

## **GENERAL FUND, SERVICE PLANS, BUDGETS AND PRUDENTIAL INDICATORS 2021-22**

### **Executive Summary**

The General Fund Estimates for 2021/22 are presented for recommendation to Council. The provisional local government settlement was announced on 17 December 2020. The base allocation of Business Rates and the removal of negative Revenue Support Grant (RSG) were consistent with the figures included in the November draft budget.

The current environment remains uncertain following almost a year of lockdowns and restrictions on social interactions. The Council has incurred spend in responding to the Covid-19 pandemic and has lost income through irrecoverable commercial rents and reduction in activity for Council services such as car parks. The government has provided support for the local government sector, but this has fallen short of the actual impact in 2020/21.

Whilst the roll out of the vaccine since the beginning of the year is positive and offers hope that activity can start to return to normal, it is expected that this will take some time. It is not clear how much activity will return and how quickly.

The Council's economic strategy is dependent on the success of Woking town centre. Both parking and commercial rents require the return of footfall to the town, retail, leisure, office workers and commuters. Business models are based on this activity. As 2021/22 progresses it will be necessary to consider the promotion of the town centre, including Victoria Place, post-Covid, recognising it may be necessary to invest to secure new tenants and alternative uses for some spaces.

The draft General Fund Budget for 2021/22 recommended for approval has been prepared with minimal impact on citizen outcomes. To maintain services requires a significant use of reserves in 2020/21 (£7.3m) and 2021/22 (£9.5m). This is less than forecast in the November draft budget but remains a significant call on resources which have been set aside to manage various medium term risks. Whilst it is possible to use reserves in this way, it reduces the funds available to manage future risks.

Protection of current service levels, therefore depends on a number of factors including the outcome of the Council's application to fund some 2020/21 losses from capital resources. There also needs to be increases in the Council's income streams during 2021/22 and continued support for pandemic related pressures during 2021/22.

It will be important to identify cost savings and efficiencies which can be secured, or called on if necessary, should the financial position not recover sufficiently quickly during the year. The base £100,000 savings target is retained in the budget for 2020/21. The budget also includes a specific Covid provision to cover the risk of lost income during the year. The normal risk contingency of £250,000 has been included in the budget to cover other risks.

The net budget for the General Fund is £10.1m and the resulting Band D Council Tax figure for 2021/22 of £250.46, an increase of £5.00 (2.04%) compared to 2020/21. The increase is within the referendum limit flexibilities of 2% or £5 proposed by the Government in December 2020. When assessing the resources available to the Council the government assumes that Council tax is increased by the maximum amount.

The draft budget position will be discussed at the Finance Task Group on 28 January 2020 and any matters raised will be brought to the Executive as appropriate.

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The Medium Term Financial Strategy (MTFS) will be updated in March to incorporate these budget changes, reflect the updated cumulative impact of the pandemic and recommend further actions required during 2021/22 to protect the Council's medium term financial position.

### Recommendations

The Executive is requested to:

#### RECOMMEND TO COUNCIL That

- i) the Revenue Estimates and Human Resource requirements for 2021/22 be approved;
- ii) a Band D Council Tax for the Borough of Woking for 2021/22 of £250.46 be approved; and
- iii) the Prudential Indicators at Appendix 3 to the report be approved, subject to any changes arising from consideration of the Investment Programme, revenue budgets and Final Government Settlement.

### Reasons for Decision

Reason: To recommend that Council approves the resources necessary to implement its Service Plans and objectives and raises the necessary revenue through the determination of Council Tax for 2021/22.

The item(s) above will need to be dealt with by way of a recommendation to Council.

**Background Papers:** None.

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## **General Fund, Service Plans, Budgets and Prudential Indicators 2021-22**

### **1.0 Introduction**

- 1.1 This paper sets out the draft General Fund budgets and reserves (Appendices 1-2) and Prudential Indicators for 2021/22 (Appendix 3). Service Plans will be presented to the Executive for consideration in March. They will be based on the 2020/21 plans and will be considered again once the future post pandemic is clearer.
- 1.2 Section 2 of this report sets out the impact of the Covid pandemic on the Council's financial position in 2020/21.
- 1.3 Section 3 sets out the details of the provisional settlement and other government announcements and policy changes.
- 1.4 Sections 4 to 13 set out the main assumptions made in preparing the budget. These sections also consider the most significant areas of risk within the 2021/22 budget and going forward. A savings target of £100,000 continues to be included in the annual budget as proposed in the Medium Term Financial Strategy (MTFS). The draft budget retains a risk contingency of £250,000 and makes specific provision for potential lost income as a result of the pandemic.
- 1.5 Sections 14 and 15 of this report consider the MTFS and the level of the Council's reserves.
- 1.6 Reserves have been used to meet the financial pressures due to the Covid pandemic in 2020/21 and 2021/22.
- 1.7 The forecast impact in 2020/21 is circa £7.3m as set out in paragraph 2.26 below. It may be possible to reduce this through in-year budget savings not related to Covid including savings on financing costs through the use of short term borrowing at lower rates.
- 1.8 The General Fund Summary in Appendix 1 shows the forecast use of reserves for 2021/22 as £9.5m. This includes a Covid specific provision of £6.6m to cover commercial rents, parking and leisure income not covered by the Sales, Fees and Charges compensation scheme.
- 1.9 The draft General Fund Budget for 2021/22 recommended for approval currently has minimum impact on citizen outcomes. However, the consequences of the pandemic have been significant on the Council. The financial position will need to be reviewed on an ongoing basis during 2021/22. It will not be possible to continue using this level of reserves beyond 2021/22 and it will be necessary to reduce reliance either through cost savings or the recovery of the income base.
- 1.10 The net budget for the General Fund is £10.1m and the resulting Band D Council Tax figure for 2021/22 is £250.46, £5 more than in 2020/21, and a 2.04% increase in Council Tax.

