

# **Resources and Performance Select Committee**

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## **Final Budget Summary D&B Engagement Central Income and Expenditure and Earmarked Reserves**

21<sup>st</sup> January 2021

# Final Budget Summary

## Final Budget Update

- 2021/22 Final Budget is now balanced
- **Final Budget of £1,003.6m**; an increase of £35.2m from 2020/21

## Summary Budget

	£m	£m
<b>2020/21 Budget:</b>		<b>968.4</b>
Pressures	£76.5m	
Efficiencies	(£41.2m)	
<b>Subtotal Changes</b>		<b>35.2</b>
<b>Total 2021/22 Budget</b>		<b>1,003.6</b>

# Reconciliation to Draft Budget

- Directorate position improved by £3.3m from Draft Budget
  - Pay reducing from 2.2% to pay-freeze with targeted increase for lower-paid employees
  - RPI/CPI assumption reducing from 2.5% to 1.5%
- Two additional reserve contributions for SEND (£9m) and CV-19 (£4.9m)
- Additional funding of £32m (refer next slide)

	Changes £m	Total £m
<b>Movement from Draft Budget</b>		
<b>Gap included in Draft Budget</b>		<b>18.3</b>
Increase to Public Health budget (met from addnl PH funding)	2.4	
Reduction in Directorate pressures (Mainly change in pay and inflation assumptions)	(2.8)	
Additional contribution to SEND reserve	9.0	
Additional CV-19 Reserve	4.9	
Additional Funding (see next slide)	(32.0)	
<b>Subtotal Changes</b>		<b>(18.3)</b>
<b>Remaining Gap</b>		<b>0.0</b>

# Additional Funding

Funding movement from Draft Budget	Changes £m	Total £m
Funding included in Draft Budget		971.6
Deterioration in assumed council tax base (*to be confirmed)	(1.0)	
Deterioration in assumed business rates income	(5.3)	
Updated collection fund loss assumptions (offset by business rate relief grant) (*to be confirmed)	(19.4)	
ASC Precept included at 0.5%	3.8	
Additional grant £59.1m (£56.4m CV-19 grants are one-off)		
- Social Care Grant increase	1.0	
- CV-19 expenditure grant	20.0	
- CV-19 local council tax support grant	8.6	
- CV-19 business rate relief grant	19.2	
- CV-19 75% share of irrecoverable collection fund losses (*to be confirmed)	3.4	
Minor changes to other grants	1.7	
Subtotal Changes		32.0
Funding included in Final Budget		1,003.6

\* Funding lines marked with an asterisk are subject to final confirmation of D&B tax base

# D&B Engagement: Council Tax, Business Rates and Collection Fund

## Background:

- SCC rely on District & Borough (D&B) estimates to set budget for council tax & business rates
- Monthly dialogue and data capture with D&Bs
- Expert advice from Pixel Funding Advisory Service
- **Council Tax Base** comprises:
  - actual number of Band D properties;
  - adjusted for Local Council Tax Support (LCTS); and
  - adjusted for expected collection rates (i.e. estimate of the % of households who will pay)
- LCTS adjustment worsens with Covid-19 as more households meet the local criteria
- Collection rate adjustment worsens with Covid-19 as D&Bs expect lower compliance
- **Business Rates Base** comprises:
  - rateable value for occupied properties; and
  - adjusted for reliefs
- National discretionary reliefs are compensated through Government “S31 grants”
- D&Bs have the ability to set local discretionary relief that directly impacts SCC share of retained rates

# D&B Engagement: Council Tax, Business Rates and Collection Fund

**Current provisional position on Collection Fund Deficit** (based on D&B estimates):

- **Improvement in Council tax** collection fund
- **Deterioration in business rates** collection fund (mainly offset by S31 grants)
- **Council Tax** - **Total loss £15.6m** (down from £32m in draft) **with £9.2m in 2021/22;**
  - remainder £6.4m spread equally in 2022/23 and 2023/24
- **Business Rates**- **Total loss £24.0m** (up from £5m in draft)
  - £19.2m retail and nursery reliefs covered by S31 relief grant;
  - £3.6m loss impacts in 2021/22
  - £1.3m remainder spread equally in 2022/23 and 2023/24

## **Council Tax & Business Rate Bases**

- **Council tax – 0.8% reduction in base** (from 0.7% in draft) **c.£1m less funding**
- **Business rates – 10% reduction** (from 1% in draft) **c.£5m less funding**
- Prudent assumptions – **actuals unavailable until after budget set**
- **£8.6m new grant funding** from Government to cover LCTS losses
- **Government commitment to cover 75% of irrecoverable losses** – methodology unclear
- Irrecoverable loss grant will depend on final D&B tax base numbers; e.g. a lower tax base loss would be offset by less grant

# Central Income and Expenditure

- This includes income and expenditure not distributed to Directorates but held corporately

