DRAFT GENERAL FUND BUDGET 2021-22

Executive Summary

This report represents the initial stage in the business planning process of the Council.

The 2020/21 financial position has been significantly impacted by the Covid pandemic. There has been considerable cost incurred in responding initially to the National Lockdown and subsequently in preparing for the gradual reopening of the Borough during the summer. Of even greater value has been the loss of revenues in particular from car parking charges and commercial rents.

The government has provided funding in tranches towards the cost pressures and has introduced an income compensation scheme for lost fees and charges. However, neither will fully cover the Council's costs and commercial revenues are not covered by the compensation scheme.

The report incorporates known service variations for 2021/22, assesses the impact of the Covid-19 pandemic, and indicates budget risks and pressures both for 2021/22 and over the period of the Medium Term Financial Strategy (MTFS).

The summary shows that a use of reserves of almost £12m may be required to offset the assumed irrecoverable commercial rents and other income in 2021/22. This is in addition to circa £10m losses expected in 2020/21.

Government support has currently only considered 2020/21, with no commitment going forward. It is hoped that the financial support provided in 2020/21 will continue in a similar way into 2021/22 however this is not certain. The draft budget has been prepared on the basis of current forecast income levels which in many cases have been severely reduced due to the pandemic. No further allowance has been made for additional Covid-related costs. The budget therefore reflects the financial position likely in a gradual economic recovery.

Whilst the Council had substantial reserves set aside prior to the pandemic, these are not sufficient to cover a sustained reduction in income across all of the Council's commercial estate. It is recommended that the Council request permission from the government to spread these losses over a longer period, recognising that the current circumstances are a once in a generation situation and the impact should not be borne solely by the current taxpayer.

Without the flexibility to manage these Covid-related losses, the Council would need to prepare to reduce service expenditure. A budget cannot be set for 2021/22 without addressing the known or assumed income losses, and use of reserves, if it makes the forecast for future years unsustainable.

The draft budget will continue to be refined, assumptions challenged, and more detailed assessments made where further information is required. Any updates as a result of the Local Government Finance Settlement, when available, will also be incorporated in the projections. The draft budget will form the basis for further consideration by Managers, Corporate Management Group and Portfolio Holders ahead of approving the final budget and Council Tax in February 2021.

Recommendations

The Executive is requested to:

RESOLVE That

(i) the draft General Fund Budget for 2021/22 be received;

(ii) Managers, Corporate Management Group and Portfolio Holders continue detailed budget preparation to secure savings for consideration by the Executive in February 2021; and

(iii) the Finance Director seeks confirmation from the government of continued funding to cover the impact of the pandemic into 2021/22 and requests permission to spread losses on commercial and unfunded service income experienced in 2020/21-2022/23 over 50 years through use of a Capitalisation Direction.

Reasons for Decision

Reason: Consideration of these proposals will enable the preparation of the Council's budgets for 2021/22 to proceed.

The Executive has the authority to determine the recommendation(s) set out above.

Background Papers: None.

Reporting Person: Leigh Clarke, Finance Director
Email: leigh.clarke@woking.gov.uk, Extn: 3277

Contact Person: Neil Haskell, Business Support Manager
Email: neil.haskell@woking.gov.uk, Extn: 3246

Portfolio Holder: Councillor Simon Ashall
Email: cllrsimon.ashall@woking.gov.uk

Shadow Portfolio Holder: Councillor Deborah Hughes
Email: cllrdeborah.hughes@woking.gov.uk

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1.0 Introduction

1.1 This report represents an initial stage in the business planning process of the Council's draft General Fund budget for 2021/22.

1.2 The Council's financial strategy is to achieve a balanced budget over the MTFS period that is consistent with:

- maintaining the level of Council services;
- ensuring value for money in all of the Council's services; and
- maintaining the Council's assets in a good state of repair.

1.3 Due to the Covid-19 pandemic in this year, judgements have had to be made around the recoverability of amounts due to the Council, the likely level of activity of revenue generating services, and continuing government support.

1.4 The draft revenue budget has been prepared in accordance with the previous strategic approach but in 2021/22 provides specifically for:

Strategic Budget Approach	**Specific Approach 2021/22 Draft Budget**
Inflationary increases limited to those elements which carry a contractual/ unavoidable obligation to adjust by inflation;	Estimate of contractual inflation included
The revenue impact of new investments be limited to a sustainable increase in accordance with the provisions of the Prudential Code;	Borrowing and revenue funded Investment Programme limited to committed and income generating projects
Additional spend agreed by the Executive for inclusion in the draft budget;	Additional spend not funded at this time in draft budget
To propose fees and charges to optimise the income yield;	Draft budget adjusted to reflect forecast activity
Review of the Investment Programme to continue; and The programme to identify further efficiency savings to continue	Identify further revenue and project spend which can be postponed. Commence government engagement on financial forecasts and support.

1.5 This report considers the following:

- The Covid-19 Pandemic
- General Economic Environment
- Government funding and policy
- Budget approach
- Management and Administration 2021/22
- Fees and Charges 2021/22
- Contractual Inflation
- Service Plans
- Pension Costs
- Service issues, budget pressures and risks
- Investment Programme and Treasury Management
- Medium Term Financial Strategy (MTFS)
- Revenue Reserves

- Approach to developing the MTFS

2.0 Covid-19 Pandemic and 2020/21 forecast

2.1 The Covid-19 pandemic has created immense uncertainty for local government finances. The budget for 2020/21 was approved in February before it became clear the impact that the pandemic would have. Consideration of the Medium Term Financial Strategy (MTFS) was deferred from March 2020 as it became apparent that the future would be very different from expectations. This report includes revised forecasts based on the first half of 2020/21.