### **2.0 Covid-19 Pandemic and 2020/21 forecast**

- 2.1 Since the draft budget prepared in November, the Covid-19 pandemic has continued to impact lives and businesses. There was a National lockdown during the month of November, a variety of Tier based restrictions during December, followed by the current National restrictions from 6 January.
- 2.2 Local businesses and the Council's income streams continue to be severely affected by the necessary 'Stay at Home' message. However, on the upside, the beginning of the vaccination programme provides hope that there is a path to recovery.
- 2.3 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

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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 9 months of 2020/21.

- 2.4 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
- 2.5 The most significant areas of income and expenditure are set out in the sections below, updating the position reported to the Executive in November.

### Housing

- 2.6 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.
- 2.7 The Government has reconfirmed its commitment to the continuation of "Everyone In" during the current lockdown. Therefore, Woking Hotel/HG Wells will be required for this use until at least Spring 2021. The Council has scaled back its use of the Travelodge to 20 rooms. In addition to the above funding, the Government will reimburse the Council for £29,978 of these hotel costs through their Cold Weather Fund.

### Leisure

- 2.8 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 £546k over the period to July 2020.
- 2.9 Support towards operational costs, including mobilisation costs to reopen, and the impact of the further lockdowns are forecast to be £900k for the year.
- 2.10 The Department for Digital, Culture, Media and Sport (DCMS) has launched the National Leisure Recovery fund which is being managed through Sport England. The fund is for local authorities with outsourced leisure providers affected by the pandemic. Woking has been allocated an indicative grant of £170,000 and has submitted a detailed bid for these funds. Allocations will be confirmed at the end of February.

### Other

- 2.11 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.
- 2.12 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.

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### Savings

- 2.13 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

- 2.14 The government launched an income compensation scheme in August and 2 claims have been submitted to date covering the period to 30 November. A further claim will be made after the end of the year for December to March 2021. The government has confirmed that this compensation scheme will continue until 30 June 2021 covering the first quarter of 2021/22.
- 2.15 The 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. Lost service income is eligible but not income generated through commercial activities such as commercial rents.
- 2.16 The submitted claims to date cover Off and On Street Car Parking and the Freedom Leisure management fee. In total, compensation of £3.163m.
- 2.17 Other service income losses may be included in the final return if there are further losses which exceed 5%.

### Commercial Rents

- 2.18 The most significant area of income for the Council is Commercial Rents. Work continues with tenants to agree acceptable strategies.
- 2.19 Of the £21m commercial rent budget, £15.8m has been received to date. Up to £2.2m further income is expected during quarter 4, and arrangements have been made with tenants to recover a further £0.8m during 2021/22. There remains a balance of £3.2m commercial rents and service charges not paid which may not be recovered, a number of which are in the retail/hospitality sector.
- 2.20 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. Landlords are unable to secure possession of premises until at least 31 March 2021.

### Government Support

- 2.21 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 <sup>2</sup> (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

- 2.22 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

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forecast housing costs, and £105,000 will fund additional expenditure/resource, some of which through the York Road Project.

- 2.23 The Contain Outbreak Management Fund (COMF) allocated £8 per head towards activities in managing the spread of the virus. This funding was distributed through the County Council and £302k was passed to Woking for local initiatives. Additional funds through this scheme should be received on moving to the current National restrictions.
- 2.24 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.
- 2.25 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.

### Summary

- 2.26 The following table sets out the overall impact of additional costs, lost income and forecast support.

<u>Forecast Covid impact - 2020/21</u>	<b>Total</b>
	<b>£'000</b>
<u>Costs</u>	
Commercial Rents & NNDR	4,645
Car Parks lost income	5,377
Homelessness & Rough Sleepers	938
Leisure Contract support	1,446
Leisure mgt fee & direct income	762
Woking News & Mail	137
Marketing, PPE & Sanitiser	240
Services covid specific spend	307
	<u>13,852</u>
<u>Funding</u>	
Covid Support Grant	-1,282
Sales, Fees, Charges (SFC) Claim Car Parks	-3,733
SFC Claim Leisure	-541
Leisure Recovery Fund (TBC)	-170
Housing Grant	-275
Contain Grant - allocated to housing costs	-303
New Burdens Funding	-219
	<u>-6,523</u>
<b>Total</b>	<u><b>7,329</b></u>

- 2.27 The forecast deficit has reduced compared to the November draft budget report which suggested a net cost of £10.8m. This reduction is predominantly due to the recovery of a greater proportion of commercial rents. The forecast 2020/21 deficit continues to be significant.

