2021/22 DRAFT BUDGET AND MEDIUM-TERM FINANCIAL STRATEGY (MTFS) TO 2023/24

Strategy & Resources Committee – 16th December 2020

Report of:	Anna D'Alessandro – Chief Finance Officer (Section 151)
Purpose:	To Approve the Draft Budget Report
Publication status:	Unrestricted
Wards affected:	None

Executive Summary:

The Draft Budget for 2021/22 and the Medium-Term Financial Strategy (MTFS) to 2023/24 is brought to this Committee to inform Members of the current budget position. The final version of the budget for 2021/22 and MTFS to 2023/24 will be approved by Council on 11th February 2021. Details of the current budget gap and budget pressures and savings proposals are identified in this report.

The report will discuss the national and local context of the budget setting process, organisational and departmental strategies aligned to the financial strategy and give details of the Finance Improvement Programme, budget assumptions and principles.

This report supports the Council's priority of: Building a better Council.

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Recommendation to Committee:

That Members approve the Draft Budget for 2021/22 and Medium-Term Financial Strategy to 2023/24.

Reason for recommendation:

This report will be reviewed by the Committee, which provides information on the 2021/22 budget process and MTFS to 2023/24. The Council is legally obliged duty to set a balanced budget for 2021/22 which includes details of the proposed savings and pressures.

Introduction and Background

1. The 2021/22 Draft Budget Report and MTFS to 2023/24 updates on progress to the Strategy & Resource Committee to deliver a balanced budget for 2021/22, which it is statutorily obliged to deliver and to outline plans for a more resilient medium-term.
2. The COVID-19 pandemic has created and will continue to create significant uncertainty into the following financial year, and possibly into the medium-term. The Council has been integral in the response to support residents and will continue to do, as long as it is required. This is not however without its risks and financial challenges. At the time of writing, the impact of the second lockdown on the Council services is still being worked through however, every effort is being made to exemplify the financial implications.
3. During the current financial year, particularly since Quarter 2, the Council has made good progress in improving the control of its costs especially the salaries budget. This is essential given this comprises the vast proportion of the budget. The new interim Chief Finance Officer (CFO – s151), in post c5 months to date has been involved in conversations with the Ministry for Housing, Communities and Local Government (MHCLG) regarding our financial affairs. These conversations commenced earlier in the financial year with the previous Acting Chief Executive. The CFO had a further conversation with MHCLG at the end of October at which point the Council was removed from the Ministry's "watch list" due to the significant improvements in controlling costs to bring down the overspend in a short period of time. They also noted the significant progress that had been undertaken on the 2021/22 budget to reduce the Council's gap. This has been very positive news for the Council as it was considered very likely some months ago that the Council could be within the realms of issuing a s114 (stop spend) notice. It is unlikely that this is now the case, however this is predicated on the basis that the Council can continue to work at pace to close the budget gap for 2021/22.
4. As in previous years, the next financial year is no exception, we will continue to see financial uncertainty in local government funding with the advent of Brexit and challenges that the pandemic continues to bring. The Spending Review (one year as opposed to multi-year as previously anticipated) was released on 25th November, with the Provisional Settlement due in mid-December and a Final Settlement in January 2021. We will be focussing on identifying, managing and monitoring risks with the view of being prepared for all economic externalities.
5. Government reductions in revenue funding and the long-term impacts of a changeable economy in a climate of austerity continue to create pressure on Council finances and are likely to do so the for the foreseeable future. The Council's budget strategy has been, as far as practicable to make operational and efficiency savings to minimise the need for service reductions to residents of the Council.

6. No organisation operates in a vacuum, all the economic uncertainties at a UK level have the potential to affect key assumptions in our financial planning. These include future funding levels, pay, inflation, interest rates and unemployment rates, which may affect demand for services.

7. Over the past two to three years, the Council's financial position has been very precarious, exacerbated in 2020/21 by the pandemic. The Council has suffered from a low level of Reserves which haven't allowed it the spending flexibilities it would have liked.

8. A key cornerstone of the MTFS is to generate financial resilience and sustainability by building General Fund Reserves and a Contingency year-on-year over the medium-term. The MTFS aims to significantly improve the financial health of the Council, whilst delivering our priorities in the corporate and service plans for the Council.

9. Although the budget process commenced later than would have been ideal, good progress has been made over the last three months culminating in a current budget gap of c£0.2m in 2021/22 however, it is with confidence that this can be bridged over the coming weeks. The Council is working very hard to determine additional actions to close the gap and set a balanced budget when the Final Budget is presented to Strategy & Resources Committee and then Full Council in February 2021, for final approval.

10. By having a robust financial strategy and putting in place the measures set out in this report, the CFO/s151 is satisfied that a s114 report is not necessary at this time. This will be kept under constant review over the coming weeks. CIPFA's guidance to CFO's has been modified to allow Councils under budgetary pressure due to COVID-19 the time and space to explore alternatives to freezing spending via a Section114 notice.

Organisational Strategy 2020/21 – 2023/24

11. The Council has experienced a period of significant change and is making progress in addressing a number of important areas for improvement, including tackling significant financial challenges. The implementation of action plans is integral to the way in which we support our local communities and economy as we move from our response to the COVID-19 crisis to the recovery phase and beyond.

12. The Council's Strategic Plan 2020/2021 - 2023/2024 reflects both the need to complete vital improvement work, and to respond to the District's local characteristics, the needs of our residents and businesses, and the wider context – both regional and national – in which we are operating.

13. The priorities identified in the strategic plan are:

    1. **Building a better Council** – making the Council financially sustainable and providing residents with the best possible services;
    2. **Creating the homes, infrastructure and environment we need** – both now and in the future;

3. **Supporting economic recovery in Tandridge** – from lockdown to growth that everyone benefits from; and
4. **Becoming a greener, more sustainable District** – tackling climate change.

14. We will achieve these priorities by working in partnership with other public-sector agencies and businesses within the District and beyond through adopting the principles of Local Government reform in exploring with other Local Authorities shared arrangements where practical and cost effective. As we implement our Financial Recovery Plan (largely delivered through the MTFS supported by the Finance Improvement Programme), we will identify further actions to achieve the plan's priority outcomes which are identified in the strategy.
15. The Council also adopted an Improvement Plan which sets out key actions to enable the Council to both stabilise its finances, its governance and also make necessary improvements to services.
16. The Financial Recovery Plan was a key feature of the Improvement Plan and is covered in greater detail in this report. Other key actions include:

- **Improvements in Risk Management & Performance Monitoring and Reporting** which is being embedded at a Service, Committee and Corporate level;
- **Improvements to Organisational Governance,** including member and officer training. The moden.gov system is one example of the improvements but there have also been new initiatives such as regular member briefings and the introduction of new protocols;
- **A new Internal Audit Programme**, led by the Executive Leadership Team and monitored through the Audit and Scrutiny Committee, Internal Audit now have a direct reporting line to the CFO;
- **Staffing and People Plan** – some changes to the officer structure are in train which will result in improved working. New policies have been put into place such as homeworking and other policies are being revised. A staff skills audit is also under way to ascertain training needs and a new People Plan is now in draft;
- **ICT and Digital Strategy** – The first priority has been to establish reliance on the Council's IT systems. Work is now underway to create a governance framework within the organisation, to update and establish disaster recovery arrangements and to introduce a standard project management methodology across the organisation;
- **Improvements to Planning Service** – this has involved stabilising the staffing structure and creating improvements to service delivery (for example a pre-application service). Performance has improved with all national performance indicators being met; and

- **Data Protection** – a data protection officer has been appointed and training on GDPR has taken place for all staff.

17. Progress on these actions was reported to this Committee at the last meeting and further reports on this and the strategic plan progress will be made in early 2021. A report on progress with improvements to governance will be made to Audit and Scrutiny Committee in January 2021.

