

**DRAFT BUDGET 2022/23 AND MEDIUM TERM FINANCIAL STRATEGY**

1. This appendix sets out our approach to developing the 2022/23 Budget and Medium-Term Financial Strategy, built on a number of high-level principles which are used as a framework to guide the setting of the budget. The key priority for 2022/23 is that the budget position is **balanced**. Looking at the medium-term, the guiding principle will be that it is **sustainable**. The budget for 2022/23 therefore does anticipate a limited use of reserves as a one-off to measure to achieve a balanced position, dependent on the provisional settlement. This will leave reserves at an acceptable level, but one which would benefit from improvement in future. Subsequent budgets will target the replenishment of reserves, increasing them to a more level more resilient to medium-term risk.
2. The process followed to date has been well scrutinised and good progress has been made. Workshops have been held with both Senior Leadership Teams and Committee Members to allow rigorous testing of parameters. The overall 2022/23 funding gap has fallen from c£2m (including service pressures) to c£0.3m during this period. We are confident the gap can be closed and a balanced budget set for 2022/23. More detail on all pressures and savings by Committee can be found in **Annex A**.

**Budget Principles**

3. The Council is working towards ensuring that the budget setting process adheres to the following guiding principles:
  - A balanced revenue budget with the use of General Fund Reserves restricted to solving one-off pressures in 2022/23;
  - Maintaining a contingency to provide further medium-term financial resilience and to mitigate risk;
  - Supporting and enabling the Council to fund emerging partnership and transformation programmes;
  - Exploring options to build resilience of General Fund Reserves through capitalisation dispensation options to fund sustainability;
  - Completing a service delivery and redesign reviews within available resources with appropriately set budgets;
  - Producing evidence-based savings plans which are owned/delivered, tracked, monitored and reported monthly; and
  - Ensuring that managers are accountable for their budgets.
4. The principles more specifically relating to setting sustainable medium-term budgets are:
  - Developing three-year plans, integrated with capital investment across the Council;
  - Reinstatement of a budget envelope approach with a model to determine a consistent and transparent application of funding reductions to Committee budget envelopes;
  - Envelopes validated annually based on realistic assumptions;

- Evidence bases used to underpin all savings proposals and investments;
- Assurance that all savings, pressures and growth are managed within budget envelopes to ensure accountability for implementation;
- Pay and contract inflation allocated to Service budgets to be managed within budget envelopes; and
- A corporate contingency held centrally to mitigate risk.

## Revenue Budget Headlines

5. As a starting point for developing the budget, an initial costing of potential budget pressures identified a provisional funding shortfall/corporate gap for 2022/23 of c£1.7m. This was set with prudence with regards to Central Government funding as 2021/22 was supported by a number of one-off grants due to the pandemic. Over the last three months, since the inception of the budget setting process, provisional funding has been reviewed as a result of the recent collection fund forecasts, intelligence on the economy and Spending Review implications. The revised 2022/23 corporate gap is c£1.2m. Service budget pressures have added c£0.3m to this gap.

### **Corporate Pressures c£1.2m:**

- **£0.3m - Funding deterioration.** This is due to unavoidable grant changes (£0.5m) such as reduction in New Homes Bonus grant and one-off Government grants for Covid-19, offset by improvements on of the tax base of £0.1 and £0.2m in Band D charge increases;
- **£0.9m – Pension pressure** referred to in the GT review;
- **£0.7m - Unavoidable costs** reflecting current organisation policies (existing staff contract obligations, changing the commercial investment policy, reduced investment property income, service charge costs and the costs of funding capital investment);
- **£0.3m – Inflationary impacts** to cover increasing prices (including contract, utilities and pay);
- **Offset by:**
  - (£0.6m) – **One-off reduction of the financial sustainability measures** built into the 2021/22 budget (removing an expected contribution to General Fund Reserves £0.5m and Income Equalisation Reserve 0.1m); and
  - (£0.2m) – **Drawdown on Income Equalisation Reserve** to fund the investment property income and service charge costs; and
  - (£0.1m) - **Cessation of temporary support** for Freedom Leisure loan arrangements over the pandemic.