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- 2.28 The Council holds reserves to mitigate the potential impact of a reduction in income, however the experience of this year, with almost all sectors affected, is unprecedented. The loss, and the forecast pressure in 2021/22 set out in this report, can be met by available reserves however this reduces significantly the resources available to manage in future years. It is unlikely that the economic consequences of the pandemic will recover in the short term, so the Council's reserves will be needed to support revenue budgets while income is restored or budgets are managed at a lower level.
- 2.29 Section 14 to 15 set out more detail on the Council's reserves and the Medium Term Financial Strategy.
- 2.30 The Council has commenced discussions with the Ministry of Housing, Communities, and Local Government (MHCLG) regarding 'exceptional support' to assist in managing the short term financial position. If approved it is proposed that commercial income losses are funded from capital resources protecting the Council's revenue reserves.

### Covid beyond 2020/21

- 2.31 With the vaccine programme underway the future beyond Covid becomes a reality. It is reasonable to assume that as the current restrictions are gradually relaxed, the increasing numbers of the population protected from infection will reduce the likelihood of further lockdowns.
- 2.32 Whilst it is unlikely that economic activity will return quickly to pre-pandemic levels and habits may have changed permanently, the financial position should begin to move in a positive direction. At this stage it is not clear to what extent there will be a permanent move away from office working and, in the event that there is, how local workers no longer commuting out of Woking will contribute to the economy of the town.
- 2.33 The government has committed to some continued Covid-related support into 2021/22, both through general grant funding and the continued income compensation. Further support has not been assumed in the 2021/22 budget but it is hoped that the government would continue to provide funding to support local communities.

## **3.0 Government Funding and Policy**

- 3.1 The provisional local government finance settlement was announced on 20 December. It confirmed funding for just one year, with any multi-year settlement postponed for 12 months while the government considers post-pandemic departmental spending allocations.
- 3.2 There has been further delay in the proposed reforms to Local Government funding. This includes the 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).
- 3.3 A consultation on changes to the New Homes Bonus scheme, to be effective 2022/23, is expected imminently.

### Core Government Funding

- 3.4 The provisional Business Rates and Revenue Support Grant (RSG) figures for 2021/22 announced on 20 December 2019 were consistent with those previously assumed in the November draft budget.
- 3.5 Any impact of 'negative RSG' has again been excluded from the funding provided for 2021/22. For Woking the risk is a reduction in support of approximately £1m.

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- 3.6 A new Lower Tier Services Grant has been introduced which provides £90,907 additional funding.

### Business Rates

- 3.7 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, the effect is that the government has paid the business rates for all these businesses.
- 3.8 There has been no indication from the government that these reliefs will apply in 2021/22. Many business in these sectors will struggle to pay if restrictions on activity continue into 2021/22 or business is slow to return to previous levels.
- 3.9 Woking will not be part of the Surrey Business Rates pool in 2021/22. 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 lost business rates income is therefore circa £165,000, the reduction compared to baseline, before the government safety net applies.
- 3.10 As in previous years the 2021/22 budget includes a further £200,000 assumed benefit from current or historic pooling surpluses which may not be achieved in year.
- 3.11 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 changes in the Council's assets. In particular where it is likely that the Business Rates charge will become payable by the Council due to vacant commercial properties.

### New Homes Bonus

- 3.12 The New Homes Bonus (NHB) scheme has match funded 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.
- 3.13 The government has been phasing out New Homes Bonus and in February 2020 set out the proposed approach for 2021/22. For 2021/22, the government has awarded the Council £280,504 under this scheme. This is significantly less than in previous years, over £2m was received in 2016/17, as the grant is phased out. The budget assumes £200,000 is used in-year and the remaining £80,504 is transferred to reserve.
- 3.14 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.

### Total Government Funding

- 3.15 The total Government funding for 2021/22 and a forecast for the following 3 years is shown in the table below.
- 3.16 The most critical year will be when the government review of funding is concluded. This has been postponed for the last 2 years however the risk remains that Fair Funding, and Business Rates retention changes, could reduce funding to the Council by £1m. This has been the MTFs assumption for planning purposes, together with the further reduction of support until the Council receives no general support.

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- 3.17 At this time government support to the sector is critical, however, in the medium term it is likely that the national government will need to make substantial savings in recovery from the pandemic. For planning purposes it is considered prudent to assume that funding will continue to be withdrawn.
- 3.18 The funding forecast does not currently include income from the New Homes Bonus replacement scheme. It is assumed that any income will not be guaranteed every year so will be transferred to reserves and used for one-off projects.