COVID-19 Response for 2020/21 and into 2021/22

18. As a result of the pandemic, new areas of expenditure were required, together with fundamental changes to the Council's main sources of funding. The Council’s priorities were redefined by the crisis and the delivery of some proposed investments and savings were paused.

19. The government has pledged to cover the cost of dealing with the pandemic. However, if it fails to fulfil its promise, then we will be in a difficult financial position in future years and as a result will have to make complex choices about its services. The Finance team is doing all it can to ensure it receives it fair share of funding which will help to continue to protect the essential services needed to support residents. To date, the Council has received c£1.2m of Central Government funding to cover the costs and income losses relating to COVID-19 in 2020/21 however, this falls short by c£1m in terms of financial impact.

20. As a Council we are very used to dealing with emergencies, but unlike other emergencies COVID-19 does not have a clear start and finish.

21. Our staff have responded very well to the situation and have changed how they work, where they work and often what they do, to enable the delivery of key services and to help protect and support our vulnerable people. The last nine months have been one of continuous learning and improvement, finding and refining new ways of working.

22. We recently published Our Covid response report to capture the main work that has taken place since the start of the pandemic, although it is impossible to capture everything, as the pace of implementation has been so rapid. It covers how we mobilised ourselves to respond, the key issues, impact on our services, financial, health and economic impact, how we have been communicating our new ways of working.

23. It also aims to recognise the close working and collaboration that has taken place with our partners from all agencies and sectors, without which we could not have achieved so much.

24. Below are some of the key areas of our response so far from the above report:

25. The Council is still forecasting to incur a deficit on its COVID-19 related expenditure and income loss and is looking forward to further support from Central Government, some of which has been touted in the Spending Review.

Finance Improvement Programme (FIP)

26. The Council has faced significant financial difficulties over the last two to three years, leaving it in a position of a considerable overspend in the first quarter of the current financial year, coupled with precariously low General Fund Reserves.

27. The interim CFO, in post since July 2020, was recruited to help support the Finance function and hence the Council get back on a solid and sustainable basis. As a result, the CFO introduced the FIP. The key elements of the programme are listed below:

- **Business Partnering Model**. The Finance team, has over the last few months, been working as a business partnering team, directly aligned to a Service to provide guidance and advice on financials. The Services have already started to see the benefits of working in this way;
- **Getting the "basics right" in Finance.** We have produced a Budget Monitoring and Budget and MTFS preparation timetable. We are reporting to Members and the Executive Leadership Team (ELT) on a monthly basis whether or not there is a Committee meeting to which to report. We have also progressed rapidly into the Budget and MTFS setting process, with Member workshops having taken place in October, Scrutiny in November at Audit & Scrutiny Committee and a 2021/22 Draft Budget and MTFS to 2023/24

presented to Strategy & Resources in December. We have initiated a Risk and Opportunity Tracker and COVID Tracker from Month 7 (October) as part of our ongoing improvements to monthly reporting;

- **Redesigned monthly Financial Reports to Members.** Monthly finance reports to Members have been completely redesigned in terms of format and content to ensure they are understandable, transparent and accurate. The process commenced at Month 5 and continues to include further enhancements;
- **Baseline of 2020/21 finances for Revenue and Capital.** Revenue and Capital baselines (i.e. line-by-line review) have been completed and information fed through into monthly reports. There is some work continuing on the Capital spend profile for 2020/21;
- **Budget Management Accountability**. This places the accountability for the delivery and management of budgets with the relevant ELT Member and Committee. This has been enhanced through the creation of Departmental Leadership Teams (DLTs) to review finances on a monthly basis;
- **Local Government Association commissioned to undertake a review of project capitalisation and Cash.** Work has now been completed and capitalisation of salaries has been largely been incorporated into monthly reporting. A detailed review of the cashflow model and assumptions has also been undertaken;
- **Review of all Procurement activities (contract and off-contract spend) to identify areas of improvement.** An Improvement Plan has been developed with some savings attributable to the current year and beyond;
- **Continuing a hard-line and grip on salary budgets and processes.** We continue to ensure we have a firm grip on salaries, this is essential given the relative size of this budget to that of the overall budget for the Council; and
- **Grip on internal controls through a renewed focus on Internal Audit** – process has changed considerably. Internal Audit now has a direct reporting line to the CFO who will ensure all reports with limited or no assurance are presented to Audit & Scrutiny and management issues identified and addressed.

28. After the budget is completed the next piece of work will commence to review the Council's: Commercial Strategy, Financial Regulations, approvals levels and processes.

Committee/Departmental Strategies

29. **Strategy & Resource Committee** comprises of the following services:

Community Infrastructure Levy (CIL)/Land Charges – CIL is a levy that Local Authorities can choose to charge on new developments in their area. The money should be used to support development priorities by funding infrastructure that the council, local community and neighbourhoods want. The Council via the Strategy & Resources Committee agrees a strategic funding statement establishing how money is collected and also considers proposals to fund worked up projects. CIL is money that can only be spent on infrastructure and many projects are funded or delivered jointly with other agencies including for example the County Council. On a day-to-day basis the management of the CIL process is the responsibility of the Chief Planning Officer.

30. Council Tax - Council Tax is a tax on domestic properties collected by the Council and is used to pay for local services such as recycling and refuse collections, schools, roads and street lighting. For the year 2020/21 approximately £79m is payable and although we collect Council Tax we keep only 12% with the remainder to Surrey County Council, Surrey Police and Parish Councils.

31. Non-Domestic Rates - Non-Domestic Rates, or Business Rates, collected by the Council are the way those who occupy non-domestic property contribute towards the cost of local services. For 2020/21 the Council would normally have sought to have collected approximately £21m in Business Rates, however, due to the Government announcing additional reliefs due to the COVID-19 pandemic, the Authority currently has approximately £3m to collect. This year the Business Rates team is administering the distribution of approximately £23m of Central Government grants to local businesses.

32. Asset Management - The Council's Asset Management strategy is to maximise income from the council's non-residential property assets. Operational assets include the Council Offices and the Warren Lane Council depot. Future occupation patterns for offices are being explored following the impact of COVID-19. The strategy also programmes continued improvement in the condition and statutory compliance of all Council assets.

33. The Council has a small property investment portfolio which is balanced between properties acquired for regeneration advantages and protection of commercial accommodation. Investment properties have been acquired through the wholly owned property investment company Gryllus Property Ltd. Current market uncertainty has led to a slowdown of activity in property acquisitions.

34. One property acquired for preservation of commercial space and regeneration potential in Caterham town centre, Quadrant House is currently a catalyst for improvement in Caterham and has been awarded two Local Enterprise Partnership grants. The initial stage of this has seen the opening of a new business hub which seeks to encourage innovation and small business development.

35. Finance - The ongoing financial resilience of the Council is of utmost priority to ensure that we can continue to deliver essential services to the residents of Tandridge. In that light the CFO has created a Finance Improvement Programme (FIP). The Finance function undertakes a mixture of value-added functions through the recently constituted Business Partner model and transactional activity which is necessary to keep the finances under control. The capacity within the team is very constrained due to implementation of the Customer First model some two years ago, as such we are exploring ways of creating resilience within the team. We have endeavoured to take a stronger grip on our internal controls through regular dialogue with Internal Audit and reporting on the progress of internal audits to the Audit & Scrutiny Committee. Internal Audit now have a direct reporting line to the CFO. The FIP is discussed above in **Section 4** of this report.