2.2 The financial impact in 2020/21 has been across a number of areas of the Council's budgets:

- Revenue expenditure in dealing with the response
- Some savings as activities have slowed down
- Income loss from fees and charges and commercial rents
- Government support grants
- Cost and timing of capital projects

2.3 Even with the position for the first half of the year known it remains very difficult to forecast for rest of the year as the course of the pandemic and the economic consequences continue to evolve. The most significant areas of income and expenditure are set out in the sections below.

<u>Housing</u>

2.4 The Council secured the Woking Travelodge for temporary housing at the beginning of the crisis. The Woking Hotel was also used, together with the HG Wells centre which was adapted using pods to provide further accommodation. There were also additional costs for food and security. Some of these costs have been covered by income from other authorities, and businesses in need of accommodation, and by benefits payments. The current forecast for the year is a net cost of circa £903,000, a successful bid resulted in £275,000 grant income awarded towards these costs.

<u>Leisure</u>

2.5 From March 2020 the Council has provided support to Freedom Leisure as the business was initially closed completely, gradually re-opened and has had to close again in November. The Council originally also paid Freedom staffing costs, using the staff to assist in the response to the crisis and to complete welfare calls which cost £546,000 over the period to July. Support towards operational costs, including mobilisation costs in August and the impact of the further lockdown for the month of November are forecast cost to be £801,000.

<u>Other</u>

2.6 To ensure all within the Borough's diverse communities, especially hard to reach groups such as the elderly, vulnerable and disadvantaged, had access to important key messages from a range of public bodies, as well as positive community-led news, for 3 months the Council supported the Woking News and Mail and facilitated the weekly delivery of a free copy to every property in the Borough. The Council covered the print £63,000 and delivery costs, £75,000.

2.7 Since 13 April until the end of June 2020, the partnership delivered a weekly 16-page newspaper to all households in the Borough and parts of the neighbouring borough that mirrors the newspaper's circulation area by Royal Mail's door-to-door delivery service. That's around 48,500 properties each week.

2.8 IT improvements have been required in the form of additional equipment to enable staff to work from home, and Zoom licenses to enable virtual meetings.

2.9 Other costs incurred include Personal Protective Equipment (PPE), sanitiser and communications materials. There has also been some expenditure on equipment and adaptations in Council properties.

Savings

2.10 Some activities, for example the Celebrate Woking programme of events, have slowed down. The extent of this is currently being established to ensure cost variations are savings and not a rescheduling of expenditure.

Income loss

2.11 The government launched an income compensation scheme in August with the first claim being submitted by the end of September covering the period to 31 July 2020. This scheme requires local authorities to fund an initial 5% reduction in income, but losses in excess of this will be funded at 75% of the loss by the government. Associated cost savings have to be identified and offset from the amount claimed. The scheme covers service income but not income generated through commercial activities such as commercial rents.

2.12 A claim has been prepared which covers Off and On Street Car Parking and the Freedom Leisure management fee. In total, a request for government funding of £2.1m. Future claims will be made in December 2020 and April 2021 to cover the remainder of the year.

2.13 Other service income losses may be included in future returns if budgeted income becomes irrecoverable during the year.

Commercial Rents

2.14 The most significant area of income for the Council is Commercial Rents. This is not covered by the government income compensation scheme. Over 68% of commercial tenants are paying rent and service charge on time and require no assistance. A further 11% have agreed to the Council's proposed terms for recovery of amounts owed or agreed revised terms, and 17% are in discussions with the Council. 4% have not responded to requests to engage, many of these are in the retail and hospitality sectors. Work continues with tenants to agree acceptable strategies.

2.15 Of the £21m commercial rent budget, £10m has been received to date for the first three quarters of the year. £5m is expected in quarter 4 and arrangements have been made with tenants to recover a further £1m over 2020/21 and 2021/22. There remains a balance of £5m commercial rents and service charges not paid which may not be recovered.

2.16 There remains significant uncertainty around the potential losses for 2020/21. Some of the remaining discussions may be near to being resolved, others may be requesting significant further assistance. In addition some of those where strategies have been agreed may not keep to agreements as the environment changes over the coming months.

2.17 The Coronavirus Act 2020 includes provisions to protect commercial tenants by not allowing landlords to forfeit leases and re-enter premises where tenants have failed to pay rent. Initially landlords were unable to secure possession of premises until 30 June 2020, however this has been extended to 31 December and could be extended further. A number of tenants have not paid despite their business continuing, and are protected under the current arrangements.

Government Support

2.18 The Government has provided support in the form of grant funding. The Council has been awarded the following funding over 4 tranches since the beginning of the crisis.

Local Authority	First Tranche of Covid-19 Funding (March)	Second Tranche of Covid-19 Funding (April)	Third Tranche of Covid-19 Funding[2] (July)	Fourth Tranche of Covid-19 Funding (October)	Total Covid-19 Additional Funding
Woking	£37,595	£998,732	£143,214	£139,758.00	£1,319,299

2.19 The Council has recently been awarded a further £380,000 revenue grant funding towards rough sleeper costs for 2020/21. Of this £275,000 can be allocated towards the Council's forecast housing costs, and £105,000 will fund additional expenditure/resource, some of which through the York Road Project.

2.20 The government has committed to additional 'New Burdens' funding to cover the Council's costs of new requirements such as administration of the Business Grants. Generally it has been possible to meet these requirements using existing resources.