Budget Line	2020/21 Budget £m	Move- ment £m	2021/22 Budget £m	Commentary
Redundancy provision	8.6		8.6	Funds redundancies from restructures
Transformation funding	7.5	2.5	10.0	Funds Transformation Programme Increase from removal of capital receipt funding
Feasibility Fund	5.0		5.0	Funds feasibility of Capital Programme
Interest payable	18.9	(0.6)	18.3	Interest rates on borrowing Reduction from lower interest rates
Minimum Revenue Provision (MRP)	16.1	3.2	19.3	Debt repayment budget Increase relating to 2020/21 capital spend
Interest and investment income	(21.9)	0.0	(21.9)	Primarily from Investment Properties
Corporate Charges and Levies	9.1	0.6	9.7	<i>Breakdown provided on next slide</i>
Contingency	20.4	0.0	20.4	Held for general unforeseen/unavoidable costs
DSG High Needs Block Reserve		9.0	9.0	Provision to increase the contribution to the High Needs Block Reserve to mitigate risks in delivering cost containment in CFLC
CV-19 Reserve		4.9	4.9	To mitigate potential Covid-19 pressures in excess of those included in Directorate envelopes
Total CI&E	63.7	19.6	83.2	

# Corporate Charges and Levies

- Various smaller amounts: £9.1m in 2020/21 rising to £9.7m in Final Budget

Corporate Charge / Levy	2020/21 Budget £m	Move-ment £m	2021/22 Budget £m	Commentary
Apprenticeship Levy	1.3		1.3	Covers the cost of the apprenticeship levy
Land Drainage Precept	1.1	0.0	1.1	Statutory payment to the Environment Agency; annual inflationary increases
Bank Charges	0.5		0.5	Covers costs of day-to-day banking and brokerage
Goods Receipt Clearing	(1.5)		(1.5)	Expected release of historic goods receipts not matched by invoices
Pension Primary and Secondary Contribution	9.7	(3.7)	6.0	Triennial pensions review for 2020/21 – 2022/23 released a reduction in pension contributions phased over the three-year period
Schools Academisation	0.5		0.5	Provision for reduced DSG grant expected to result from academy conversions
Empty Properties	0.0	2.0	2.0	Budget for scheme incentivising D&Bs to reduce the number of empty properties; estimated amount capped at council tax increases from changes to discounts / premiums for empty properties
Funding adjustment for Public Health	(2.4)	2.4	0	2020/21 budget reflects a virement from Central I&E to PH in 2020/21; changes are matched by increased PH Grant funding
<b>Total CI&amp;E</b>	<b>9.1</b>	<b>0.6</b>	<b>9.7</b>	



# Central Income and Expenditure – MTFS Projections

- Increased capital programme financing costs £38.6m over the MTFS from £35m to £73.6m linked to expansion of capital programme;
- Offset by efficiencies and income generated by a significant proportion of the programme

		2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Brought forward budget		63.7	83.2	87.4	94.6	103.4	

**Pressures**

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Pressure	Description	Net Pressure					
		2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Corporate Charges and Levies adjustments	Net adjustments on Corporate Charges, including Primary Pension Contribution rate and on the Environment Agency Levy	0.6					0.6
Capital Programme financing costs	Minimum Revenue Provision (MRP) and Interest Payable costs increasing over the MTFS period	2.6	9.1	7.2	8.8	10.9	38.6
Remove capital receipt funding for transformation	Transformation becomes fully-funded from revenue	2.5					2.5
DSG High Needs Block Reserve	Additional contribution to reserve to mitigate the risk of further overspend on the DSG High Needs Block	9.0					9.0
CV-19 Reserve	Creation of a reserve to mitigate the risk of further CV-19 financial impact, in addition to the amounts currently identified in Directorates	4.9	(4.9)				0.0
Total Pressures		19.6	4.2	7.2	8.8	10.9	50.7
Indicative Budget Requirement		83.2	87.4	94.6	103.4	114.3	

# Earmarked & General Fund Reserves

- **Total Earmarked Reserves £179.1m at 1<sup>st</sup> April 2020; forecast to increase to £186.5m by 31<sup>st</sup> March 2021. (*Refer to next slides for details*)**
- **Forecast increase in Reserves of £7.4m** relates to:
- **Budget Equalisation Reserve - £21.7m increase:**
  - **Movement** = 2020/21 unused contingency of £20.4m plus £1.4m repayment of ETI Street Lighting advance from 2019/20
- **Covid-19 Emergency Fund - £14.3m decrease:**
  - **T1 Government Funding** received in 2019/20 **£25.2m** (£0.9m used in 2019/20) = **£24.2m opening balance**
  - **T1 £24.2m withdrawn** from reserve **plus T2 & T3 of £28.2m** used to fund **budget resets of c£52.5m** in 2020/21
  - **£9.9m left in Reserve – T4** (£5.3m) plus first claim from the **Income Compensation Scheme** (£4.6m)
  - **Movement** = £24.2m use of opening balance offset by £9.9m T4 & ICS
- **General Fund Balance of £24.2m** (c.2.5% of Net Revenue Budget)
- No further planned use of Reserves in 2020/21 or in 2021/22