### Future Government Funding

	Actual	Provisional	Estimated		
	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Business Rates	2,135	2,135	2,178	2,221	2,266
New Homes Bonus	676	281	14	0	0
Lower Tier Services Grant		91			
Adjustment post BR retention/FF review			-1,000	-1,500	-2,000
<b>Total Funding</b>	<b>2,811</b>	<b>2,507</b>	<b>1,192</b>	<b>721</b>	<b>266</b>
Reductions in funding	-470	-304	-1,315	-470	-456

## 4.0 Budget setting 2021/22

- 4.1 The General Fund Summary at Appendix 1 summarises the proposed budget and Council Tax levels. Appendix 2A details the general budget pressures and specific service budget changes across the 'People, Place and Us' service areas.
- 4.2 The proposed budget is based on the 2020/21 approved budget updated for contractual inflation, changes in funding and forecast income, agreed service changes and the impact of the draft investment programme which is also on this agenda.
- 4.3 The table below sets out a summary of the pressures and the following sections provide further details.

<b>Budget variation 2020/21 to 2021/22</b>	£'000
Investment Programme	1,458
Income from new properties	-1,229
Increase in service spend - Covid Provision	6,614
Increase in service spend - Other (mostly commercial rents)	2,166
Lower Tier Grand Funding	-91
Change in New Homes Bonus assumed in base budget	200
Council Tax Deficit (including 1/3 of 2020/21 forecast deficit)	54
Decrease in taxbase	304
Increase in Council Tax/decrease in Collection fund surplus	-202
<b>Additional use of reserves required in 2021/22</b>	<b>9,274</b>
Being:	
Use of Reserves for Covid Provision	6,614
Use of Reserves for base budget pressures	2,660

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### 5.0 Staffing

- 5.1 The Executive has agreed that for budgeting purposes, the salaries budget will be controlled within two parameters of cost and average number of full time equivalent staff.
- 5.2 During 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.
- 5.3 Other variations to the 2021/22 are as set out in the November draft budget and shown again in the table below. There is a 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.
- 5.4 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.
- 5.5 The 2020/21 budget included a £468,000 'vacancy target'. The control total has been reduced by £100,000 for 2021/22 which will require a similar 'deflation' of total staffing costs to keep within the budget.

Pressures on staffing budgets	£'000
2020/21 savings target built into base budget	468
Further cost of pay progression and allowances 2020/21	365
New posts and structure changes 2020/21	112
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	328
Reduction in control total	100
2021/22 savings target built into base budget	428

- 5.6 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 (proposed)	14.941	340

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- 5.7 The staffing totals and costs set out in the table above will be subject to adjustment when the transfer of staff that operate the Womens Centre is completed. Currently Women in Prison employ them and the Council meets the costs. This will be managed as an in-year variation in staffing numbers. There will be no effect on the overall General Fund Budget as the service is fully included in existing service plans.
- 5.8 Accounting rules require that these costs are allocated out to individual services to show the full cost of the service. The total Management and Administration budget includes salaries, and other overhead costs which need to be allocated across services such as ICT and expenditure relating to the Civic Offices. In total for 2021/22 the full Management and Administration budget is £22.7m which is allocated as set out in the table below.

	2021/22		2020/21		Difference	
	£'000	%	£'000	%	£'000	%
General Fund	19,363	85.2	19,372	85.4	-9	-0.2
HRA	3,165	13.9	3,088	13.6	77	0.3
Other (capital/reserves)	210	0.9	230	1.0	-20	-0.1
<b>TOTAL</b>	<b>22,738</b>	<b>100.0</b>	<b>22,690</b>	<b>100.0</b>	<b>47</b>	<b>0.0</b>

- 5.9 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.
- 5.10 No allowance has been made for increases to Members Allowances for 2021/22.

### 6.0 Pensions

- 6.1 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.

### 7.0 Fees and Charges 2021/22

- 7.1 Council agreed the Fees and Charges for 2021/22 in December 2020 and the changes to the income budgets are incorporated into the budgets and detailed service plans. The increase in yield included in the Fees and Charges report, excluding Car Parks, was £136,000.
- 7.2 The projection for Car Parking income showed a reduction of over £3m for 2021/22. No changes have been made to the base car parking service income, so income will continue to be monitored against pre-Covid activity. A separate Covid specific provision is allowed in the budget to accommodate this reduction in income. The base budgets will be assessed for 2022/23 when it is clearer how activity is returning post Covid.

### 8.0 Commercial Rents 2021/22

- 8.1 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.

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- 8.2 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.
- 8.3 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.
- 8.4 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 over the summer, social distancing requirements have meant that business has been very different. The lockdowns in November and in the new year will increase difficulties for a number of tenants, particularly the retail and hospitality sectors.
- 8.5 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. It is possible that many businesses could fail as they cannot survive until the pandemic is over.
- 8.6 To reflect the risk to commercial income across the whole property portfolio a further allowance for irrecoverable rents and service charges of £3m has been incorporated into the draft 2021/22 budget. This is based on 2020/21 expected defaults and deferred income. This is in addition to a £1.3m reduction in rents due to known vacancies built into the 2021/22 figures, and additional management and Business Rates costs recognised.
- 8.7 Further information on the Council's approach to Strategic Property Investment can be found in the Capital and Investment Strategies, also on this agenda.