2.21 The Council has been allocated £89k from the Reopening the High Street fund. This should cover some of the costs of changes in the town centre. Further specific grants have been allocated, either directly or through Surrey County Council, for Local Authority Emergency Assistance (foodbanks) £56k, Environmental Health support £79k, and £40k Covid Marshalls. All of these have associated direct expenditure so are not reflected in the summary below.

<u>Summary</u>

2.22 The following table sets out the overall impact. This will need to be further reviewed to fully reflect the impact of the further National restrictions announced on 31 October.

Forecast Covid-19 Outturn - 2020/21

	Loss to 30 Sept £'000	Loss Oct-Mar £'000	Total £'000
Costs			
Commercial Rents	3,873	3,873	7,745
Car Parks	2,937	2,623	5,560
Housing	507	396	903
Leisure	1,133	214	1,347
Leisure mgt fee	402	402	804
Woking News and Mail	138		138
Marketing/Sanitiser/PPE etc	87	15	102
Housing - cleaning, food, equip	44		44
Services covid spend	88		88
	9,209	7,523	16,731
Income			
General Support Grant	-1,180	-140	-1,320
Income compensation claim	-2,100	-2,100	-4,200
New Burdens Funding	-160		-160
Housing Grant	-275		-275
Leisure Grant (TBC)			
	-3,715	-2,240	-5,955
	5,494	**5,283**	**10,776**

2.23 The impact of this forecast 2020/21 deficit is significant. Whilst the Council holds reserves to mitigate the potential impact of a reduction in income, the current environment, with almost all industry affected, is unprecedented. The loss, and a similar loss in 2021/22 could be met by available reserves however, this would leave very few reserves to be able to manage 2022/23. It is unlikely that the current crisis, and the resultant economic consequences will recover in the short term, and the Council's reserves may therefore be needed for some time.

2.24 Section 13 to 15 set out more detail on the Council's reserves and the Medium Term Financial Strategy. It is proposed that the Council requests permission to capitalise commercial income losses, and unfunded lost service income, and spread these over the long term. This reflects the 'once in a lifetime' nature of the current crisis which should not be met solely by the current taxpayer through an immediate reduction in service support at this most difficult time.

Covid beyond 2020/21

2.25 The position keeps evolving with the cases again rising this autumn. Government policy again, recommended working from home where possible, which was followed by the further lockdown announced on 31 October. This will continue to reduce footfall within the town, custom to local business and parking in car parks.

2.26 The government have not committed to any funding into next year, but it is reasonable to assume that the government will continue to support the local government sector to support their local communities. It is not clear, however, how long the government will provide compensation for lost income if there is a prolonged period of reduced social activity or a permanent move away from office working.

3.0 General Economic Environment

3.1 As well as the global pandemic, the UK is also facing the imminent departure from the EU with the future relationship still not resolved.

3.2 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. The UK economy was particularly vulnerable to the impact of the lockdown as it is heavily skewed towards consumer-facing services. There was a 23% fall in UK GDP in the first half of 2020, one of the largest falls in output of any developed nation.

3.3 Potential vaccines offer hope however the second national lockdown from 5th November to 2nd December will obviously put back economic recovery and do further damage to the economy. A recovery may also be affected by what, if any, deal the UK agrees as part of Brexit.

3.4 The Bank of England's Monetary Policy Committee kept the Bank Rate unchanged on the 5th November. Interest rate forecasts are provided by the Council's Treasury Advisors and they are predicting no increase in the Bank Rate until up to March 2024.

3.5 CPI inflation is predicted to be a bit above its 2% target by the start of 2023. However the Treasury Advisors do not think inflation will pose a threat requiring increases in the Bank Rate as there is likely to be spare capacity in the economy for a considerable time.

3.6 However the global pandemic and subsequent lockdowns has been an unprecedented event. There is great uncertainty around economic forecasts and the pace and timing of a potential recovery.

4.0 Government Funding and policy

4.1 It has been confirmed that the government spending review, which sets budgets for each government department, will be limited to one year as a result of the pandemic and will be announced at the end of November.

4.2 There will also be a further delay in all the proposed reforms to Local Government funding. A new system of government funding had been due to be implemented for 2020/21. This would include a review of Fair Funding (where resources should be allocated) and a review of the Business Rates system (the mechanics of how income is distributed and to what extent any growth is retained).

4.3 Currently there has been no information on the level of funding for 2021/22 and it is possible that the sector may not hear for some weeks given the other priorities for government at this time.

<u>Baseline Core Government Funding</u>

4.4 2019/20 was the last year of the four year settlement offer announced by the government in February 2016. There was a one-year spending round to set departmental budgets for 2020/21. Core funding comprises Revenue Support Grant (RSG) and Redistributed Business Rates. The Council has received no RSG since 2016/17 and the possibility of 'negative RSG' has been a threat since 2019/20 although the implementation has been deferred each year since then.

4.5 It is assumed that any reduction in funding is again deferred and not introduced during the pandemic. For the purposes of the draft budget, Redistributed Business Rates is assumed at the same level as for 2020/21.

Business Rates

4.6 During 2020/21 the government has awarded Business Rates relief to all businesses in the direct Retail, Leisure and Hospitality sectors as well as extended relief for small businesses and nurseries. The Council is funded through section 31 grants for the relief granted to businesses. This means the business rates being collected in 2020/21 is much less than expected at the beginning of the year, as shown below.

