020. Work is in progress to review the detailed impacts of the pandemic on individual schemes but to date no material changes to forecast expenditure or capital receipts have been identified. The main impacts are likely to be in terms of the timing of expenditure and income as some delays (slippage) may arise. The latest forecasts will be reported as part of the regular capital programme monitoring reports and where necessary reports will be presented on specific schemes if any significant impacts are identified.

In June all authorities received a letter from the Secretary of State on local growth programmes and potential funding. It stated that the Government is keen to explore how the acceleration of central government funding could be used to support the delivery of capital projects in order to stimulate the economy. LEPs are being encouraged to share their ideas with MHCLG, alongside any '*exceptional, additional shovel-ready capital projects*' which can be delivered within 18 months, meet value for money standards and deliver on two overarching objectives: driving up economic growth & jobs and supporting green recovery. This could include projects around town and city centre modernisation, investment in innovation and improvements to digital connectivity. Deadline for submissions was 18 June. At the time of preparing this report the LEP had indicated that funding would be made available to support delivery of the Marketfield Way development.

#### COVID-19 Pandemic: Summary Financial Implications

Overall the pandemic represents a material financial risk to the Council's budget and financial position. The information presented in this report represents the forecast at

May 2020 based on the impacts during the first four months of 2020/21 and is likely to increase as more information becomes available. The financial impacts of a deficit on the Collection Fund (further details below) will add to these pressures.

The current estimate of the net adverse financial impact in 2020/21 is at least £1.0m after taking account of COVID-19 grant funding. In principle this can be funded through the Headroom Contingency sum that is included in the 2020/21 budget, however that would leave no remaining capacity to address other in- year budget risks without having to call on the Council's Reserves.

The Net Budget requirement for 2020/21 is £18.26m. As a percentage of the net budget requirement therefore, the potential combined loss of income and additional costs could be more than 5.5%.

An alternative measure (to allow comparison with other councils) is to calculate the impacts in relation to the Council's 'Core Spending Power', the Government's standard measure which takes into account the authority's annual local government settlement funding assessment, forecast council tax income and its new homes bonus allocation. This Council's core spending power for 2020/21 is £18.43m therefore the impact of the COVID-19 pandemic ranges is 5.4% of its Core Spending Power.

#### Options for Mitigation of The Financial Impacts

The main options for mitigating the financial impacts of COVID-19 include:

- Continue to lobby Central Government for additional funding in recognition of the impacts on district Councils and their ability to deliver services. The Council is actively working with other councils and networks on this.
- Look to make offsetting savings and efficiencies where possible before calling on the Headroom Contingency Budget of £1.0m that is built into the 2020/21 Revenue Budget. This in turn would require a call on the General Fund Balance to release the resources to do so.
- Make use of Earmarked Revenue Reserves to close the gap. This has implications for the projects and services that were intended to be funded from these resources.
- Potentially apply capitalisation to some of the costs and financial impacts to enable the Council to borrow and fund them on a long-term basis. Local authorities are lobbying for greater flexibility from Government in this area. This may include using capitalisation flexibilities to cover costs from forecast future capital receipts and this may include making targeted asset sales to support this.

Further updates on the forecast costs and income and how they might be funded will be included in the Quarterly budget monitoring reports and the draft 2020/21 budget report.

#### Longer-Term Outlook

The preceding sections have focused on the short-term financial impacts for the Council in 2020/21. Of potentially greater concern is the impact of the projected economic downturn on public expenditure and local government finances and what that means for public sector funding over the longer term. UK public debt at the end of May 2020 was £1,950.1 billion, an increase of £173.2 billion (20.5%) compared with May 2019, the largest year-on-year increase in debt as a percentage of GDP on record (monthly records began in March 1993).

Once the immediate crisis is over and lockdowns have ended, the IMF have indicated that governments will have to raise taxes and put the brakes on public spending to bring their books closer to balance.