### **9.0 Investment Programme**

- 9.1 The draft Investment Programme, also on this agenda, was considered by the Executive at its November meeting and has been reviewed by the Finance Task Group.
- 9.2 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.
- 9.3 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.
- 9.4 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 as 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.
- 9.5 The reduction in net financing costs includes £5m relating to the postponed acquisition of strategic property, previously approved for the economic regeneration of the town. Whilst still included in the Investment Programme, the borrowing costs and associated income have been removed from the 2021/22 base budget.

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- 9.6 There is an increase in other interest costs (£1.76m), partly offset by the income from the Goldsworth Park Shopping Centre and the new Kestrel Way industrial units (£1.2m), which includes a half year the financing costs of the new Victoria Square car park (£737k).
- 9.7 The revenue impacts of the Investment Programme have been built into the draft General Fund budget. This includes interest and repayment costs for those projects funded by borrowing, and contributions from reserves for some revenue projects.

### 10.0 Thamesway Group

- 10.1 The Thamesway Group of companies provides direct service benefit as well as financial benefit to the Council. The financial benefit arises in a number of ways. There is a benefit from the loans and shares invested in the Thamesway group. Investment in Thamesway Housing Ltd is at a margin of 1.5% over the Council's borrowing costs. Investment in Thamesway Energy Ltd for the new Poole Road Energy Centre is at a margin of 1% over the cost of borrowing.
- 10.2 In addition, as part of the funding for Milton Keynes, the Council receives a 1% loan arrangement fee. Thamesway Ltd receives a project fee for its intellectual property in Milton Keynes of 4% of the capital expenditure on works in any one year. The project fee is being used to support energy and environmental initiatives in Woking. Utilising the companies can provide efficient ways of procuring services.

### 11.0 Robustness of the 2021/22 Budget and Risks

#### Covid Provision

- 11.1 An allowance has been made for lost income as a result of the ongoing Covid-19 pandemic. This provision has been funded by reserves.

<u>Covid Specific Provision</u>	£'000
Reduction in Car Park income	3,217
Allowance for irrecoverable Commercial Rents	3,810
Loss of Freedom Management Fee and other leisure income (half year)	402
SFC Compensation - Car Parks Q1	-529
SFC Compensation - Leisure Q1	-287
	<b>6,614</b>

- 11.2 It is hoped that the income compensation scheme will continue beyond 30 June, and that the government will allow capitalisation of commercial losses continuing into 2021/22, however to be prudent it is important to assume that reserves will need to be used to meet these losses.

#### Savings Target and Risk Contingency

- 11.3 A £100,000 savings target has been included in the budget as historically set out in the MTFs. The level of this savings target will be reassessed early in the financial year depending on the outcome of support discussion with the government, the 2020/21 outturn and ongoing pandemic impact and support.
- 11.4 There is a need to review the Council's services for productivity and procurement efficiencies, and a more fundamental review of the Council's services may be necessary.
- 11.5 The funded Risk Contingency has been kept at £250,000, the same level as in 2020/21. In addition to the areas already considered in this report, the following are identified as risks or pressures within the proposed budget for 2021/22.

## **General Fund, Service Plans, Budgets and Prudential Indicators 2021-22**

### HG Wells Centre

- 11.6 The HG Wells Centre has closed and is being used during 2020/21 to support the Council's housing services during the pandemic. The budget for 2020/21 reflected a part year of activity plus one-off costs of closing the facility. The operational income and expenditure service budgets have all been removed for 2021/22.
- 11.7 In addition, budgets for the Council and accredited user use of HG Wells have been removed as they are not currently required. In future years costs may be incurred on the use of alternative premises including the conference facilities in the new town centre hotel, part of the Victoria Square regeneration.
- 11.8 Any ongoing costs associated with the HG Wells Centre in 2021/22 will be due to the continued response to the Covid-19 pandemic.

### Car Park income

- 11.9 As set out in the fees and charges section above the level parking activity is uncertain during 2021/22. Even once restrictions begin to be lifted it is not clear whether commuters and shoppers will return or how long it may take for them to return. The provision reflects a reduction of 38% compared to the 2020/21 budget.
- 11.10 The pilot change to the timing of the overnight rate for parking in the town centre will continue into 2021/22 as it will not have been possible to assess the impact during the pandemic. In commencing the pilot in 2020/21 it was acknowledged that there would be a cost of up to £250,000 in reduced income. The position will need to be further considered during 2021/22.
- 11.11 The red town centre car park is currently being rebuilt as part of the Victoria Square regeneration. Once complete the Council is due to acquire the car park element of the Victoria Square development. This is currently scheduled towards the end of 2021/22. The financial implications of this will be considered during the year and the transfer to Council ownership may be delayed further.