	£m	
Business Rates forecast collectable (January 2020)	47.98	100%
Covid reliefs (Expanded Retail and nursery)	-19.63	41%
Remaining Business Rates to collect	28.35	59%

4.7 The remaining £28.35m collectable business rates is more likely to be in those sectors less directly affected by the pandemic. However it is clear that almost all businesses have been affected to some extent. Collection rates are reported each month in the Green Book and are currently below average for the time of year. 52% had been collected to the end of September, compared 58% last year. However many businesses were allowed to defer payments in April and May until later in the year. In addition arrangements have been agreed with businesses experiencing difficulty in meeting scheduled payments.

4.8 The Council is a member of the Surrey Business Rates Pool in 2020/21. This means that the Council operates with other members of the pool, retaining locally a greater proportion of income collected in excess of baseline levels, but also protected as a group from losses. LG Futures reviewed the position of the pool during the summer and advised that the pool remained beneficial.

4.9 It is proposed that Surrey will again apply to operate a pool in 2021/22, however, Woking was not one of the ‘best placed’ Districts to be included this year. Given the uncertainty of any support arrangements and the continued difficult economic environment for businesses, being outside of any pooling arrangements and therefore being protected individually by the government safety net provides more stability for the Council. The maximum exposure to business rates income is therefore circa £165,000, the reduction compared to baseline, before the safety net applies. The budget also includes a further £200,000 assumed benefit from current or historic pooling surpluses which may not be achieved in-year.

4.10 As well as Business Rates collected, the Council also pays Business Rates on its own properties. The Council’s draft budgets have been adjusted for assumed inflation and changes in the Council’s assets. This will be further reviewed for the final budget in February, in particular if the Business Rates charge is likely to become payable by the Council due to vacant properties.

New Homes Bonus (NHB)

4.1 The New Homes Bonus (NHB) scheme match funds the additional Council tax for each new home and property in the Borough, above a baseline level, for four years after that home is built or brought back into use.

4.2 The government has been phasing out New Homes Bonus and in February 2020 set out the proposed approach for 2021/22. It is therefore assumed that just the legacy payments will be received, to the value of £275,000, consistent with this approach. Of this, £200,000 is used in-year and £75,000 is transferred to reserve.

4.3 There has been no indication of future funding through a replacement scheme, so from 2022/23 no further contribution is assumed from NHB. This is a considerable reduction in funding from a total of over £2m in 2016/17. New Homes Bonus has been used to repay the funds loaned by Enterprise M3 towards the Sheerwater Access Road project and supported investment in Brookwood Cemetery.

Council Tax

4.4 Council Tax recovery is likely to be affected by the Covid-19 pandemic in both 2020/21 and 2021/22. Where residents were experiencing difficulty in paying their Council Tax in April and May 2020 the Council allowed instalments to be deferred to start in June 20. Recovery action was also suspended until the summer. The revised timing of income compared to previous years, together with the unknown impact of the second half of the year make it difficult to establish forecast income with confidence. However, based on income to 31 October 2020, it is likely that the outturn will be between 2% and 5% (£200k - £500k) less than assumed in the base budget. A deficit of £300k is assumed in the draft budget for 2021/22.

4.5 The government is allowing additional flexibility to spread Council Tax and Business Rates deficits for 2020/21 over 3 years. The draft budget assumes that the forecast loss in 2020/21 will be met by the 2021/22 budget. This would enable the element of the loss relating to Surrey County Council (74%) and Surrey Police and Crime Commissioner (13%) to be recovered in 2021/22. Recently published regulations require spreading of losses, so this assumption will updated for the final budget.

4.6 The government has not yet indicated the referendum limit for Council Tax increases in 2021/22. It is assumed that the limits for District Councils will remain unchanged from 2020/21 at the higher of 2% or £5.

4.7 The draft budget assumes an increase in Council Tax of £5, which equates to 2.04%. In calculating settlement allocations the government include the resources available to each Council assuming that this increase is taken irrespective of the actual Council Tax decision. It is therefore critical that the Council continues to maintain its Council Tax base income.

Taxbase

4.8 The Taxbase is the number of equivalent Band D properties which will generate Council Tax income for the Council in the year. It is calculated based on current Council Tax data adjusted for relevant discounts, expected changes in property numbers, and bad debt assumptions.

4.9 The draft Tax Base for 2021/22 in the draft budget is a 3% reduction, which incorporates a 2% increase in irrecoverable tax due. This assumption will be reviewed in more detail for the final budget.

Local Council Tax Support Scheme

4.10 The Local Council Tax Support (LCTS) scheme was introduced in 2013/14. The scheme was aimed at not causing severe financial hardship on Council Tax charge payers on low incomes and to not cause an adverse effect on the Council's income from unpaid charges.

4.11 LCTS reduces the Council's taxbase so increases in claims will result in a reduction in Council Tax income. In April 2020 the government provided an additional £505k grant to the Council to provide assistance with Council Tax for LCTS claimants reducing bills by at least £150. Of this Hardship funding, 74% has been allocated to date through awarding up to a maximum of £300 to each LCTS claimant.

4.12 The table below shows the increase in claimants during the year. New claimants are also eligible for hardship funding. If funds allow later in the year, further payments may be made to utilise the government grant.

Local Council Tax Support

Cases March 2020	2,358
Cases October 2020	2,624
Increase	266
Increase (%)	11%

Long term Empty Properties

4.13 To encourage the return of empty homes into use, the Council has increased the premium rate for long term empty properties in line with flexibility introduced by legislation in 2018/19. As previously agreed by the Council, properties empty for over 10 years will be charged at 00% from April 2021.

4.14 Surrey County Council (SCC) have indicated that the additional SCC element of the Council Tax will be transferred back to Woking as the billing authority to be allocated to projects which are agreed priorities. The potential income which could be claimed from SCC is calculated at £135,000 for changes implemented during the period from 1 April 2019 to 31 October 2020.