This need to bring down public debt is going to come into play alongside an economic contraction unprecedented in modern times. This will not only place additional pressure on Government funding but is also likely to have considerable impact on the Council's ability to raise additional income.

In recent years, local government has been increasingly relying on business rates as a source of income, which will in future years be less buoyant. In addition to the medium-term impact of the economic effects of COVID-19, in January 2021 the UK's transition period with the EU comes to an end, and it is not yet clear what the nature of the final exit agreement will be and what impact that will have on the economy.

In the labour market it is estimated 8.7 m people are furloughed and classed as economically inactive. It is uncertain how the long-term effects on unemployment rates will work through the economy, however the Bank of England expected unemployment to double by the end of June to 9%. The latter figure may increase as the payments from Government are reduced from 80% to 70% in September and 60% in October. The scheme closed to all new entrants from 10 June. Any increase in unemployment and / or furloughing of employees will also affect the sums the Council has to pay in Council Tax support, the amount collected in Council Tax and may have further knock-on effects to the business rates base and income from all sources – including car parking, planning and commercial rents.

#### Collection Fund Impacts

The in-year cash flow impact of business rate and council tax income shortfalls will be accounted for through the Collection Fund and eventually impact on the budgets of all precepting authorities (the County Council, the Police & Crime Commissioner, town and parish councils and the Government), as well as this Council.

The latest forecast for Collection Fund impacts were set out in the June financial return to MHCLG

<b>Table 8.4: Forecast Collection Fund Impacts</b>	<b>Forecast Total Impact</b>
<b>MHCLG Category:</b>	<b>£m</b>
Business Rates Losses- COVID-19 (after reliefs)	3.400
Council Tax receipt losses	6.200

Collection Fund Losses	9.600
<b>Total</b>	<b>9.600</b>

The precepting authorities have a legal right to expect the billing authority to pay over their full precept when it becomes due, regardless of actual collection rate performance or take-up of Council tax support.

In response to COVID-19 the Government has rescheduled the dates when its 2020/21 share of business rates income from the Collection Fund is payable to help ease the initial cashflow impacts on billing authorities. This means that we can defer the payments which were due to have been paid over in April, May and June by six months.

### Council Tax Collection

The two main risks to council tax income are:

- An increase in households claiming council tax support

At the time of preparing this report the number of working age support claimants has increased from 2,442 to 2,667 (3.83%). Pensioner claimants are broadly the same

- If the collection rate falls below 99% due to non-payment.

At 14 July the impacts on recovery were as follows:

- 2019/20 debt: at end of June 2020 was 29.28%, monthly target 29.80%.
- 2020/21 debt: at end of June 2020 was 28.43%, down by 0.85% or £1.05m.
- 2,142 payers have requested to defer payments – representing 3.47% of households
- 73% of households pay by direct debit. Reminders will be issued from June to non-payers. 142 DDs were returned as unpaid on 1 July 2020, compared to 174 on 1 June 2019.

The full picture will take some time to confirm however it is forecast that. Despite current string performance, the council tax Collection Fund will be in a deficit position by year-end 2020/21 as households and businesses find it increasingly difficult to pay as the recession deepens and Government support reduces. This deficit will have to be recovered from the precepting authorities. On 2 July the Government announced that 2020/21 Collection Fund losses may be recovered over three years rather than one; the details of how this will be implemented have not yet been confirmed.

A further risk to this Council, as the billing authority, is the Collection Fund cash flow risk; if council tax support takes up increases and collection rates fall, then the sums paid to the Government and precepting authorities would be higher than the cash collected. The Government has provided some support by rescheduling the dates when its 2020/21 share of business rates income from the Collection Fund is payable

to help ease the initial cashflow impacts on billing authorities however the precepting authorities have confirmed that they expect sums due (based on the original forecasts) to be paid on time and in full.

#### Local Council Tax Support Scheme (LCTS)

The Government has allocated a hardship fund for those households that are struggling financially as a result of COVID-19 and this Council has been allocated additional funding of £0.754m. Those households that are already on LCTS but still pay a contribution towards their Council Tax are being credited with an additional £150 of support. These LCTS credits were processed in April and revised bills are being sent to individual households reflecting the lower amounts due.