36. Legal Services - Comprehensive Legal Services are provided across all of the Council's business groups. Broadly, three main functions can be identified which cover the scope of the services provided:
1. **Proactive Legal Services** - advising Councillors, individually if necessary and in Committee, on the legality of actions and decisions taken by the Council, monitoring actions and decisions taken by Officers and protecting the interests of the Council;

2. **Client-focused Legal Services** - covering the majority of the Department's work, largely for 'client' departments within the Council, in areas such as:

- Defending decisions taken by clients when they are challenged. e.g. planning and licensing appeals, dealing with complaints to the ombudsman, judicial reviews;
- Initiating legal proceedings where it is necessary, or desirable to do so. e.g. prosecutions in relation to nuisance, food safety, health and safety and taking debt recovery actions;
- Carrying out other legal work, e.g. on property transactions and relating to contracts; and
- Provision of general advice, dealing with Councillor queries and regular presence at Committees to provide, if needed legal advice.

3. **The role of the Monitoring Officer** - The Department supports the Chief Executive in the performance of the statutory role of Monitoring Officer, and the Head of Legal undertakes investigations and negotiations on allegations of maladministration or injustice which may be raised, including all dealings with the Local Government Ombudsman.

Legal Services is in many ways in a distinctive position in the Council in terms of advising all Departments. At one end of the scale is the day-to-day case work (such as prosecutions); at the other is the advice at the strategic level concerning the Council's overall powers and responsibilities, together with tactical advice on introducing and implementing policy.

There are a number of efficiencies by having an in-house legal team. Further work does need to be done to ensure that there are reductions in spend on external legal advice. The Head of Legal has had separate 'speculative' approaches from firms of solicitors who are interested in developing cost-saving arrangements on matters where there is no in-house expertise. The Head of Legal intends to explore these and other options at the earliest.

37. **Community Services Committee**

The Community Services Committee is the Council's largest Committee in terms of spend and is responsible for the Council's policies in respect of Leisure, Community grants, Environmental Health, Licensing, Waste and Amenity Management.

38. In 2019/20 a procurement process for the Recycling and Refuse Collection contract was progressed. This is close to conclusion with a new contract set to be in place to commence 1st April 2021. This contract proposes to improve efficiencies, provide new vehicles to deliver the service and improve recycling, carbon and particulate emissions rates.

39. As part of the new contract, options for greater involvement in the administration of the Green Waste collections are being developed. This will see a transfer of the ownership of the service with increased control and income for the Council. There is potential to expand the service further in the future.

40. The administration of Bulky Waste is also being remodelled to improve efficiency with the addition of an on-line booking system while those unable to access the internet will still be able to contact through Customer Services. It is anticipated that there will be a greater take up for the service. All proposals aim for better rates of recycling and more efficient disposal of materials.

41. A priority for the Council's Operational Services team is street cleaning and graffiti. They ensure the towns and village centres are swept and ensure public safety is at the fore. A consideration of their working models is to be progressed in 2021/22 to ensure fair rotas over the service which operates over six days. The Communities Executive work across teams to clear fly tipping and vigorously pursue prosecutions.

42. Operational Services are responsible for both On and Off-Street Parking and Parking Enforcement. New Contract arrangements were put in place in 2020 which are to be re tendered for 2021/22. The improvement in efficiency of enforcement has led to a greater availability of spaces and improved safety especially for pedestrians.

43. The Council maintains the District's Parks and many open spaces, keeping them open and accessible for public enjoyment. Services include grass cutting, hedge trimming, ditch clearance, landscaping works, tree surgery, footpath and car park maintenance. Work is evolving to look at improving biodiversity and to increase the benefits which can be offered by park pavilions and facilities.

44. An Open Space Strategy is being developed in consultation with residents, Parishes and other local interested parties to consider the use of the Council's parks and open spaces with a view to ensuring that the strategy captures and considers all the local community's and stakeholder requirements. This strategy will pull together options for our assets and how best to manage and improve them over the next five years.

45. Community Services are also responsible for the Council's cemetery and handle all requirements of 'John Doe's' and the National Assistance Act in a sensitive and thorough manner. Work will be progressed regarding the Garden of Remembrance works over the next year. More burial plots are planned for earlier release to allow families to consider and organise their wishes.

46. The Council has a shared Environmental Health and Licensing service with Mole Valley District Council which commenced in 2017. Working together has seen advantages and shared efficiencies through access to specialist knowledge. The team monitors Food Safety and Health & Safety at Work, licensing and residential premises to prevent public nuisance, maintain standards of public safety provides great benefits. The team has risen to the extreme challenges seen this year through the COVID-19 pandemic and has supported the wellbeing of the community by ensuring compliance with government guidelines.

47. **Housing Committee**

The Housing Committee is responsible for formulating and reviewing the Council's policies for the management including repair, maintenance, improvements, sale, acquisition, allocation and control of all the Council's housing stock. In addition, the Housing Committee has the vital role of looking at the private sector housing conditions including standards of condition and the provision of a housing advisory service.

48. A review of the Council's income from the housing stock (HRA) is to be completed through 2021/22. Resource issues have delayed this work previously. This will lead to a review of the Council's garage stock and a full review of the condition of the housing portfolio. Mindful of increasing regulation over environmental concerns, work is commencing to ensure costings for future efficiencies and moves towards a future carbon zero position.

49. Ongoing resilience of the Council's Housing Service is vital to be able to support our ongoing programme to provide a direct supply of new Council owned homes. In 2019/20, 43 new homes were started and 40 were scheduled to complete although the effects of COVID-19 has seen these completions slip to 2021/22.

50. The need for affordable homes grows in the District. The Council seeks to develop and extend the programme of Council house building in the next year alongside working with Housing Associations to improve the flow of supply. 'Buy backs' of Council properties are also progressing.

51. The Housing team carries out extensive support work for all residents of Tandridge not just Council tenants. Housing Needs are assessed, the Council's Homelessness strategy is being progressed, Disabled Facilities Grants are administered, and a handyman service. Administration of Housing Benefit is brought to the Housing Committee. Much of the work is governed and dictated by Legislation with considerable statutory returns throughout the year.

52. Capacity within the team has been affected by the implementation of the Customer First model and areas of expertise have been lost. Despite these, there have been efficiency benefits seen through the close working of revenue and benefits teams with Housing Needs and Tenancy Management. This work will be closely looked at over the next year to improve debt management. There have also been resource issues affecting the housing development programme. All teams have worked well to look at new models of working to ensure that the full range of activities are covered.

53. **Planning Policy Committee**

The Planning function is a key service in Tandridge. In 2019 the Service was in need of improvement due to a number of issues including the loss of a number of qualified staff.

54. As part of the Council's Improvement Plan, work has focused on the improvement of the service. A new Chief Planning Officer was appointed in March 2020 and the staffing position has been stabilised with all key roles now filled by permanent staff. The reliance on agency workers has diminished and a new staffing model is being produced which will be a "mixed economy" approach consisting of a core of permanent staff supplemented by bank staff who will be used during peaks in workload and paid on a fee basis. Therefore, it has been possible to both reduce the agency budget and utilise vacant positions to enable this refreshed approach.

55. There has been a significant improvement in service delivery, and national performance targets are being met. Furthermore, a pre-application service has been reintroduced.

56. Progress on the Local Plan has been delayed by COVID-19 and the response from the Planning Inspector is not expected until early 2021. Work continues on both enabling the Inspector to form his conclusions on the Plan as well as associated policies and strategies. The budget for the use of consultants and external legal advice will be reduced as it is now unlikely that the further consultancy work anticipated in previous years will be required and we will make greater use of internal legal resources.

57. Presently it is not known when work on the Garden Community will need to commence as this is entirely dependent upon the Inspectors pronouncements.