### Town Centre and other Commercial Income

- 11.12 As set out above the base budget recognises current known variations in rental income and provides an allowance for irrecoverable debts during 2021/22. This is considered a prudent approach. However, it is possible that the scale of the economic impact exceeds that provided for and the Council experiences further losses due to ongoing restrictions and business failure.
- 11.13 Any losses would directly affect the level of the Council's reserves as the government will not cover commercial losses. In addition, as landlord, additional service charge and business rates costs may need to be met.

### Leisure Contract

- 11.14 No allowance is made for ongoing support to Freedom Leisure for operating the Leisure Centre and Pool in the Park. Whilst provision is made for the loss of the management fee income for 6 months, it is assumed that during the year the facilities will be able to operate at such a capacity to be able to break even. The Council may incur further costs if national or tier restrictions require the facilities to close or operate at significantly reduced capacity.

## **General Fund, Service Plans, Budgets and Prudential Indicators 2021-22**

### Timing of Investment Programme and interest costs

- 11.15 Some projects have been funded by borrowing as an interim measure pending receipt of grants or contributions. Any delay in the funds being recovered will increase the Council's financing costs.
- 11.16 Net interest costs during the year are also affected by decisions on whether borrowing should be taken long or short term, and when the borrowing should be secured. During 2021/22 short term borrowing, taken during 2020/21 before the government reduced the margin on PWLB rates, will be replaced by long term borrowing.

### Government Support

- 11.17 The government has provided support during 2020/21 through general and specific grants to fund the response to the pandemic. This hasn't covered the full costs, but has been a valuable contribution enabling the Council to provide support to the community.
- 11.18 The 2021/22 budget assumes that any Covid related costs incurred will be covered by additional funding from the government, and that any additional requirements of local government are fully funded.

### Energy

- 11.19 Energy budgets have been held at 2020/21 levels with no inflation added. It is assumed that reduced activity in some services for at least part of the year will enable expenditure to be maintained within these allowances.

### Grants

- 11.20 The community grants recommended by the Executive in December were approved subject to the level being affordable in setting the Council's budget for 2021/22. The forecast financial pressures have been reduced since the draft budget in November. It is recognised that the impact of reducing support to the community, particularly at this difficult time, would be considerable. It is therefore proposed that these approved grants are confirmed for 2021/22. However, it should be noted that if the Council needs to make significant savings to reduce reliance on reserves in 2022/23 it will not be possible to keep grants at the current level.

### General Risks

- 11.21 No specific provision has been made in the Budget for abnormal events. However, as specific provisions have been made for known Covid risks, and the government can be assumed to continue to support local government with exceptional costs as it has in 2020/21, the proposed risk contingency and reserves should enable the Council to manage other changes in year.

## **12.0 Service Plans**

- 12.1 Updated Service Plans are usually presented alongside the proposed budget for the next year. These translate the Council's strategic vision, objectives and priorities into operational plans that drive improvement. Each Service Plan identifies what needs to happen for each area of Council activity to achieve success, what resources will be required, the outputs and outcomes that are anticipated and any risks that might impact delivery.
- 12.2 With the disruption to operational plans in 2020/21 due to the pandemic, and the uncertain path to recovery from both the health and economic crisis in 2021/22, new Service Plans are not presented with this budget. Plans will be prepared for the March 2021 Executive based

## General Fund, Service Plans, Budgets and Prudential Indicators 2021-22

on the 2020/21 plans which are considered to appropriately articulate the intended priorities that will remain in place for 2021/22. These plans will be revisited when the immediate crisis is over and the future direction clearer.

### 13.0 Council Tax 2021/22

- 13.1 The amount to be raised from Council Tax, based upon the draft revenue estimates, and after taking account of the Revenue Support Grant Settlement and Collection Fund surplus, is £10,104,461. The recommended Band D Council Tax for 2021/22 for Woking Borough Council is £250.46, an increase of £5 or 2.04%. The referendum level for District Councils in 2021/22 is the higher of 2% or £5. In assessing the Council's core resources the government assumes that the maximum Council Tax increase is applied.
- 13.2 This proposal best protects the Council's medium term financial position and ability to maintain its service outcomes post pandemic.

#### Long Term Empty Properties

- 13.3 The government passed legislation during 2018/19 to enable councils to charge a long-term empty premium on top of the council tax payable, in respect of domestic properties that have been left empty and substantially unfurnished.
- 13.4 To encourage empty homes to be brought back into use, and to generate additional income to support the services of the County Council, the Police and Woking Borough Council, the premium for properties empty for over 2 years was implemented by the Council from 1 April 2019.
- 13.5 Legislation allows councils to charge a higher rate when properties are left empty and substantially unfurnished for longer periods from April 2020 and April 2021. In February 2020 the Council resolved to implement these changes from the applicable dates in line with the legislation.

Premium rate	Properties affected	Date from
100%	Properties empty for between two and five years	April 2019
200%	Properties empty for between five and ten years	April 2020
300%	Properties empty for over ten years	April 2021

- 13.6 Surrey County Council has introduced a scheme where any increased County element of Council Tax generated from changes to empty home policies can be claimed by the District and Borough Council's to support mutually agreed projects. In November 2020 the Executive resolved that officers should work with Surrey County Council to agree an acceptable use of this funding to support climate change initiatives. Proposals are currently being prepared for consideration.