In addition, Government funding has also been provided to make short term discretionary payments to those that are affected by the LCTS and are struggling financially. This funding is being distributed on a case by case basis as people contact the Council to discuss their situation.

#### Business Rates

Business rates are collected by this council with the majority of income received being paid over to the Government along with a share to the County Council.

In May 2020 the Government extended 100% rate relief to all businesses in the leisure and hospitality sector, regardless of size. This has reduced the sums to be collected during 2020/21 from £54m to £36m.

- The majority of businesses have now received the 100% Expanded Retail, for retail, hospitality and leisure, which totals £18,701,391 (974 businesses) .
- Nurseries have now received relief which totals £659,152 (24 nurseries).

The details on how local authorities are to be compensated for this income reduction are still to be confirmed by Government, but at this stage it is expected that the Government will reimburse the 19.4 million reduction in full.

It is currently unclear how businesses will clear any arrears of business rates due, but it is currently assumed that cash collected will fall and arrears will increase. An assessment will therefore need to be made about the provision for bad debt which may arise in 2020/21 and beyond and any changes to the appeals provision going back to 2010 in some cases. This will influence the level of income to the General Fund in 2020/21 to 2022/23.

To help mitigate this type of risk the council has already established a 'Government Funding Reduction Risks' reserve which currently has a balance of £3.4m (Appendix 4.2). In principle this Reserve is available to help offset fluctuations to income paid from the Collection Fund to the General Fund as well as the impacts of other funding changes including 'Negative RSG', the Business Rates reset and the planned Fair Funding Review. However, the scale of COVID-19 risks was not taken into account when the Reserve was created and it will be necessary to review its adequacy as part of the next Medium-Term Financial Plan review.

Surrey Chief Finance Officers are also discussing options to manage this cashflow impact using a collective cashflow support arrangement. Local government finance



consultants have been commissioned to provide analyses of the risks to Surrey councils of reductions in business rates income and have modelled a range of scenarios.

Unlike Council Tax where all income losses relating to the borough's income share fall on this council, as part of the local government funding system, the Government sets a 'floor' below which an authority's business rates income will not drop as a result of a national 'safety net' mechanism.

#### NNDR Recovery

At 6 July the impacts on recovery were as follows:

- 2019/20 debt: at the end of June 2020 collection performance was 31.76% recovered compared to a monthly target of 32.00%
- 2020/21 debt: at end of June 2020 collection performance was 33.07%, up by 1.31% compared to June 2019.

#### Cash Management.

At the end of May 2020, unlike some authorities which are facing a severe cashflow crisis, this Council remains in a good position to fund service provision without resorting to short-term borrowing.

#### Business Support Grants

In April 2020 the Government paid £23.8 million to the Council to administer the business support grant scheme. To date over £22.05 million has been paid to local businesses. This first round of grants was only available to companies on the rating list at mid-March 2020.

The Government subsequently announced an extension to the scheme for those businesses who may pay rent to a landlord, which includes rent and a contribution to rates. For that reason, they would not appear on the rating list. These businesses include:

- Businesses in shared office premises
- Permanent market traders with fixed asset costs
- Charities in small properties
- Bed and breakfast businesses that pay council tax

Funding of £1.156 million was made available for these grants and at 14 July £0.733 million had been paid out.

#### Other COVID-19 Financial Implications

On 28 April the Government announced that implementation of the Fair Funding Review and the move to 75% Business Rates Retention planned for 2021/22 has been deferred for at least a year. Both changes had been identified in the Council's MTFP as potentially adding to the authority's budget pressures in future years.

Clarification is outstanding regarding whether this means the loss of Negative Revenue Support Grant (worth £1.5m for this Council) is also being pushed back a

year; this will probably only become clear when the outcome of the Spending Review 2020 is announced in the Autumn.

# 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 unring-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 2020/21. 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.