Financial Strategy and Draft Budget 2021/22

58. This section outlines our approach to setting the budget and MTFS adopting strategies to make our future finances as resilient as possible in the medium-term. Having this resilience affords the Council opportunities to been more enterprising in the way it meets the needs of our residents. We have taken a bottom-up approach to building our budget and MTFS model, in an attempt to build a budget in line with best practice characteristics. Over the coming months we will look for opportunities to develop the budget along the lines of "Hallmarks of a Good Budget" and continue to work on our budget setting principles.

59. We have this year ensured that we have a well scrutinised process, taking all elements of the budget to Audit & Scrutiny in late November and have concurrently worked on a Capital Programme for the next three years which is integrated into the Revenue budget.

60. Despite commencing the process late, we have made good progress over the last three months. We need to ensure that momentum is maintained to set a balanced budget in 2021/22. We commenced with an initial Corporate gap/funding shortfall of c£2.5m in September, that was added to by £0.6m due to Service pressures. Workshops with both ELT and Members have seen the gap reduce to c£0.2m through opportunities in the Spending Review, and savings identified by Services. We are confident the gap can be closed and a balanced budget set for 2021/22. More detail on all pressures and savings by Service/Committee can be found in **Appendix A.**

Budget Principles

61. The principles are:
    - A balanced revenue budget with no planned use, rather build of General Fund Reserves;
    - Creation of a contingency to provide further medium-term financial resilience;
    - Regular review of Reserves to ensure appropriate coverage for emerging risks;
    - Budget envelopes set for each Service to deliver services within available resources;
    - Evidence based savings plans which are owned, tracked, monitored and reported monthly; and

- Managers accountable for their budgets.

62. The principles more specifically relating to setting sustainable medium-term budgets are:
    - Developing three-year plans, integrated capital investment across the Council;
    - Continuing to adopt a budget envelope approach with a model to determine a consistent and transparent application of funding reductions to Departmental budget envelopes;
    - Envelopes validated annually based on realistic assumptions;
    - Evidence bases used to underpin all savings proposals;
    - Assurance that all savings, pressures and growth are managed within budget envelopes to deliver accountability for implementation;
    - Pay and contract inflation allocated to Service budgets to be managed within budget envelopes; and
    - A corporate contingency held centrally.

General Fund - Revenue Budget Headlines

63. As a starting point for developing the budget, an initial costing of potential budget pressures identified provisional funding shortfall/gap for 2021/22 of c£2.5m. Over the last three months since the inception of the budget setting process, the provisional gap has been reviewed as a result of the recent Statutory returns, economic forecasts and Spending Review implications. The revised corporate gap is £2.2m. Service budget pressures have added £0.8m to this gap.

64. Draft Funding and Cost Pressures (c£3m) are categorised as follows:
    - **£0.1m - Funding deterioration**. This is due to erosion of the tax base of £0.3m offset by £0.1m in Band D charge increases and £0.1m funding for extra costs due to COVID-19;
    - **£0.3m – Inflationary impacts** to cover increasing prices (both contract and pay);
    - **£0.9m - Unavoidable Service costs** reflecting current organisation policies (changing the commercial investment policy and capital strategy), and unavoidable legislative changes such as reduction in New Homes Bonus grant;
    - **£0.3m - COVID-19** impact due to investment income and funding deterioration as a result of the contraction of the economy. This does not assume any 'lockdowns' during the new financial year;
    - **£0.6m – Financial sustainability measures** (building of General Fund Reserves £0.5m and Contingency £0.1m); and

- **£0.8m - Service pressures** (£0.3m – due to benefits and community alarm, £0.4m investment income voids, £0.1m service land charges and applying social distance and forbearance costs)

65. To date, savings of £2.8m have been identified. Together, these result in a gap to be closed for 2021/22 of c£0.2m as shown in **Table 1** below. Further information on the position for each Department is set out in **Appendix A.**

Table 1: Summary Draft Budget Position for 2021/22

	Roll-over budget £k	Pressures £k	Savings £k	Committee total £k	Committee gap £k
Planning	1,338	162	(439)	1,061	(42)
Community Services	6,351	293	(1,437)	5,207	(25)
Housing	459	182	(171)	470	92
Strategy & Resources	2,412	2,203	(717)	3,898	164
Policy Committees	10,560	2,840	(2,764)	10,635	189
Projected funding	(10,560)	114		(10,446)	
Net Gap	(0)	2,953	(2,764)	189	

66. Uncertainty still surrounds our funding position, the likely impact of COVID-19 and the extent to which Government measures will reduce the burden on the Council. There is every reason to be confident that a balanced budget will be achieved by the time the final budget is approved by Council in February 2021. This will be confirmed through the provisional settlement in mid-December.

67. Over the coming weeks, through to the Final Budget being presented to Strategy & Resources Committee and Council in February 2021, we will be refining all of our corporate planning assumptions which will impact the current gap.

National and Local Funding Context and the impact of COVID-19

National Context

68. On 11th March 2020, the Chancellor of the Exchequer, the Right Honourable Rishi Sunak, delivered the Government's Budget 2020[1]. Dealing with the immediate COVID-19 outbreak, the Chancellor set out several measures to deal with the economic impact, announcing a £30bn stimulus package. On the same day the coronavirus outbreak was declared a global pandemic by the World Health Organisation.

69. During the following week the Government dramatically increased its efforts to reduce the spread of the COVID-19 virus. Measures announced included enforced closures of some businesses and other venues, and social distancing measures. The lockdown restrictions lasted for a significant period with a gradual easing commencing in June. During this

[1] https://www.gov.uk/government/news/budget-2020-what-you-need-to-know

time, gross domestic product (GDP) shrank by a record 20.4%. This marked the second consecutive quarter of decline, pushing the UK into a recession.

70. The impact of the actions taken to reduce the spread of virus and the subsequent recession has inevitably resulted in financial hardship to both individuals and businesses. The Government's financial support measures are constantly evolving and the economic outlook for the UK is uncertain and further complicated by Brexit, with the transition period coming to an end on 31st December 2020. The Institute for Fiscal Studies (IFS) is forecasting the Government's budget deficit will climb to £350bn (17% of GDP) in 2020–21[2], more than six times the level forecast at the March Budget. Unemployment is also expected to rise to 8-8.5% in the first half of 2021[3], double the rate at the beginning of this year.

71. On 31st October, the Government announced a second national lockdown commencing on 5th November. The impact of this on the economy and the Draft Budget is not yet fully worked through; but may impact projected collection fund deficits. The continued and now heightened uncertainty reinforces our focus on building resilience and stability.

72. UK Economic Position - the UK is currently in recession and economic recovery is very uncertain. It is difficult to know what long-term impact lockdowns and social distancing requirements will have on businesses. We do not know how confident customers will be to spend in future, or whether people will simply just change their spending habits. It is not certain whether there will be a second spike of the virus, or if and when a vaccine may be available. All these factors affect economic recovery. It is considered that Business Rates income has fallen by 6% due to the economy. Added to this is the UK's exit from the European Union.

73. Unemployment - the Government's Job Retention Scheme (JRS) also known as "furlough" has mitigated the number of job losses to date and is currently extended until March 2021. There is the potential for unemployment rates to increase as the scheme is withdrawn.

74. Public Sector Debt – Government support for business and jobs during the pandemic has had a significant impact on Public Sector Borrowing. UK net debt recently reached £2tn for the first time and further heavy borrowing is expected in coming months. Over time, the UK Government is likely to seek to reduce debt to more sustainable levels. This may well have an impact for the funding of public services.

75. Fair Funding Review (FFR), rebadged Review of Relative Needs and Resources in the Spending Review in November. The comprehensive redesign of the current funding mechanism for Local Government in England has been delayed from its already delayed implementation date of 1st April 2021. Instead, one-off grants received in 2020/21 are likely to be rolled forward, potentially without uplift, for another year. Under the FFR reforms, the Business Rates system was due to be "reset" and funds

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[2] https://www.ifs.org.uk/publications/15081
[3] https://www.ifs.org.uk/publications/15078

retained by Councils in areas with high Business Rates growth redistributed more in line with needs.