#### Collection Fund deficit

- 13.7 The government requires that 2020/21 Collection Fund deficits, both Council Tax and Business Rates, be spread over 3 years. This means that only a third of any losses forecast for 2020/21 are taken into account when setting the Council Tax for 2021/22. In addition a compensation scheme similar to the sales, fees and charges compensation scheme will operate for the collection fund and mitigate irrecoverable balances up to 75%. It is assumed that a £68,041 deficit from 2020/21 will need to be met.

## **14.0 Medium Term Financial Strategy**

14.1 The Medium Term Financial Strategy (MTFS) will be updated and reported to the Executive in March. As set out in the draft budget in November, the most significant factors to consider are:

- Removal of the use of reserves from 2022/23 onwards
- Rate of recovery of Parking and Commercial rent income
- Impact of Government Funding (Fair Funding review)

14.2 The indicative figures provided in November assumed a £12m use of reserves in 2021/22. This pressure was reversed in future years through recovery in income (£8m), and assumed savings and investment income (£4m). A further £5.5m saving remained to be secured over the period to 2024/25 (4 years).

14.3 Since the initial draft budget the use of reserves has reduced to £9.5m, a reduction in the MTFS requirement of £2.5m. The forecast position has therefore improved slightly, however there remains a significant deficit.

14.4 The critical assumption is around the rate of recovery 'back to normal' which is still uncertain. With the vaccine programme underway, the end of the health emergency may now be in sight. This allows a more positive view to be taken on recovery, but the impact of current lockdowns on businesses, the time taken for the economy to recover, and the extent to which habits have permanently changed remains unknown.

### Exceptional Support

14.5 Recognising the risk of significant loss of reserves due to the impact of Covid over 2020/21 and 2021/22 the Council has started an application to government for exceptional support. This process will take a number of weeks and will involve the Ministry of Housing, Communities and Local Government (MHCLG) assessing the Council's position and need for the requested flexibility.

14.6 Revenue reserves have been built up over recent years to cover lost rent during redevelopment, to meet the risk of losing of key tenant and to provide flexibility to enable strategic decisions to be made which influence the business offer in the Borough.

14.7 Most importantly the Council has invested in a town centre fit for the future based on proposed new residential developments. This means the Council's assets, particularly the new car park, will initially be operating at a loss when financing costs are taken into account. It was forecast to take some time, as income gradually increased, for income to meet the Council's costs. It was planned that reserves would be used to mitigate losses during this period. In the current environment it is likely to take longer for income to be restored and net costs will need to be met for longer. The need for reserves to manage through this period is even more critical than prior to the pandemic.

14.8 To increase the likelihood of a successful outcome the proposal to the government will request the use capital receipts, rather than borrowing, to fund irrecoverable commercial rent over 2020/21 and 2021/22. The Council does not require government funding, simply the flexibility to use capital resources to meet exceptional losses and protect the medium term financial position.

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14.9 An update on this process, if possible, will be included in the MTFs in March including the impact of any flexibility granted on the forecast reserves, and any 'conditionality' applied by the government.

### Future Financial Position

14.10 In addition to the outcome of the Council's application to the MHCLG set out above, the protection of current service levels depends on a number of factors:

- Rate of recovery of the Council's income during 2021/22
- Continued government support for Covid related costs and reduced service income during 2021/22
- Outturn and final use of reserves in 2020/21

14.11 The Peer Review recommended an efficiency and savings review be undertaken. This will be even more important in the current environment and a process of service review will commence to identify options to be considered during 2021/22. Decisions on which options are progressed will depend on the factors set out above.

14.12 If it is not possible to secure sufficient efficiencies, and income levels do not recover, it will be necessary for services to be reduced as reserves cannot continue to be used to support the annual budget. The Council has managed to protect services throughout the period of austerity and also increase activity in many areas. This has been possible through the approach to local income generation. If this income is not sustained, the services which have been protected, and developed, will be at risk.

### Town Centre recovery

14.13 The Council's financial strategy is dependent on the success of Woking town centre. It has been possible over recent years to attract new retail and hospitality businesses to the town enhancing the facilities for local residents and visitors. Public realm improvements have transformed the town. Continued investment through the Victoria Square regeneration and the HIF infrastructure works at Victoria Arch will further improve the town centre and accessibility.

14.14 Future development, including residential units, in the town are necessary for the town centre strategy to be effective. New businesses will need the increased footfall, during construction and once operational, and increased customer bases to be sustainable. The Council assumes increased future parking activity and where rents are turnover based its income will be directly influenced by the success of businesses. The Council's contribution to the HIF scheme and Integrated transport works are to be funded from future developer contributions.

14.15 During 2021/22 a number of businesses have closed and will not reopen post pandemic. It is likely that there will be further business difficulty during 2021/22, particularly in the retail sector. Investment will be required to repurpose town centre spaces for new tenants and diversity the offer. Consideration will need to be given to the extent of investment to protect existing income levels as well as restore those which may have been lost. As set out in the Investment Programme also on this agenda there will also need to be a programme of promotion once restrictions are lifted to encourage consumers back into the town.