5.0 Approach to preparing the draft 2021/22 budget

Monitoring 2020/21 Budget

5.1 As set out in section 2, the most significant variations in 2020/21 have been a result of the Covid-19 pandemic. There have been a number of other normal 'service' variations which will be incorporated into future Green Book monitoring, but can currently be met within the budgeted contingency.

5.2 Permanent variations to budgets identified through in year monitoring are incorporated in the draft budget where appropriate. The position will continue to be reviewed over the next 2 months and the 2021/22 budget adjusted as appropriate.

2021/22 Draft Budget

5.3 The 2021/22 budget is being prepared amid significant uncertainty around how the pandemic will progress, the government response, the economic impact and how any support will continue.

5.4 For the purposes of the budget it is assumed that any continuing direct costs of responding to the ongoing pandemic will be met by the government. However, no further support is assumed for the economic impact of the crisis. This covers both commercial income and operational losses from forecast reductions in car parking. It is also assumed that for the first 6 months of the year, Freedom Leisure will not be in a position to pay the management fee.

5.5 For most service expenditure, the draft revenue budget for 2021/22 is based on the 2020/21 approved budget adjusted as set out in the following sections. Currently no reduction in services is incorporated. The summary 2021/22 Budget position is shown in Appendix 1, with an analysis of the service budget changes compared to the 2020/21 budget provided in Appendix 2.

5.6 The table below summarises the changes compared to the 2020/21 budget and shows a required increase in use of reserves to balance to an acceptable increase in Council Tax.

Budget variation 2020/21 to 2021/22	£'000
Investment Programme	1,762
Income from new properties - Goldsworth Park & Kestrel Way	-1,095
Increase in service spend - Covid	8,633
Increase in service spend - Other (mostly commercial rents)	1,756
Change in New Homes Bonus assumed in base budget	200
2020/21 Council Tax deficit	300
Decrease in taxbase	304
Increase in Council Tax/decrease in Collection fund surplus	-217
Additional use of reserves required in 2021/22	11,642

5.7 Given the forecast losses from commercial and service income streams in 2021/22, it is necessary to review all services to seek both ongoing savings, and further deferral of non-essential expenditure.

5.8 It is unlikely that it will be possible to achieve the level of savings required without considerable service reduction. The current economic climate could just be a temporary situation with a return to previous levels of income in future years, albeit taking time to re-establish. The draft budget currently assumes that revenue reserves are used to cover projected losses.

5.9 Detailed work still needs to be completed in several areas where estimated figures have been included and to reflect the developing view on the financial position for 2021/22. There will need to be a comprehensive review of budget assumptions in particular around the recoverability of commercial property income and costs of vacant properties.

5.10 The Council has been able to maintain and enhance services over a period of national austerity, and through a time of significant government funding reductions, by developing a commercial strategy to replace lost income. The current crisis puts a proportion of that income, together with underlying service income, at risk. Significant service expenditure reduction at this time would be damaging to the local community and may not be necessary in the long term. A strategy which minimises reductions in service expenditure will be sought if possible.

5.11 Further commentary on the key budget approach and assumptions is provided in following sections.

6.0 Management and Administration

6.1 Staffing is currently controlled through two measures – the number of Full Time Equivalent (FTE) staff employed and the cost including overheads of employing them. The levels were set for 2020/21 at 365 FTE and £15,690,000.

6.2 During the summer of 2020/21 Senior Managers and Corporate Management Group reviewed staffing levels and agreed the removal of a number of posts from the establishment to secure savings in response to the financial position. These savings have been reflected as an in-year budget variation and are reflected in the 2021/22 base salary budget.

6.3 Other variations are as set out in the table below which reflects known pressures and significant changes in the staffing budgets. This includes reduction in staffing due to the closure of the HG Wells Centre but also a reduction in existing posts which can be allocated to projects and instead must be met by revenue budgets.

Pressures on staffing budgets	£'000
2020/21 savings target built into base budget	468
Further cost of pay progression and allowances 2020/21	353
New posts and structure changes 2020/21	169
People Restructure	115
HG Wells closure	-287
Reduction in investment programme funding	327
Remove posts per salary review approved CMG July 2020	-641
Add new posts externally funded	168
Changes in funding	-299
Pressure on staffing control total	371

6.4 The Medium Term Financial Strategy assumes an annual £400,000 increase in the staffing costs. This represents approximately 2.5% of the salary budgets. However, in the current financial environment no allowance will be made for pay increases in 2021/22.

6.5 The 2020/21 budget included a £468,000 'vacancy target'. It is proposed that the control total be reduced by £100,000 for 2021/22 which would require a similar 'deflation' of total staffing costs to keep within the budget. As with other budgets it will be necessary to further review staffing budgets to identify options to reduce the control total for 2021/22.

6.6 The budget tracks those posts which are funded by Council Tax and the Housing Revenue Account. It is net of any posts which are funded externally or by Investment Programme projects. The table below shows the trend in the total staffing budget.

Year	Budget (in cash terms) £m	Average Number of FTE Staff
2014/15	12.400	345
2015/16	12.500	345
2016/17	12.600	335
2017/18	13.000	335
2018/19	13.575	340
2019/20	14.360	350
2020/21	15.690	365
2020/21 (in-year variation)	15.041	358
2021/22 (draft budget)	14.941	343

6.7 Accounting rules require that these costs are allocated out to individual services to show the full cost of the service. Allocations will be reviewed where there have been changes in the team structures and where activity covers both HRA and General Fund functions. This may affect the proportion of costs covered by Council Tax/rents for 2020/21.