Spending Review (SR) November 2020

76. The Government announced at the Budget 2020 that a Comprehensive Spending Review (CSR), setting out planned resource expenditure for three years from 2021/22 to 2023/24 and capital budgets for four years to 2024/25, would conclude in July 2020. Just two weeks later, on 24th March 2020, the Chancellor announced that the CSR would be delayed 'to enable the government to remain focused on responding to the public health and economic emergency'.

77. On Wednesday 21st October, following months of speculation about the timing and duration of the CSR, the Chancellor announced the decision to conduct a one-year SR in order to prioritise the response to COVID-19 and focus on supporting jobs. The announcement confirmed the Review on the 25th November with a Provisional Settlement in mid-December. A Final Settlement is due in January 2021.

78. Key points from the SR for District Local Authorities are:

Council Tax

- Local Authorities will be able to increase their Council Tax bills by 2% without the requirement to hold a referendum; and
- £670m to fund Council Tax support

Business Rates

- Small Business Rates multiplier (inflationary impacts) will be frozen in 2021/22 (instead of increasing by 0.55%) – but Local Authorities will be fully compensated;

Expenditure Support (including COVID-19)

- £762m to fund 75% of irrecoverable losses of Council Tax and Business Rates revenues in 2020/21;
- Around £3bn additional funding for COVID-19 in 2021/22;
- Sales, fees and charges (SFC) compensation scheme will be extended into the first 3 months of 2021/22; and
- Homelessness and rough sleeping £254m funding (of which £103m has already been announced).

2021/22 Provisional Local Government Finance Settlement (LGFS)

79. The cancellation of the Autumn Statement and the announcement on the SR has direct consequences for the timing and the type of settlement we will receive. The settlement, announcing the annual determination of funding to Local Government, is likely to be several weeks after the SR and a one-year review means that Councils will not gain certainty of their funding position until mid-to-late December

Local Context

80. Councils nationally have played a pivotal role in responding to the pandemic and the Government has enabled Local Authorities to achieve this through the swift provision of timely one-off resources. However, the economic shock the country has experienced and the recession we are facing will have profound and lasting effects, not entirely met by temporary funding.

81. The Customer First restructure at the Council consumed a significant proportion of the available reserves eroding financial resilience. Reserves were weakened further due to significant revenue budget overspends. Having eroded our Reserves substantially and facing significant financial pressures there was the very real possibility of the Council tipping into a financial deficit and the potential issuance of a Section 114 notice. Close contact with MHCLG has been maintained and the development of a FIP has resulted in a strengthening of our financial position in 2020/21.

82. The ongoing transformation of the Council's finances has provided us with the security to tackle the immediate challenges arising from the pandemic. However, much has been made of the severe financial difficulties facing a number of other Authorities and now, due to events beyond our control, we too see the future as extremely challenging. On 11th November Croydon Council became only the second council in over 20 years to issue a Section 114 notice. It is feared many other Councils are in similarly precarious positions. We will be working very diligently to ensure that Tandridge does not follow suit.

Funding Assumptions

83. The macro-environment this year has resulted in an unprecedented level of uncertainty over the budget planning and MTFS period. Over the course of this year our usual horizon scanning, intelligence gathering, and sector engagement have been undertaken to a much greater extent than would normally be required.

84. The 2021/22 budget has been drafted with total funding of £10.4m (a c£0.1m decrease on 2020/21) as set out in **Table 2** below.

Table 2: Change in funding 2020/21 to 2021/22

Likely funding breakdown	2020/21 £k	2021/22 £k	Change £k
Council tax precept	8,587	8,690	102
Business Rates	2,207	1,686	(521)
COVID-19 - extra costs funding		100	100
Funding before collection fund	**10,794**	**10,476**	**(319)**
CT Collection Fund	(10)	(8)	2
BR Collection Fund	(224)	(22)	203
Total Funding	**10,560**	**10,446**	**(114)**

Roll forward Local Government Finance Settlement (LGFS)

85. We have assumed a ‘roll-forward' LGFS and the announcement of a one-year SR means this is the most likely outcome. Broadly, a roll-forward settlement would see similar principles applied to the determination of funding to Local Government in 2021/22 to those provided on 2020/21.

Council tax funding £8.7m (Core funding £8.7m less collection fund deficit £8k)

86. **Core Council tax funding increase:** The referendum principle is assumed to be maintained, allowing an increase in Council Tax of 1.99% or £5 if higher. To optimise funding in this climate we have assumed £5 increase, resulting in an additional £193k in 2021/22.

87. **Council Tax base**: In October, we completed the usual return on the valuation of the tax base. It confirmed that even though we have had a 4% increase in the volume of properties and 4% increase to exemptions, discounts and Council Tax support. Therefore, the increases to reductions in Council Tax have wholly absorbed the volume increase. The tax base is then adjusted for an estimate of collectability. Due to the economic climate, we are proposing to increase this adjustment from 0.7% to 1.2%, results in a reduction in funding of £43k in 2021/22.

88. Increasing the provision for lower collectability and evaluating that the deductions to Council Tax means we have considered the local economy contraction that could occur due to COVID-19 and the two national lockdowns.

89. **Empty Homes** – Last year there was an estimation for £47k to supplement Council Tax income. Surrey County Council’s policy is that we need to demonstrate we have amended our policy and that the income is for investment to kick start owners to bring those properties back into the housing stock. As present we are not assuming any supplementary income for this in 2021/22.

90. **Collection Fund deficit £8k**: Usually we would have to until later in the year to ascertain the collection level. Based on current collectability and proposed methods of calculating the Collection Fund it is likely the deficit for 2020/21 will be in the region of £0.8m. The Collection Fund is distributed across Surrey County Council, Police Commission Council and the Council. Our element of the estimated Collection Fund is 12% - therefore the estimate for the Council is £91k. Reflected within this estimate is an increase to the debt provision, as discussed in setting the tax base.

91. The Chancellor, in the SR, suggested he would cover 75% of irrecoverable losses (the actual calculation and definition to be outlined) of the Collection fund estimate The Draft Budget assumes a deficit in the region of £91k in 2021/22, of which 75% will be covered by central government means the collection deficit is £23k before any other COVID-19 regulations is applied.

92. The Council Tax Collection Fund loss will be spread over the next three financial years: To ease the immediate pressure on budgets the Government is proposing[[1]] that repayments to meet Collection Fund deficits accrued in 2020/21 will be phased over a three-year period (2021/22 to 2023/24). The Government's intention is for the deficit phasing to apply to all Authorities and the scheme will be prescribed in secondary legislation. Latest government guidance dictates that the loss should be spread equally over three years. Therefore, the estimates collection deficit of £23k will be spread over the next three financial years. The annual charge would be c£8k.

[1] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/927363/200716_Technical_details_on_LGF_package_for_Treasurers_and_FDs_FINAL_.pdf

Business Rates funding £1.7m (Retained rates £1.7m less collection fund deficit £22k)

93. **Retained rates decrease £0.5m**: Under a roll-forward funding scenario Business Rates broadly increase in line with CPI, (0.5% in September). Due to the impact of the pandemic, we anticipate an increase to local reliefs being awarded to businesses. This has deteriorated the Business rate funding by net 24%. **Overall change from 2020/21 - decrease of £0.5m**.

94. As the pandemic has significantly affected retail and leisure businesses the government provided some assistance with Business Rates. We are still waiting to find out how this will affect the Business Rates calculations for 2021/22 and onwards, therefore we have taken a pragmatic approach to the estimating the potential funding and the collection fund. Currently we are estimating 5% lower yield (national assumption is 6%). We are expecting this to be resolved in mid-December.