## **General Fund, Service Plans, Budgets and Prudential Indicators 2021-22**

### **15.0 Reserves**

- 15.1 Forecasts of the Investment Strategy Reserve and the total Reserves are shown in Appendix 2B and 2C.
- 15.2 The use of reserves to cover revenue deficits in 2020/21 and 2021/22 are shown in a single line in the reserves forecast. It can be seen that these can be met from available resources but funds set aside for other purposes will need to be reallocated. This puts the Council at risk going forward of having insufficient funds available to meet identified risks.
- 15.3 The MTFS report in March, will provide further details on reserves to be used to meet deficits which are not covered by any agreed capitalisation directive, and the implications. Over time these reserves will need to be recovered.
- 15.4 Some items in the General Fund Summary (Appendix 1) are covered by the Council's revenue reserves. These tend to be variable or one off items which would otherwise cause the Council Tax requirement to vary significantly year on year.
- 15.5 The staffing structure will continue to be reviewed during 2021/22 where opportunities arise. An allowance of £250,000 to be met from reserves has been made for any resulting Management of Change costs.
- 15.6 Transfers are made from the Investment Strategy reserve to a number of specific reserves, for example the Group Company reserve, Community Fund and Wolsey Place reserves as shown in Appendix 2B. The reserves are used by the Council to manage and develop its ambitions as well as enabling one off investment.
- 15.7 The Council has a target to manage the Investment Strategy reserve to £3 million. Management of the level of reserves will be considered as part of the Medium Term Financial Strategy including which reserves should be used to meet 2020/21 and 2021/22 deficits.
- 15.8 The forecast reserves position shows sufficient reserves at 31 March 2022 which are being used in support of the business objectives of the Council. However, reserves are set aside for specific purposes and to cover identified risks and it will be necessary to review the long term levels necessary to support the Council's business including any further deficits as the economy recovers. As set out in the MTFS section above, protection of the revenue reserves through capitalisation of Covid losses would allow time for income to return.

### **16.0 Prudential Indicators**

- 16.1 The Treasury Management, Capital and Investment Strategies elsewhere on this agenda set out the borrowing limits and the policies and practices to be followed in managing the Council's debts, capital spend and investments. The reports incorporate the Prudential Indicators which relate to borrowing and investment.
- 16.2 Allowance has been made in the borrowing limits for borrowing associated with the Thamesway Business plans. The limits allow for up to half of the following years Thamesway Housing Ltd (THL) allowances, as set out in the Investment Programme, to be drawn down in advance. The whole Victoria Square project cost, is allowed in the Prudential Indicators immediately to enable flexibility of funding.
- 16.3 Prudential Indicators for approval by the Council are set out in Appendix 3. These Prudential Indicators will be updated if necessary in the light of the Council's consideration of the Investment Programme and revenue budgets.

## **17.0 Chief Finance Officer**

- 17.1 Taking into account all of the factors set out in this report and in accordance with the Local Government Act section 25, the Chief Finance Officer has confirmed that the 2021/22 estimates included within this paper are robust, and the level of reserves and provisions are adequate. However, it is recognised that there needs to be a substantial reduction in the reliance in reserves beyond 2021/22 either through recovery of income or reduction in costs.
- 17.2 Whilst the budget for 2021/22 is sound, there remains a risk in implementing the Council's agreed MTFS. It will be important that the March MTFS considers the uncertainties and timescales for decisions through the year.

## **18.0 Implications**

### Financial

- 18.1 The financial implications are explicit in the report.

### Human Resource/Training and Development

- 18.2 The Council's Human Resource Requirement reflected in these estimates as detailed in section 5.

### Community Safety

- 18.3 Service plans will take account of the Council's policies in respect of Community Safety.

### Risk Management

- 18.4 As set out in the report the most significant financial risks relate to the financial consequences of the Covid-19 pandemic. In setting the budget for 2021/22 an allowance has been made for lost income or irrecoverable debts. This will need to be funded by reserves and has been taken into account when forecasting the Council's available resources going forward.
- 18.5 Expenditure which can be deferred, without impacting services, will be postponed until the exceptional support discussions with the government have concluded. If necessary budgets will be revisited at this stage, in light of the outcome and 2020/21 outturn.
- 18.6 Budgets have been amended where ongoing risks have been identified during 2020/21. One-off or short term variances are monitored against the Risk Contingency during the year. Specific service risks have been set out in the report.

### Sustainability

- 18.7 Service plans will take account of the Council's policies in respect of Sustainability.

### Equalities

- 18.8 Service plans will take account of the Council's policies in respect of Equalities.

### Safeguarding

- 18.9 There are no specific safeguarding issues arising from this report.

## **General Fund, Service Plans, Budgets and Prudential Indicators 2021-22**

### **19.0 Consultations**

19.1 Members, including the Portfolio Holder, the Finance Task Group, and Officers, including Corporate Management Group, have been consulted in the preparation of the draft budget.

REPORT ENDS