6.8 Those posts which are capitalised or funded from Investment Programme budgets are categorised as externally funded. Only posts directly working on projects are allocated, this position will continue to be reviewed including the opportunity to fund wider staffing costs from project budgets. For the base 2021/22 budget a number of previously project funded posts will be funded from revenue.

6.9 No allowance has been made for increases to Members Allowances for 2021/22.

7.0 Fees and Charges 2020/21

7.1 Elsewhere on this agenda is a report on the proposed Fees and Charges for 2021/22. The General Fund base budget for 2021/22 in Appendix 1 incorporates the forecast changes in charges and activity in this report.

7.2 There is a £3m reduction in forecast income from car parking in 2021/22 as the impact of the pandemic, economic downturn and changing working practices affect parking numbers. This is shown separately on the variations schedule in Appendix 2.

7.3 Other Fees and Charges are expected to contribute an increase in income of £137,000 to the 2021/22 budget. Not all the income from Fees and Charges has a direct impact on the General Fund budget. Changes to the income from Controlled Parking Zones for example would be credited to the Parking Account. In addition increases in some service income will result in associated increases in costs e.g. Community Meals.

7.4 The Local Land Charges service is expected to be transferred to the Land Registry during 2021/22, income from this service is therefore removed from the base budget from 2021/22.

8.0 Contractual Inflation

8.1 Negotiations are undertaken with suppliers to minimise the impact of inflation on the Council's costs wherever possible. Provision has been included in the draft budget allowing for instances where it is impossible to avoid an increase.

9.0 Service Plans

9.1 The focus of many Council services have been directed at responding to the Coronavirus pandemic during 2020/21, and service developments and objectives will have been temporarily postponed as resources are reallocated.

9.2 New Service Plans will not be prepared for 2021/22, instead it will be taken that the 2020/21 objectives remain as targets to be worked towards when possible. The 2020/21 Service Plans continue to reflect the Council's ambitions, however it will be necessary to consider priorities for future updates. Service Plans will need to reflect the new environment, both environmental and financial, once the immediate crisis has passed.

9.3 Performance management and some elements of the financial monitoring information continues to be reported in the Green Book on a monthly basis. Future financial reporting will include the overall financial forecast for 2021/22 including the specific impact of Covid as set out earlier in this report.

10.0 Pension Costs

10.1 The triennial actuarial review of the pension fund was completed for the position of the fund at 31 March 2019 and set the employer's on going pension costs, and annual lump sum payment towards the pension fund deficit, for 2020/21 to 2022/23. A £60,000 increase in the lump sum funding is included for 2021/22 as part of the agreed approach.

11.0 Service issues, Budget Pressures and Risks

<u>Commercial Income</u>

11.1 Over recent years the Council has acquired a number of strategic properties within the Borough across a variety of property types and sectors. In many cases the properties have been enhanced or developed to attract employers or services to the Borough.

11.2 In 2021/22 new rental income is incorporated from Goldsworth Park Shopping Centre and from the new Industrial Units created at Kestrel Way. The additional rental income from properties acquired during the year is shown in the services variations (Appendix 2) whilst the financing costs are in the interest budget for 2021/22.

11.3 Budget reductions in rental income reflect agreed leases and current vacant space across the a number of properties including Wolsey Place, Midas House, the Red House and the Triangle Site which is now part of the HIF development.

11.4 The current crisis has affected almost all businesses. The National lockdown in March required businesses to close to the public, and staff to work at home. Even as restrictions were relaxed, social distancing requirements have meant that business has been very different. A second lockdown for November in the run up to Christmas will increase difficulties for a number of tenants, particularly the retail and hospitality sectors.

11.5 The Council's commercial income has been affected by non-payment of rents during 2020/21. As the pandemic continues, many businesses will have used reserves to survive. Some have adapted their business models and have been able to continue to trade. Others may not have been in a strong financial position to start with or have found that the restrictions undermine their entire business and it's possible that they may not be able to continue until the pandemic is over.

11.6 To reflect the risk to commercial income across the whole property portfolio a further allowance for irrecoverable rents and service charges of £5m has been incorporated into the draft 2021/22 budget. This is based on 2020/21 expected defaults and deferred income. The level of this provision will continue to be considered ahead of finalising the budget in February, in particular assessing known changes to tenants, any agreed changes to rental levels and income received at the December rental quarter.

<u>Leisure</u>

11.7 The Council's leisure provider, Freedom Leisure, has been severely impacted by the restrictions during 2020/21 as all facilities were required to close and have only gradually been opened. A further closure for November will again impact the finances of the service, with no income generated while some costs are unavoidable. In order that the facilities continue to be available to the community when they are allowed to open, it has been necessary to provide financial support towards operating costs during the year and no management fee has been received.

11.8 It is considered that it may be necessary to forego the management fee due to the Council for a further period during 2021/22. No increase in the income has been assumed and an allowance of 6 months loss of management fee is included.

<u>Housing</u>

11.9 The Council has incurred additional housing costs during 2020/21 to meet the needs of those needing shelter. It is assumed that further support from the government will be received to meet any continuing costs a result of the pandemic during 2021/22. This will be assessed again prior to finalising the budget in February.

11.10 During the year the HG Wells centre has been used to provide accommodation. The lease, which was due to terminate at 30 September 2020 has been extended to 31 March 2021 to continue to provide this resource. From 2021/22 all budgets relating to the HG Wells operation will be removed. Any continuing costs will therefore be in excess of any budgetary allowance and will be attributed to the pandemic response.