95. **Business Rates Collection fund deficit £22k:** Similarly, to Council Tax, the level of deficit will be influenced by the amount of business rates collected throughout the year, 75% irrecoverable loss applied and the non COVID-19 related loss spread over three years.

Non-specific grant funding £0.4m

96. Key assumptions for New Homes Bonus is that it will continue for only legacy payments and a notional £20k grant for 2021/22.

97. COVID-19 grants and associated expenditure is not reflected in the assumptions. The grant funding is one-off. Due to the SR prudent assumptions are a notional amount for small Authorities will be provided. Our assumptions have been prudently based on 2020/21 Tranche 4 £100k grant given to all small Authorities. It has only been assumed for 2021/22.

98. All income assumptions will be revised over the coming weeks following the SR, provisional LGFS, other ad-hoc government announcements for budget setting purposes.

Expenditure and Service Income Assumptions

99. Current MTFS assumptions are based on best available information. However, all assumptions will continue to be amended until the final settlement in January. The following assumptions have been built into the budget:

- **Inflation –**1% pay and 2% contract inflation.
- **Fees & Charges –** a 2% uplift has been applied
- **General Reserves & Contingency build year-on-year through MTFS**
    - £500k build year-on-year over the MTFS. The net contribution to Reserves will be dependent on the 2020/21 Outturn position
    - £100k contingency build year-on-year through MTFS

General Fund Financial Performance as at Month 7 (October) Revenue and Capital

100. The Month 7 Budget Monitoring position was circulated to Group Leaders on 25th November. Headline performance is set out below.

101. **Revenue:** As at October 2020 (M7) the Council is forecasting a c£0.2m overspend in 2020/21 against the budget baseline of £10.6m, **an improvement of £0.2m from M6.** The Council has made significant strides to control spend and generate income in line with the budget over the last few months and is in an overall better financial position since the significant overspend of c£2m at M3 (June). This will ensure a more resilient financial position for 2021/22.

102. The improvement of £0.2m in the position is due to:

- 4th Tranche COVID-19 funding;
- Clinical Extremely Vulnerable grant;
- Improved income to Building Control, and

- Admin fee to Community Infrastructure Levy.

103. Of the c£0.2m overspend, c£0.9m relates to COVID-19 costs/income loss offset by £0.7m underspend in the Business as usual budget, as approved by Council in February 2020.

104. There remains significant uncertainty in the 2020/21 forecast. This will be kept under close review throughout the year. If the position does not improve, we will need to draw upon Reserves to cover the £0.2m overspend.

105. **Capital:** The Council approved a capital budget for 2020/21 of £120.1m in February 2020. This was revised to £15.7m to reflect the revised Month 6 forecasts, recognising the impact of COVID-19. Against the revised budget, forecast capital spend at M7 is £15.6m; a decrease of £0.1m. The changes are summarised in **Table 3** below:

Table 3: Capital Programme 2020/21

	Original Budget £m	Mid Year Review £m	Revised Budget £m	Forecast Variance as at M7 £m
General Fund	105.1	(98.7)	6.4	(0.1)
Housing Revenue Account	15.0	(5.9)	9.1	0.0
Total	**120.1**	**(104.6)**	**15.5**	**(0.1)**

106. The majority of the change in the General Fund Capital Programme was in relation to the Property Development Fund, where the budget was reduced by £97.9m due to a change of policy. There was also £0.6m slippage on Public Conveniences work with other minor net changes making up the remaining £0.2m reduction.

107. In the HRA, £5.5m of the budget reduction is due to slippage in the Council House Building programme with £0.2m relating to slippage on the programme of planned repairs and maintenance.

108. The 2020/21 expected outturn for both revenue and capital give us confidence that the underlying budget is realistic and deliverable; providing a solid base on which to build the 2021/22 budget. Where Service variances are forecast to have an ongoing negative effect on the financial position, these are built into the starting point for 2021/22 and included in the gap.

Medium Term Financial Outlook to 2023/24

109. Over the medium-term, the gap between expected Departmental spending pressures and projected funding continues to grow. By 2023/24, the Council will need to close a total gap over the MTFS of £5.0m, as shown in **Table 4** below. This is driven by:

- Growth pressures: including inflation: c£5.7m; and
- Savings identified to date: £2.8m

110. Although our immediate priority is understandably closing the gap and setting a balanced budget for 2021/22; our medium-term focus means that Service delivery plans are developing now which already go a significant way to improving our medium-term financial outlook. These plans will iterate as funding projections gain more certainty.

Table 4: MTFS Gap to 2023/24

	2020/21 £k	Total 2021/22 £k	2022/23 £k	2023/24 £k	Total £k
Budget Envelope	**10,560**	**10,446**	**10,232**	**10,576**	
Brought forward budget	10,560	10,560	10,635	12,131	
Plus growth (inc inflation)		2,844	1,511	1,409	**5,764**
Less identified savings		(2,768)	(15)	(50)	**(2,833)**
Total Budget requirement		**10,635**	**12,131**	**13,490**	
Reductions still find		189	1,899	2,914	**5,002**

111. The unprecedented levels of uncertainty throughout the 2021/22 budget planning process continue over the MTFS. The second delay to Local Government Reform (FFR, NHB and Business Rates reset) and a one-year settlement for next year leaves the Council facing further uncertainty into 2022/23, which provides challenges to effective planning.

112. Future Council Tax base and Band D increases are simpler to predict. However, Business Rates tax base and economy are extremely difficult to predict. After consulting with Local Authority funding experts, we are basing future Business rate funding on the minimum funding of the Business Rate baseline as a potential outcome. The following (as set out in **Table 5**) is considered to represent likely outcomes at this point and will be subject to continuous review as any new intelligence emerges.

Table 5: MTFS funding to 2023/24

Likely funding breakdown	2020/21	2021/22 £k	2022/23 £k	2023/24 £k
Council tax precept	8,587	8,690	8,882	9,097
Business Rates	2,207	1,686	1,480	1,509
COVID-19 - extra costs funding		100	(100)	
Funding before collection fund	**10,794**	**10,476**	**10,262**	**10,606**
CT Collection Fund	(10)	(8)	(8)	(8)
BR Collection Fund	(224)	(22)	(22)	(22)
Total Funding	**10,560**	**10,446**	**10,232**	**10,576**

Council Tax

113. The scenario considered to be most likely is that Council Tax continues to increase within a referendum limit of £5 on annual increases (as is expected to be the case for 2021/22).

114. In line with 2021/22 assumptions, we anticipate that the pandemic and the recession lead to increasing levels of Local Council Tax Support and that house building growth would be offset by this; resulting in a relatively flat base into 2022/23 with, modest growth ranging from c0.25% after 2023/24.

115. The Collection Fund is expected to oscillate between deficit and surplus between now and 2023/24 due to the deficit spread unwinding and recoupment of arrears increasing. We expect this to stabilise with modest surpluses thereafter.

Local Government Reform (Fair Funding Review (FFR), Business Rates Reset and Social Care Reform)

116. The review of Local Government funding distribution, the FFR, and the move to 75% retention of Business Rates has been delayed for a second time although unlike the previous delay, the Government has not indicated when reform is likely to be implemented. The current working assumption is that the delay is for a further 12 months, with reform taking effect as of April 2022.

117. Confirmation over the timing of the reform is crucial to planning, not least because we anticipate the results will reduce our overall funding. We assume transitional arrangements will be put in place, so the pace of reduction is phased/more manageable. Under normal circumstances officers would review technical working group papers as a highly effective means of keeping informed about the potential direction of reform. However, working groups which were previously developing the new system have been suspended and so the ability to gather any new and robust intelligence has been somewhat reduced.