## Service Pressures - c£0.3m

- **£178k Service Demands:**
    - **£90k Service demand changes** – notably £40k providing for planning appeals
    - **£39k Contractual demands** and
    - **£49k loss of rent** from Redstone House.
  - **£72k to improve Finance service** capacity as part of the Tandridge Finance Transformation programme; and
  - **£36k change in Fees and Charges** particularly – £125k change to income targets revised car parking targets to reflect changing resident lifestyles offset with £93k greater recycling credits).
6. Executive & Senior Leadership Team and IMPOWER have identified c£1.2m of efficiency savings. In November, the proposed savings list has been outlined at the Member workshop. Only efficiencies that have been agreed by Members are part of the budget setting assumptions and have been included within these figures. To date, savings of c£1.2m have been identified, grouped under the themes of:
- People and Enabling Services
  - Fees and Charges
  - Service Efficiencies
7. These are set out by Committee and theme in **Annex A**. Further work to demonstrate deliverability, risk and developing business cases will be undertaken with IMPOWER between now and the Final Budget where the savings will be itemised.
8. Together, these result in a **gap to be closed for 2022/23 of c£0.3m** as shown in **Table 1** below. Further information on the position for each Committee is set out in **Annex A**.

**Table 1: Summary Draft Budget Position for 2022/23**

	Roll-over budget £k	Corporate & Funding Pressures * £k	Net Service Pressures £k	Savings * £k	Committ ee total £k
Community Services	3,993	0	86	(197)	3,882
Housing GF	469	0	59	(10)	518
Planning Policy	1,185	0	5	0	1,190
Strategy & Resources	6,338	(30)	136	(320)	6,124
Corporate Items	(690)	1,002		(675)	(363)
Policy Committees	11,295	972	286	(1,202)	11,351
Projected funding	(11,295)	251			(11,044)
<b>Net gap before possible mitigations</b>	<b>0</b>	<b>1,223</b>	<b>286</b>	<b>(1,202)</b>	<b>307</b>

*Note: \* Staffing and inflation movements have been assigned to Corporate items. When the final budget is finalised, these items will be distributed to the appropriate Committee. Also, there are some savings that require further clarification before being allocated and so are held in Corporate Items whilst the outline business plans are being drafted.*

## Potential mitigations

9. Funding assumptions may improve. Several sector advisors indicate a potential level of funding higher than currently included in the Draft Budget. There is too much uncertainty to include in the draft funding estimates, but a further £0.150m could be achievable – particularly within one-off Government grants or in the Business Rate pooling gain. Some degree of clarity will be achieved with the Local Government Finance Settlement, due mid-December, but the Business Rates pooling gain will take longer to finalise.
10. Over the coming weeks, the Draft Budget will be thoroughly reviewed and Committees will ultimately propose final budgets to the Strategy and Resources Committee and Full Council in February 2022, for approval. The final reviews will clarify pressures and savings and refine assumptions around inflation, pay increments pressures and funding.
11. 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 2022 however this is likely to require the use of up to £0.2m of reserves. This will be confirmed following the provisional settlement in mid-December and the final budget work.

## National Funding Context

### Background

12. On 3<sup>rd</sup> March 2021, the Chancellor of the Exchequer, the Right Honourable Rishi Sunak, delivered the Government's Budget 2021<sup>1</sup>. As a result of the continuing Covid-19 pandemic, the Chancellor set out several measures to deal with the economic impact, announcing an additional £65 billion of measures over this year and next, to support the economy in response to coronavirus. The launch of the three-year Spending Review (SR21) and announcements of fiscal envelopes were delivered on the 27<sup>th</sup> October. Headlines are set out in the following sections.
13. Economic data shows some positive signs with Gross Domestic Product (GDP) growing strongly (4.8% growth in April to June 2021 compared to the previous 3 months<sup>2</sup>). Following the record-breaking drop in GDP in 2020 (-9.9%<sup>3</sup>), it is possible that GDP might achieve its pre-pandemic levels by the end of the year. However, there are signs of strain in areas such as workforce shortages. There is also considerable growth in inflation (linked in the main to elevated energy price inflation) with Bank of England forecasting it to rise to slightly above 4% in 2021 Q4 and potential to rise further.<sup>4</sup>
14. Overall Government borrowing in Q1 was down over 19% from last year<sup>5</sup> and lower than the Office for Budget Responsibility's (OBR) forecasts in March 2021. In addition, it is anticipated that the OBR will reduce their forecast of scarring to the economy because of the pandemic from 3% of GDP to the Bank of England's estimate of 1%<sup>6</sup>.