# Earmarked Reserves Detail (1)

Reserve	Description	Balance at 1 <sup>st</sup> April 2020 £m	Forecast Movement in 2020/21 £m	Forecast Balance at 31 <sup>st</sup> March 2021 £m
Budget Equalisation Reserve	<ul style="list-style-type: none"><li>• Supports future revenue budgets</li><li>• Created from unapplied income and budget carry forwards</li></ul>	44.4	21.7	66.1
Business Rate Appeals	<ul style="list-style-type: none"><li>• Covers potential liabilities to refund business rates in the event of successful appeals by ratepayers</li></ul>	28.6		28.6
Economic Prosperity	<ul style="list-style-type: none"><li>• Covers risk of erosion in tax base due to the impact of localisation of council tax benefit; and</li><li>• Provides for investment in the local economy</li></ul>	11.7		11.7
Revolving Investment and Infrastructure Fund	<ul style="list-style-type: none"><li>• Provides for revenue costs of infrastructure and investment initiatives that deliver efficiencies and income; and</li><li>• Mitigates volatility in investment income</li></ul>	11.1		11.1
Investment Renewals	<ul style="list-style-type: none"><li>• Funds loans to services for invest to save projects</li><li>• Repayment of loan tailored to business case</li><li>• Subject to robust challenge before approval</li></ul>	5.2		5.2

# Earmarked Reserves Detail (2)

Reserve	Description	Balance at 1 <sup>st</sup> April 2020 £m	Forecast Movement in 2020/21 £m	Forecast Balance at 31 <sup>st</sup> March 2021 £m
Insurance	<ul style="list-style-type: none"><li>• Holds balances from temporary surpluses or deficits on self-insurance</li><li>• Assessed by actuary for coverage of insurance liabilities</li><li>• Includes £4.2m to cover potential losses from the failure of Municipal Mutual Insurance (MMI) in 1992</li><li>• MMI had limited funds to meet its liabilities</li><li>• Future claims against policy years covered by MMI may not be fully paid</li></ul>	10.7		10.7
Capital Investment Reserve	<ul style="list-style-type: none"><li>• Funds revenue costs to pump-prime capital investment</li></ul>	5.0		5.0
Eco Park Sinking Fund	<ul style="list-style-type: none"><li>• Smooths the impact of distribution of the contract costs and re-profiling of the PFI credits</li></ul>	27.7		27.7
Equipment Replacement	<ul style="list-style-type: none"><li>• Set aside to meet replacement costs of large equipment items</li><li>• Annual contributions to the reserve and withdrawals to fund purchase</li><li>• Reserve being phased out to ensure consistency in the application of revenue funds for capital across the Council</li></ul>	3.9		3.9

# Earmarked Reserves Detail (3)

Reserve	Description	Balance at 1 <sup>st</sup> April 2020 £m	Forecast Movement in 2020/21 £m	Forecast Balance at 31 <sup>st</sup> March 2021 £m
Street Lighting PFI Fund	<ul style="list-style-type: none"><li>Holds the balance of the street lighting PFI grant income</li><li>Balance used in future years when expenditure will exceed grant income</li></ul>	2.5		2.5
Transformation Reserve	<ul style="list-style-type: none"><li>Pump primes projects that require up-front expenditure to deliver service re-design</li></ul>	1.8		1.8
Interest Rate Reserve	<ul style="list-style-type: none"><li>Funds borrowing costs in the event of temporary unexpected changes in interest rates</li></ul>	1.0		1.0
CFLC Inspection and System Improvements	<ul style="list-style-type: none"><li>For costs in preparation for the OFSTED re-inspection; and</li><li>Review / renewal of the monitoring and recording case system for children’s social care</li></ul>	1.3		1.3
Covid-19 Emergency Fund	<ul style="list-style-type: none"><li>Un-ringfenced Government grant to support SCC for extra costs associated with the Covid-19 pandemic</li></ul>	24.2	(14.3)	9.9
<b>Total Earmarked Reserves</b>		<b>179.1</b>	<b>7.4</b>	<b>186.5</b>

# Engagement and consultation

- Proposals in the budget report are based on significant engagement with residents, partners and businesses over the last two years. This includes engagement with residents over the summer to understand the impact of Covid-19 and their future priorities for the Council:
  - Statistically significant temperature check survey with approximately 2,200 Surrey residents looking at behaviours, attitudes and opinions during the period of the pandemic
  - Comprehensive [Community Impact Assessment](#) (CIA) to fully understand the initial impact of Covid-19 on Surrey’s communities, particularly for vulnerable populations and places

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- Building on the research undertaken during the summer to understand resident’s current concerns and priorities for the future:
- The Leader and Chief Executive held virtual resident roadshows in December to share details about the budget and listen to residents about their priorities
  - Engaged with residents and local partners such as Districts and Borough Councils, Health, Police and the voluntary, community faith sector (VCFS) organisations to discuss the draft budget
  - An online budget survey for residents was conducted which asked for their views on whether the Council should maintain, increase, or decrease budgets across a range of service areas (due to the small number of respondents (213) the findings are to be considered alongside the wider sources of resident insight the Council has collected)

**Insight from this engagement informs a robust evidence base underpinning the Organisation Strategy and MTFs. Further details of the results are in Section 10 of the Budget Report (appended)**