Retained Business Rates reset

118. The level of Business Rates retained changes is part of the reform mentioned above. At this point we see an increase to our Business Rates, and we expect Business Rates Multiplier also part of the overall reform. The level of business rates retained has a direct relationship with FFR and as such we expect this funding to reduce over the remainder of the MTFS as transitional arrangements unwind.

119. The uncertainty over the details and timing of the move to 75% business rates retention is further complicated by the delay to a revaluation of the rateable values of all business and other Non-Domestic property that was due to take place in 2021. Legislation had been introduced to bring the next Business Rates revaluation forward by one year from 2022 to 2021 but has now been postponed 'to ensure businesses have more certainty during this difficult time.' The delay is understandable with changing circumstances as a result of the coronavirus pandemic. Despite this, longer periods between revaluations could increase the level of funding the District and Borough Councils choose to set aside to deal with appeals.

120. We expect the Business Rates Collection Fund to have a minor surplus in 2022/23 and 2023/24 as a result of the deficit spread being offset by the recoupment of arrears in the subsequent year.

Business Rates Pooling

121. The Council has opted to join the Surrey Business Rates Pool for 2021/22. It is estimated that the gain for the Council in joining the pool in 2021/22 is likely to be somewhere between £50k and £215k however the benefit of this won't be felt until 2022/23 due to the way in which statutory Collection Fund accounting works. When the Collection Fund budget is set that determines the income the Council will receive regardless of whether planned collection rates are exceeded or not. Any surplus or deficit is then brought forward to the following financial year This is done to allow preceptors some certainty over their budget position. Due to the uncertainty of the benefit to the Council no allowance for the potential upside of pooling has been built into the MTFS at this stage.

Grant income

122. The significant non-specific grant - New Homes Bonus – we anticipate legacy payments only which fully unwind in 2023/24.

Housing Revenue Account (HRA)

Financial Performance as at Month 7 (October) Revenue

123. The Housing Revenue Account is held as a separate ring-fenced reserve and sits outside the General Fund Account. The Reserve is only allowed to be used to support the Council's Housing stock.

124. The M7 forecasted outturn for 2020/21 was an underspend of £0.4m, within the Business as usual budget. This was generated by £0.2m savings on salaries, realigning the revenue and capital apportionments and £0.3m savings on refinancing HRA loans at lower interest rates than previous, offset by £0.2m reduce Rental Income from Dwellings and various other small variances totalling £0.1m. Refer to **Appendix A** for HRA Revenue and **Appendix B** for HRA Capital.

Draft Budget 2021/22 and Medium-Term Financial Outlook

125. The Budget was built by considering the HRA needs and requirements.

126. Consideration was made of whether services and staff allocations should be sat in the General Fund or in the HRA. All housing staff have been considered and in the budget 2021/22 they now sit in the service area they predominantly worked for. This has meant moving staff from the HRA and adding to the General Fund and vice versa.

127. Budget 2021/22 Growth items identified - £0.4m Housing repairs service moving service to sit in the correct reporting area, which will improve transparency and clarity for our residents.

128. Budget 2021/22 Opportunities of £0.4m - £0.2m elderly persons warden accommodation no longer appropriate, £0.1m additional garage rental income due to reduced void period subject to condition of the garages and £0.3m reduce HRA loan interest costs due to refinancing loans at a lower interest rate.

129. Consideration is being made to reduce and remodel services which will help reduce costs further in future financial years. These include:

- External redecoration of HRA properties to be reprofiled and re-programmed to last a further year. Currently 5 years change to 6 years; and
- Internal redecorations of Elderly and Disable persons HRA accommodation to consider levying a small charge and reducing from 3 rooms to 1 per year. Also restrict to painting only, no wallpapering.

Draft Capital Programme to 2023/24

130. This section of the report provides an update on the development of the Capital Programme for 2021/22 to 2023/24, taking into account work that has been carried out by officers and Members over the last few months. The Draft Capital Programme is set out in **Appendix B -** further work is being undertaken to review proposed allocations in advance of presenting a Final Budget Report, ensuring all costs of borrowing are included in the Revenue budget as part of the Final Budget Report in January and February 2021.

131. Aligned to the revenue budget, Councils receive some general and specific grant funding to support capital expenditure. However, there are some significant differences to how capital expenditure is funded.

132. One of these is that Council are permitted to borrow to fund capital expenditure as long as that borrowing is deemed affordable, prudent and sustainable. Councils can also fund capital expenditure from the proceeds of selling assets (called capital receipts).

133. The Capital Programme sets out our expenditure plans and how we will pay for them over a three-year period.

134. The current three-year Capital Programme was approved by Council in February 2020. This was reviewed and rebased during this financial year to set a revised budget based on the change in the Property Investment strategy and to reflect delays due to the impact of COVID-19.

135. The main changes to the 2021/22 to 2023/24 Capital Programme beyond the rebasing exercise are reprofiling of the HRA projects across financial years, the removal of the Investment and Development Fund budget due to the changes in the Property Investment Strategy. It was replaced by Quadrant House Refurbishment Phase 2 and extending projects into 2023/24. Additionally, Planning Policy now includes a budget for capital grants and contributions to third parties which is funded from CIL.

136. The Capital Programme is funded from a combination of external and internal resources. External funding is mainly in the form of Central Government grants and CIL. Internal funding takes the form of locally raised funds such as borrowing and capital receipts. There are significant constraints on the availability of internal funds, particularly capital receipts, which are finite in nature and depend upon identifying surplus assets for sale or disposal.

137. Borrowing to fund the Capital Programme has an impact on the revenue budget in the form of interest payments and Minimum Revenue Provision (MRP) payments. Although interest rates are historically low, the more that is borrowed to fund the Capital Programme the greater the impact on the revenue budget. MRP is the minimum amount which the Council must charge to its revenue budget each year, to set aside a provision for repaying external borrowing (loans). This is an annual revenue expense in the Council's budget. The cost of MRP to the 2021/22 budget is £0.9m and scheduled to grow steadily each year (2023/24 £1.5m).

138. All borrowing for capital schemes is done within agreed prudential limits which establishes a benchmark for affordability and sustainability. A range of indicators are maintained to demonstrate this. These indicators are maintained within the Council's Treasury Management Strategy and are monitored and reported to the Investment Sub-Committee and Council on a regular basis. The Treasury Management Strategy demonstrates how the borrowing requirement will be managed. This strategy will be set out as part of the Final Budget papers in February 2021.

139. **Table 6** below shows the draft three-year Capital Programme and how it is planned to be funded for 2021/22 to 2023/24.

Table 6: Draft 3-year Capital Programme and funding

	2021/22 £k	2022/23 £k	2023/24 £k	Total Programme £k
Planning	733	330	0	1,063
Community Services	1,954	638	397	2,989
Housing General Fund	460	460	460	1,380
Strategy & Resources	5,367	228	272	5,867
Total Capital Programme	**8,514**	**1,656**	**1,129**	**11,299**

	2021/22 £k	2022/23 £k	2023/24 £k	Total Programme £k
External Funding / Grants	5,360	460	460	6,280
Community Infrastructure Levy	733	330		1,063
Capital Reciepts	0	0	0	0
Borrowing	2,421	866	669	3,956
Total Capital Funding	**8,514**	**1,656**	**1,129**	**11,299**
Estimated MRP included in the General Fund Revenue Budget	871	1,344	1,443	

Community Services

140. The proposed three-year Capital Programme 2021/22 to 2023/24 for Community Services is £2.7m. The schemes comprise of:

- Children's Playground Improvements - £0.6m;
- Vehicle Replacement Programme - £0.6m;
- Works to Public Conveniences - £0.6m;
- Parks, Pavilions & Open Spaces - £0.4m;
- Garden Waste, Recycling, Food Waste and Refuse bins - £0.3m;
- Car Park Equipment Replacement Programme - £0.1m; and
- Projects collectively below £0.1m: Replacement litter bins, Land Drainage Works, Plant & Machinery Replacement Programme, Playground Improvement.