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<sup>1</sup> [Budget 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/budget-2021)

<sup>2</sup> [GDP first quarterly estimate, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/gdp/first-quarterly-estimate)

<sup>3</sup> [GDP monthly estimate, UK - Office for National Statistics \(ons.gov.uk\)](https://ons.gov.uk/gdp/monthly-estimate)

<sup>4</sup> [Letter from the Governor to the Chancellor regarding CPI Inflation - September 2021 \(bankofengland.co.uk\)](https://bankofengland.co.uk/letter-from-the-governor-to-the-chancellor-regarding-cpi-inflation-september-2021)

<sup>5</sup> [Budget deficit continues to fall faster than expected - Office for Budget Responsibility \(obr.uk\)](https://obr.uk/budget-deficit-continues-to-fall-faster-than-expected)

<sup>6</sup> [Bank of England Monetary Policy Report May 2021](https://bankofengland.co.uk/monetary-policy-report-may-2021)

## Spending Review

15. On 7<sup>th</sup> September 2021, the Chancellor launched the Spending Review 2021 (SR21) which concluded on 27<sup>th</sup> October 2021 alongside an Autumn Budget. “The three-year review will set UK Government departments’ resource and capital budgets for 2022-23 to 2024-25 and the devolved administrations’ block grants for the same period”<sup>7</sup>. The Spending Review Headlines for the Council are as follows:

- Total departmental spending is set to grow, with Core Spending Power for local authorities increasing on average. As an assumption, Tandridge’s core spending power is £11m and a 1% increase on this, would be approximately £0.110m. This growth is largely driven by Council Tax increases, although national grant funding within Core Spending Power will still be increasing in real terms (by approximately 0.6%). Tandridge’s share of this remains to be confirmed, however funding through the Lower Tier Services Grant is anticipated at approximately £0.340m;
- The Council Tax referendum threshold for increases in Council Tax is expected to remain at 2% per year. Local authorities with social care responsibilities are expected to be able to increase the ASC precept by up to 1% per year. As the threshold is unchanged – it is assumed that Tandridge will be able to increase Council Tax by £5, generating an additional c£0.19m of funding;
- The Business Rates multiplier in 2022/23 will be frozen and the loss of income should be offset by a Section 31 grant;
- In addition, Business Rates will include a new one-year Retail, Hospitality and Leisure relief, again offset by a Section 31 grant;
- The Draft Budget anticipates the continuation of the New Homes Bonus for one year of £0.311m for 2022/23;
- The rise in the National Living Wage from £8.91 to £9.50 from 1 April 2022 should have no material impact for Tandridge and therefore no adjustments have been made;
- The first £1.7bn from the Levelling Up Fund was announced – although some will be allocated to Scotland, Wales and Northern Ireland. For Tandridge the business case relating to Caterham Valley town centre was unsuccessful, but can be resubmitted for later rounds; and
- No new funding has been announced for ongoing Covid-19 pressures.

## 2021/22 Provisional Local Government Finance Settlement (provisional LGFS)

16. The 27<sup>th</sup> October 2021 announcements confirmed the budget for the Department for Levelling Up, Housing and Communities (DLUHC) and the Local Government share; with a £1.6bn per year increase. Following this, the allocation to individual Councils will be announced, likely to be included in December’s Local Government Finance Settlement.

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<sup>7</sup> [Chancellor launches vision for future public spending - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/chancellor-launches-vision-for-future-public-spending)

## Funding Assumptions for 2022/23

17. The most significant influence on the Council's funding is the long-planned implementation of fundamental Government funding reform; particularly any changes to the retention of Business Rates, Lower Tier Services Grant and New Homes Bonus. The Spending Review included no further information on these, and so clarity is expected in the Provisional Local Government Finance Settlement in mid-December.

### Council tax funding £8.9m

#### Core Council tax funding increase

18. 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 £0.193m in 2022/23.