<u>Service ambition</u>

11.11 The Council has ambitious plans which include work in important areas such as climate change however resources are not currently available to be able to progress these schemes. Service development has had to be 'suspended' in a similar way to projects suspended in the Investment Programme. It is hoped that this work can continue once the financial position and forecasts are more stable.

11.12 The Medium Term Financial Strategy included assumed costs relating to the opening of the new Sheerwater leisure facilities which are due to be open to the public in October 2021. The draft budget currently does not include any allowance for costs relating to this new provision.

<u>Risk Contingency</u>

11.13 The risk contingency has been retained at £250,000 in the draft Budget. This will be reviewed before the final budget is presented in the light of the risks associated with the budget, any savings target, the level of general and specific reserves and in the context of the Council's planned business.

12.0 Investment Programme and Treasury Management

12.1 To preserve the Council's resources at this uncertain time, it has been necessary to temporarily suspend uncommitted projects within the Investment Programme. Further details can be found in the draft Investment Programme also on this agenda.

12.2 Projects which have been suspended are those either directly funded by the Council's revenue reserves or which are funded by borrowing with the associated financing costs. The risk of revenue losses in 2020/21, and going forward, require all revenue reserves to be protected to be able to fund these pressures until a sustainable budget position can be established.

12.3 The interest, repayment costs and investment income in the General Fund Summary relate to the draft Investment Programme excluding those suspended projects. For many projects funded by borrowing the saving is not immediate where forecasts assumed that interest would be capitalised during the construction phase. In addition it has been necessary to reduce the allocation of interest to projects where there had been initial costs incurred. This means a further £40k of interest will need to be funded by revenue costs in year.

12.4 The increase in net interest costs (£1.76m) is partly offset by the income from the Goldsworth Park Shopping Centre and the new Kestrel Way industrial units (£1.2m) and includes a half year the financing costs of the new Victoria Square car park (£737k).

12.5 Lending to group companies generates income to support the Council's budget. The business plans for all of the group companies will all roll forward in a similar way to the Council's service plans. The Investment Programme and treasury estimates will continue to be updated to reflect any changes in timing and the additional request for funding for the Poole Road energy centre as set out in the Investment Programme.

12.6 The interest estimates will be further reviewed in the period to preparing the final 2021/22 budget:

- To incorporate any further changes to the Investment Programme including project timing and any further impacts of major regeneration schemes
- To reflect any changes in the interest rate forecasts provided by the Link Asset Services, the Council's treasury management consultants.
- To further review the Minimum Revenue Provision (MRP) assumptions.

13.0 Medium Term Financial Strategy (MTFS)

13.1 The MTFS was last approved by the Council in April 2019 and was due to be updated in March 2020 as the Country went into lockdown. The uncertain financial position for both 2020/21 and future years have delayed any revision to the MTFS since lockdown. It remains very difficult to establish the reduction in income streams and how long it may take for them to be rebuilt.

13.2 A further area of uncertainty for the MTFS is government funding from 2021/22 onwards. The forecast has been updated to postpone the funding reduction due to the Fair Funding and Business Rates retention changes by a year. The previously assumed £1m reduction in funding is now shown in 2022/23.

Future Government Funding

	Actual		Estimated		
	2019/20	**2020/21**	**2021/22**	**2022/23**	**2023/24**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Business Rates	2,100	2,135	2,178	2,221	2,266
New Homes Bonus	1,181	676	275	14	0
Adjustment post BR retention/FF review				-1,000	-1,500
Total Funding	**3,281**	**2,811**	**2,453**	**1,235**	**766**
Reductions in funding	-159	-470	-358	-1,217	-470

13.3 A simplified MTFS summary is provided below. Much of the previously assumed income and expenditure is uncertain in the current climate and therefore only the key areas of budgetary variations are shown. This forecast will be updated as the budget is refined and as a clearer view on the future can be established. As such it is indicative only.

WOKING BOROUGH COUNCIL - MEDIUM TERM FINANCIAL STRATEGY

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	TOTAL £'000
Pressures					
Remove contribution from reserves	1,500	10,431			**11,931**
Remove Business Rates pooling/CF surplus/20-21 deficit		-56			**-56**
General Service Pressures		675	675	675	**2,025**
Pension costs		60	60		**120**
Government Funding reductions		1,217	470	470	**2,157**
Investment Programme pressures:					
Investment Programme projects		225	248		**473**
Town Centre Car Parks financing costs		1,405			**1,405**
Sheerwater Leisure facilities - operational cost		700			**700**
York Road Project/Sythwood		210			**210**
	1,500	14,867	1,453	1,145	18,965
Funded by:					
Fees and Charges - Recovery in Parking income		-2,000	-1,000	-250	**-3,250**
Commercial Rents - Increase in income recovered		-3,500	-1,500		**-5,000**
Leisure - Recovery of full Management Fee		-402			**-402**
Council Tax income		-300	-300	-300	**-900**
Investment in Housing		-689	-750		**-1,439**
Productivity and Procurement Target	-1,500	-1,000			**-2,500**
In year savings required/Use of reserves	0	6,976	-2,097	595	**5,474**

13.4 Savings targets of £1.5m for 2021/22 and £1m for 2022/23 are assumed, together with a recovery of the Covid-related income provisions (Commercial Rents, Parking and Leisure) during 2022/23 and 2023/24. The investment programme costs are based on the current funded programme and therefore do not include costs of 'temporarily suspended' projects.