Housing General Fund

141. The proposed three-year Capital Programme 2021/22 to 2023/24 for the Housing General Fund is £1.4m. This is the Disabled Facilities Grants (DFG) programme which is mainly funded from DFG.

Strategy & Resources

142. The proposed three-year Capital Programme 2021/22 to 2023/24 for Strategy & Resources is £5.9m. The schemes comprise of:

- Quadrant House Refurbishment Phase 2 - £4.9m (this is an agreed programme of Local Enterprise grant funding); and
- IT Hardware & Infrastructure Projects - £1.0m

Planning Policy

143. The proposed three-year Capital Programme 2021/22 to 2023/24 for Planning Policy is £1.1m. This is made up of grants and contributions to third parties for capital projects and are funded from CIL. The schemes comprise of:

- Burstow Road Safety Scheme £0.3m;
- Whyteleafe Surgery £0.2m; and
- Master Park Pavilion £0.5m.

Housing Revenue Account

144. The proposed three-year Capital Programme 2021/22 to 2023/24 for the Housing Revenue Accounts is £28.3m. This is made up of:

- Council House Building Programme - £16.7m;
- Improvements to Housing Stock - £11.2m; and
- IT Hardware & Infrastructure Projects - £0.4m.

145. The draft HRA Capital Programme is funded from the following sources, as shown in **Table 7** below:

Table 7: HRA Capital Programme and Funding

	2021/22 £k	2022/23 £k	2023/24 £k	Total Programme £k
HRA	16,554	7,705	4,025	28,284
HRA Capital Reciepts / Reserves	10,894	6,214	4,025	21,133
Borrowing	5,660	1,491	0	7,151
Total HRA Funding	**16,554**	**7,705**	**4,025**	**28,284**

146. The HRA will fund its Capital Programme from capital receipts, Reserves and borrowing. The HRA has three separate Reserves it can draw upon; the New Build Reserve, Repairs Reserve and Major Repairs Reserve. The HRA is also able to use retained receipts from Right-to-Buy sales to fund part of the expenditure on building new HRA stock. The HRA can also borrow to fund its Capital Programme using the rental income to cover the cost of interest and principal repayment. There is no requirement for the HRA to make MRP payments.

Engagement and Consultation

147. In the latter half of October, a number of budget workshops were established to allow Members to scrutinise budget proposals that had been developed and put forward by Officers. Individual workshops for each of the four Committees were set up with three hours allowed for each meeting.

148. At the workshops several savings proposals were put forward by Members and these have been considered by Officers to see if they can be taken forward to develop savings or grow income in future years.

149. From 17th December to 17th January residents will be able to comment on these Draft Budget proposals and the Committee Draft budgets. The consultation will be on the Council's website and will initially refer to this paper, and direct residents to the Committee Draft budget papers when they are published. The results from this engagement will inform the Final Budget and MTFS published in February.

Next Steps

150. The provisional LGFS is expected in mid-December with the final due in January 2021. Any changes resulting from report will be fed into the final.

151. The Capital Strategy, Commercial Property Investment Strategy and Treasury Management Strategy will be taken to the Investment Sub-Committee on 15th January 2021 with the recommendation that it is taken to Council for approval on 11th February 2021. The Commercial Property Investment Strategy provides details on how the Council will manage its commercial investment activity. The Treasury Management Strategy will set out a framework within which the Council's treasury functions can manage risks, source borrowing and invest surplus cash. A set of Prudential Indicators will have been calculated and set which will support prudent decision making around treasury activity during the financial year. These strategies are currently being reviewed with a view to combining them into a single document to improve understandability.

152. Committees will be meeting the week commencing 18th January to agree their individual Revenue (including fees & charges) and Capital budgets.

153. The Final Budget Report will be presented to Strategy & Resources Committee on 2nd February 2021 and Council on 11th February 2021.

154. The Final Report will include the approach to risk mitigation and a judgement by the Council's Section 151 Officer on the adequacy and approach to Reserves and balances, to ensure delivery of a sustainable budget over the medium-term. The Final Budget Report will also list the Council's Earmarked and General Fund Reserves as well as providing the required disclosures and details for the Council Tax Requirement.

155. The report will include consideration of Equality Impact Assessment (EIA) of specific savings proposals and seek to finalise proposals that will support the delivery of the 2021/22 budget.

156. A final list of capital schemes in the Capital Programme will be set out in the Final Budget Report. The associated Capital Strategy will also contain a high-level overview of how capital expenditure, capital financing and treasury management activities contribute to the provision of Services along with an overview of how associated risks will be managed by the Council.

Comments of the Chief Finance Officer

The Council has a duty to ensure its expenditure does not exceed resources available. Although significant progress has been made over the last few months to improve the Council's financial position, the medium-term financial outlook remains uncertain. The pandemic has resulted in increased costs which may not be fully funded in the current year or the next.

With uncertainty about the ongoing impact of this and no clarity on the extent to which both central and local funding sources might be affected from next year onward, our working assumption is that financial resources will continue to be constrained. This places an onus on the Council to continue to consider issues of financial sustainability as a priority in order to ensure stable provision of services in the medium-term.

It is a legal obligation that the Council sets a balanced budget for 2021/22. If this does not eventuate by the time of Final report to Strategy & Resources and Council in February, the Council will have no choice but to draw on its General Fund Reserves. We need to build not draw on Reserves to ensure medium-term financial stability.

The Section 151 Officer confirms that the 2021/22 Draft Budget and MTFS to 2023/24 has been based on reasonable assumptions, taking into account all material, financial and business issues and risks.

Comments of the Head of Legal Services

The report updates the revised medium term financial strategy. This is a matter that informs the budget process and may be viewed as a related function. It is, in any event, consistent with sound financial management and the Council's obligation under section 151 of the Local Government Act 1972 for the Council to adopt and monitor a medium-term financial strategy.

Members should have regard to the personal duties placed upon the Chief Financial Officer ('CFO-s151'). The CFO-s151 is required by section 151 of the Local Government Act 1972 to make arrangements for the proper administration of Council's financial affairs. The CFO-s151 must therefore exercise a professional responsibility to intervene in spending plans in order to maintain the balance of resources so that the authority remains in sound financial health.

The Local Government Finance Act 2013 requires the CFO-s151 to also report on the robustness of the estimates for calculations and the adequacy of reserves to the Authority and that the Authority must take these matters into account when making decisions on matters before it. By law a local authority is required under the Local Government Finance Act 1992 to produce a 'balanced budget'.

The report provides information about risks associated with the medium-term financial strategy and the budget. This is, again, consistent with the Council's obligation under section 151 of the Local Government Act 1972 to make proper arrangements for the management of its financial affairs. It is also consistent with the Council's obligation under the Accounts and Audit Regulations 2015 to have a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. The maintenance and consideration of information about risk, such as is provided in the report, is part of the way in which the Council fulfils this duty.

The Council is a best value authority within the meaning of section 1 of the Local Government Act 1999. As such the Council is required under section 3 of the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness (the best value duty) which includes a duty to consult. Having a medium-term financial strategy therefore contributes to achieving this legal duty.

Equality

This report does not disadvantage or discriminate against any different groups with protected characteristics in the community.

Each budget saving will undertake and Equalities Impact Assessment to ascertain if there is a detrimental effect on any particular group. This assessment will be included in the Final Report.

Climate Change implications

There are no significant environmental/sustainability implications associated with this report.

Appendices

Appendix A – Departmental Budget Pressures and Savings 2021/22

Appendix B - Draft Capital Programme 2021/22 – 2023/24

Background papers

None