#### Council Tax base

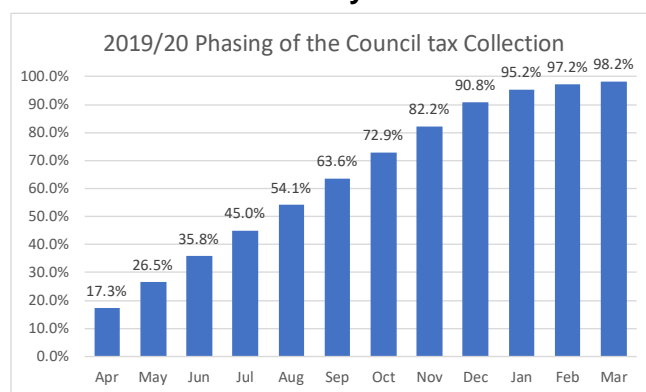
19. In October, we completed the usual return on the valuation of the tax base. It confirmed that we have a 0.6% increase in the base. The reasons for this growth are related to increases in property volumes, greater properties in higher bands and lower subsidies for exemptions, discounts and Council Tax support.
20. The tax base is then adjusted for an estimate of collectability. Due to the economic climate, we are proposing to maintain the adjustment at 1.2%. 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 national lockdowns.
21. Changes to the tax base results in an increase in funding of £0.054m in 2022/23.

#### Collection Fund Deficit

22. The Council Tax collection fund is a ringfenced account to collect, hold and distribute the four precepts (Surrey County Council, Surrey Police and Crime Commissioner, Parishes and the Council). The Collection Fund deficit is distributed only across the two main preceptors (SCC and SPCC) and this Council being the Billing authority - ie: we bear the risks and benefits from the Parishes' collection fund. As to be expected after a pandemic the performance has been hard to evaluate.

**Table 2: Council Tax Collection Performance over the last three years and the usual collection trend**

	Apr %	Sep %	Mar %
19/20	17.3	63.6	98.2
20/21	16.4	61.8	97.3
21/22	16.9	63.6	



23. In the December 2020 Spending Review, the Chancellor dictated that any Collection Fund Deficits due to Covid-19 should be spread across three financial years (2021/22, 2022/23 and 2023/24).

24. Collectability rates on the tax base were reduced, reflecting the impact of Covid-19. Current performance in 2021/22 highlights that collectability is similar to pre Covid-19 levels, suggesting that we can assume the spreadable deficits will be covered by current year collection fund surpluses.
25. Government provided compensation funding for 75% of our 2020/21 deficit within the s31 Reserve, as reported in the draft Statement of Accounts. This is not being applied until the Collection Fund position is more certain, after allowing for the other preceptors' share of any surpluses.
26. With the implementation of the Northgate system for Collection Fund Management, there should be more opportunity to review historic debt levels. HM Inspectorate of Court Administration has reopened the debt recovery system which should also improve performance.

### **Revised and new Council Tax discounts and exemptions**

27. Included in the Draft Budget are three proposals to change Council Tax Discounts, Exemptions and Premiums. These are set out as follows and are part of the tax base calculation, albeit having a negligible impact on tax base.

### **Council Tax Care Leavers Discounts and Exemptions**

28. Under Section 13A of the Local Government Finance Act 1992 the Council has the power to reduce liability for Council Tax in relation to individual cases or class(es) of cases that it may determine. This is a discretionary responsibility.
29. A proposal to reduce the Council Tax liability for care leavers, is aligned with Surrey County Council's policy of financial support to care leavers and is part of an overall package of support offered to prepare our care leavers for independence, supporting them in the successful transition to adulthood.
30. In practice the discounts and exemptions proposed would be for Care Leavers that are no longer in education or claiming benefits and are in paid employment or higher paid apprenticeships and are living in final stage social housing or privately rented accommodation.
31. Under the it's delegated powers, the Committee has determined that, with effect from 1 April 2022, Care Leavers will be exempt if they are living independently or will receive a 25% discount if living semi-independently for their Council Tax which they would otherwise be liable for up to their 25<sup>th</sup> birthday.
32. This brings the Council into line with other Surrey Districts and Boroughs, currently being the only one not to do so. **Council tax long term empty homes premium**

### **Council Tax long term empty homes premium**

33. Under its delegated powers, the Committee has also determined that, with effect from 1<sup>st</sup> April 2022, the empty property premium be increased to 300% for properties which have been empty over 10 years.