13.5 Over the 4 years of this forecast, a further £5.5m ongoing savings or income would need to be achieved, however the timing of the recovery means that more is required in 2022/23 while the income base recovers. The Council would need to make service savings to cover the additional costs in 2022/23 if reserves have been used to cover Covid losses in 2020/21 and 2021/22. Some of these savings are only needed temporarily until income is restored.

14.0 Revenue Reserves

14.1 A transfer to or from reserves is used in the budget to manage the timing of Medium Term Financial Strategy (MTFS) strategies. In 2019/20 the removal of negative RSG meant that it was possible to transfer £1.3m into the MTFS reserve. In 2020/21 a £288,000 use of reserves was planned.

14.2 The forecast outturn for 2020/21 would suggest that circa £10m could be required to meet budget deficits due to lost commercial revenue streams and unsupported income and expenditure due to the Covid pandemic. The draft budget for 2021/22 shows a requirement of £11.9m from reserves.

14.3 The following reserves have been identified which could be used to meet these pressures.

Available reserves at 31.3.20	£m
Investment Strategy Reserve	2,453
MTFS	4,999
Dukes Court	3,273
Off Street Parking	2,000
Victoria Square	1,985
Business Rates	3,151
Wolsey Place	3,199
	21,060

14.4 Based on current planned spend, it is possible that the Council's available reserves could be used by the end of 2021/22. This would remove any buffer to absorb further pressures, and would mean there would be no resources left to provide support in 2022/23 and beyond.

14.5 It is not possible to set a budget which exhausts the financial reserves of the Council and provides no mechanism towards setting a balanced budget in future years given known or forecast pressures.

15.0 Approach to developing the MTFS

15.1 It is clear that the use of reserves to cover commercial losses forecast in 2020/21 and 2021/22 would substantially deplete the Council's reserves. The revenue reserves were established recognising the need to be able to manage the impact of the Council's regeneration schemes becoming operational over the coming months, and the potential loss of income as properties were redeveloped or tenants lost.

15.2 The Council had built reserves to be able to withstand an economic downturn, an issue with a particular tenant, building or sector. Properties held are across the office, industrial, retail and hospitality sectors. All within Borough in areas well known to the Council and with future strategic development or improvement plans.

15.3 A crisis of the current scale, which so comprehensively affects the local, national and global economy was not envisaged. The issues are ongoing, and it is not clear for how long. It is therefore necessary to take action now. It cannot be assumed that the position can be managed beyond 2021/22 without putting the Council at significant financial risk.

Review of service expenditure

15.4 Without government support in allowing the Council to manage the costs of the pandemic flexibly, the Council will need to secure savings to minimise the use in reserves aiming to maintain resources for as long as possible.

15.5 It is recommended that all services be requested to identify savings or additional income which could be realised in the remainder of 2020/21 or 2021/22. Budgets will be reviewed for:

- Staffing cost savings
- Expenditure which can be deferred or permanently reduced
- Fees and Charges which could be introduced or increased
- Discretionary expenditure which could be avoided

15.6 It is recognised that this would be the worst time to reduce support to our community. It is also recognised there are often short term costs involved in reducing services which would need to be covered, reducing any immediate saving made. Reductions in discretionary spend, such as through the community grants scheme, would disproportionately impact those most in need. Savings should minimise the impact on residents and community services wherever possible but the option will need to remain until a sustainable position is achieved.

Capitalisation Direction

15.7 It is proposed that the Council engages with the government to request the ability to spread commercial losses and unfunded service income losses relating to Covid. The costs would be funded by borrowing and financed over the long term. This would reflect the once in a lifetime nature of this crisis, which should not be entirely borne by the current taxpayer.

15.8 The costs would be met locally but over a period of time which allows them to be met through managed service efficiencies whilst not requiring significant reductions to local services.

15.9 The tables below show the annual financing costs of the assumed losses at 2.5%. It is assumed £10m is capitalised in each of 2020/21 and 2021/22 and a further £5m, as the economy slowly recovers and other actions taken by the Council are realised, in 2022/23.

Year	Forecast Covid Revenue Loss £'000	Annual Cost 50 year Annuity £'000	Annual Cost 25 year Annuity £'000	Effective
2020/21	10,000	£351,486	£540,353	01-Apr-21
2021/22	10,000	£351,486	£540,353	01-Apr-22
2022/23	5,000	£175,743	£270,176	01-Apr-23

Summary of Financing cost based on Annuity Loans at 2.5%

Annual Financing Cost	50 Year Loan	25 Year Loan
2021/22	£351,486	£540,353
2022/23	£702,971	£1,080,705
2023/24 onwards	£878,714	£1,350,881

15.10 To provide the Council with flexibility to manage to a sustainable financial position going forward it is recommended that the Council seeks to borrow over 50 years, incurring an annual financing charge relating to the Covid pandemic of circa £880,000.

16.0 Implications

Financial

16.1 The financial implications are explicit in this report.

Human Resource/Training and Development

16.2 No new human resource or training and development implications arise from this report.

Community Safety

16.3 There are no specific community safety implications.

Risk Management

16.4 Risks to budgets are identified through ongoing monitoring throughout the year with variances reported monthly in the Green Book. Budgets are adjusted as appropriate in the following year. One-off or short term variances are met from the contingency at the end of the financial year.

16.5 Where specific risks have been identified they have been set out in this report and steps will be taken to mitigate against them.

Sustainability

16.6 There are no specific sustainability implications.

Equalities

16.7 There are no specific equalities implications.

Safeguarding

16.8 There are no specific safeguarding implications.

17.0 Consultations

17.1 No public consultations have been undertaken in preparing this report. Corporate Management Group, Managers and Portfolio Holders have been consulted in the preparation of the draft budgets.

REPORT ENDS