## Business Rates Baseline funding £1.5m

34. Business Rates funding is a headline term incorporating several separate elements:

- **Directly retained Business Rates income (Business Rates Baseline)** - Local businesses pay Business Rates net of reliefs and discounts directly to TDC (**c£21m**). This is adjusted as follows:
  - **Retention:** The amount retained after Surrey County Council (10%) and Central Government (50%) are allocated their shares. The remaining 40% - **c£8.4m** - is allocated to the Council;
  - **Reliefs:** Nationally set Business Rate reliefs subsidised by Central Government through Section 31 grants - This refers to Section 31 of the Local Government Act 2003 which enables Government to reimburse Local Authorities for the cost of subsidising Business Rates e.g.: Retail Reliefs. For the Council s31 grants equate to approximately **£1.6m**;
  - **Tariff:** A tariff is then applied because the Council generates more funding than Central Government calculate we require (**c£8.5m**); and
  - Leaving an amount of funding for Council services equal to the Business Rates Baseline of **c£1.5m**.
- **Reconciliation of estimates to actuals (Collection Fund)** - Estimated amounts included in the budget (captured in the NNDR1 statistical return submitted in the January prior to the start of each financial year) are compared to actual amounts generated (captured in the NNDR3 statistical return submitted in the July after the financial year has finished). The reconciliation reflects changes in occupation or differences between estimated and actual reliefs. The difference between the two impacts (i.e. a surplus or deficit) impacts on the following year's budget.
- **Changes to Business Rate retention policies – particularly taking part in a Business Rates Pool** – This enables pool participants to retain a greater percentage of Business Rates for the years that they take part in the pool. In Surrey, pool participation is dictated by the expected level of Business Rate growth. Whilst authorities can choose *not* to take part, they only qualify for inclusion if Business Rates growth indicates maximum gain for the county-area overall.

35. The announcements by the Chancellor on the 27th October included a new one-year Retail, Hospitality and Leisure relief and a freeze to the Business Rates multiplier in 2022/23, both of which will be compensated to TDC via a Section 31 grant as appropriate. The balance between Business Rates collected and s31 Grants from Government is currently very volatile because of Covid-19, as a result of which Government are funding additional wide-ranging national reliefs but compensating authorities with s31 grant. The balance will be reviewed for the Final Budget but will have a net-nil impact on funding.

36. Due the complex nature of Business Rates funding, and to mitigate fluctuations in funding, we currently budget only for the predictable element of Business Rates - the Central Government assessment that our baseline funding should be £1.459m.



37. The Council is a member of the Surrey Business Rates Pool for 2021/22 but did not qualify for 2022/23. For the 2021/22 Business Rates pool, there has currently been no assumption of benefit of the pool taken in setting the 2022/23 budget. This will be assessed again prior to finalising the 2022/23 budget.

### Grant Funding

38. The Draft Budget for 2022/23 has been formulated on the basis that both the Lower Services Tier grant and the New Homes Bonus funding continue in some form. An estimated £0.651m has been included in the budget on this basis. We are awaiting the confirmation in the Local Government Finance Settlement to determine the method of funding and the final allocation.

### Overall Funding

**Table 3: Overall anticipated funding for 2021/22 to 2023/24:**

	2021/22 £k	2022/23 £k	2023/24 £k
Council Tax	8,690	8,937	9,195
2020/21 Collection fund - 3 year spread	(32)	(22)	(22)
Collection fund		19	27
Business Rates (Incl Collection Fund deficit offset by s31 grants)	1,459	1,459	1,474
<u>Government Grants</u>			
New Homes Bonus	341	311	30
Lower Tier Grant	340	340	340
Covid-19	122	0	
Local Council Tax support	376	0	
Grant Funding	1,178	651	370
<b>Total Funding</b>	<b>11,295</b>	<b>11,044</b>	<b>11,044</b>

### Medium Term Financial Strategy and Outlook to 2023/24

39. Under normal circumstances, the Council would aspire to a three or five-year Medium-Term Financial Strategy, making clear the level of resource available to deliver priorities and core services. However, given significant uncertainty on the long-term effect of Covid-19, Government funding and reforms and an ambition to undertake a Council-wide improvement programme, the Draft Budget can only sensibly comment on the potential gap for 2022/23 and the following financial year.
40. Details of the 2022/23 funding position are set out above. It is anticipated that funding will stay broadly flat into 2023/24. This is based on an increase in Tax Base, a £5 increase in the Band D rate, offset by further reductions to Government funding.
41. The outlook for 2023/24 assumes further cost pressures (corporate and service) of £1.3m, including inflation, incremental minimum revenue provision and the requirement to replenish reserves and restore a sustainable level of contingency. Coupled with the savings identified to date, a gap of c£0.6m remains to be addressed for 2023/24. This will be tackled through Track 2 of the 'Twin Track' approach and the Council-wide transformation programme (Future Tandridge Programme).

	2022/23 £k	2023/24 £k
Corporate pressures	972	1,020
Service Pressures	286	260
Cost Pressures	1,258	1,280
Funding Pressures	251	0
Overall Pressures	1,509	1,280
Savings	(1,202)	(713)
Gap	307	567

## 2022/23 Service Pressures and Savings by Themes

## For the Council:

	Roll-over budget £k	Corporate & Funding Pressures * £k	Net Service Pressures £k	Savings * £k	Committee total £k
21/22 final Budget	11,295				11,295
Virements	0				0
21/22 updated Budget	11,295				11,295
Service Demands		183	178	0	361
People and Enabling services		245	72	(632)	(315)
Service Efficiency		0	0	(232)	(232)
Fees and Charges		0	36	(338)	(303)
Corporate items		545	0	0	545
22/23 draft net Budget	11,295	972	286	(1,202)	11,351
Funding Pressures	(11,295)	251	0	0	(11,044)
22/23 draft Budget	0	1,223	286	(1,202)	307

## By Committee:

Committee:	Community Services				
	Roll-over budget £k	Corporate & Funding Pressures * £k	Net Service £k	Savings * £k	Committee total £k
21/22 final Budget	4,888				4,888
Virements	(895)				(895)
21/22 updated Budget	3,993				3,993
Service Demands		0	48	0	48
People and Enabling services		0	(33)	0	(33)
Service Efficiency		0	0	(36)	(36)
Fees and Charges		0	71	(161)	(90)
Corporate items		0	0	0	0
22/23 draft Budget	3,993	0	86	(197)	3,882

Committee:	Housing GF				
	Roll-over budget £k	Corporate & Funding Pressures * £k	Net Service £k	Savings * £k	Committee total £k
21/22 final Budget	491				491
Virements	(22)				(22)
21/22 updated Budget	469				469
Service Demands		0	59	0	59
People and Enabling services		0	0	0	0
Service Efficiency		0	0	0	0
Fees and Charges		0	0	(10)	(10)
Corporate items		0	0	0	0
22/23 draft Budget	469	0	59	(10)	518

<b>Committee: Planning Policy</b>					
	Roll-over budget	Corporate & Funding Pressures *	Net Service	Savings *	Committee total
	£k	£k	£k	£k	£k
21/22 final Budget	1,052				1,052
Virements	133				133
21/22 updated Budget	1,185				1,185
Service Demands		0	40	0	40
People and Enabling services		0	0	0	0
Service Efficiency		0	0	0	0
Fees and Charges		0	(35)	0	(35)
Corporate items		0	0	0	0
22/23 draft Budget	1,185	0	5	0	1,190

<b>Committee: Strategy &amp; Resources</b>					
	Roll-over budget	Corporate & Funding Pressures *	Net Service	Savings *	Committee total
	£k	£k	£k	£k	£k
21/22 final Budget	5,765				5,765
Virements	573				573
21/22 updated Budget	6,338				6,338
Service Demands		(30)	31	0	1
People and Enabling services		0	105	(240)	(135)
Service Efficiency		0	0	(80)	(80)
Fees and Charges		0	0	0	0
Corporate items		0	0	0	0
22/23 draft Budget	6,338	(30)	136	(320)	6,124

<b>Committee: Corporate Items</b>					
	Roll-over budget	Corporate & Funding Pressures *	Net Service	Savings *	Committee total
	£k	£k	£k	£k	£k
21/22 final Budget	(901)				(901)
Virements	211				211
21/22 updated Budget	(690)				(690)
Service Demands		213	0	0	213
People and Enabling services		277	0	(391)	(114)
Service Efficiency		0	0	(116)	(116)
Fees and Charges		0	0	(167)	(167)
Corporate items		512	0	0	512
22/23 draft Budget	(690)	1,002	0	(675)	(363)

*Note: \* Staffing and inflation movements have been assigned to Corporate items. When the final budget has been finalised, these items will be distributed to the appropriate Committee. Also, there are some savings that require further clarification before being allocated and so are held in corporate items whilst the outline business plans are being drafted.*