ANNEX 2

MEDIUM TERM FINANCIAL PLAN - SUMMARY
2022/23 to 2026/27
November 2021

APPENDICES

Introduction

This Medium-Term Financial Plan (MTFP) is a summary of the Council's key financial information, including the budget challenges faced, over the period 2022/23 to 2026/27 and our approach to addressing them.

It sets out the approach to establishing a sustainable financial base to support delivery of Council policies and priorities. It also highlights the financial risks and issues which have to be tackled, including ongoing reductions in Government funding.

In July 2021 the Executive approved the previous version of the MTFP which was based on the objectives of the Corporate Plan 2020-2025. It set out the latest resource projections and estimates of expenditure. This document refreshes and updates MTFP forecasts in anticipation of service & financial planning for 2022/23.

Key changes since the July 2021 MTFP report include:

- Updated Forecasts for Service budgets

1. Medium Term Financial Plan Objectives

The objectives of this MTFP are to help us:

- Provide a robust financial framework to assist decision-making processes;
- Manage council finances within the context of a forward-looking service & financial planning framework;
- Prioritise resources to align spending plans with our vision and strategic objectives and resident priorities;
- Recognise the ongoing funding challenges that will need to be addressed through changes to how services are delivered, realising new sources of income and delivery of cashable budget savings, or a combination of all three;
- Maintain council tax resource levels;
- Maintain a balanced budget and continue to strengthen that position;
- Maintain the General Fund reserve at a minimum of 15% of the annual net Revenue Budget to cover significant unforeseen expenditure;
- Maintain Earmarked Revenue Reserves for specific purposes, consistent with achieving our priorities and managing risks. The use of Earmarked Revenue Reserves will be in line with the Reserves Policy and will be reviewed annually;
- Help confirm the affordable level of capital investment required to support our strategic and financial priorities while remaining within prudential borrowing limits;
- Ensure that fees and charges are set at an appropriate level and that they take into account comparative levels of charge and ability to pay, in line with the Fees & Charges Policy;
- Demonstrate probity, prudence and strong financial control;

- Manage financial risks;
- Continually review budgets to ensure resources are targeted on key objectives;
- Continue to improve our approach to commissioning and procurement to ensure value for money for local taxpayers;
- Support new ways to ensure financial sustainability and maximise income to deliver our priorities. This includes the development of commercial projects to capture both revenue income and capital growth opportunities;
- Pursue opportunities for securing external funding; and
- Support opportunities for working in collaboration with partners where this will support our priorities and improve service value for money.

2. Medium Term Financial Plan Priorities

In considering future budget projections, it is recognised that there are unknowns which could impact upon forecasts. The MTFP is not a static document but rather one that is constantly evolving as the environment around it changes. Some of the key risks and sensitivities which need to be monitored are set out below.

- **Economic conditions**. The impact of the economic cycle will need to be considered particularly in relation to business growth, inflationary pressures and interest rate movements. The impact of changes and any impact on public finances will need to be fully evaluated on the financial model.

- Government **Finance Legislation**. There are key pieces of Government legislation which will impact upon the future financial position of the Council. In particular the impact of the localisation of business rates and any additional responsibilities will need to be fully evaluated as well as the Governments current Fair Funding Review of local Government finance which has been delayed but is still is due to be introduced at some point in the future;

- Other **Government Legislation**. There are a significant number of political initiatives particularly in relation to localisation and the role of local Government. These will need to be assessed for their relevance to Reigate and Banstead and the impact on future finances;

- Buoyancy of **Income Streams**. These will be sensitive to changes in consumer confidence and the economy so will need to be closely monitored;

- **Strategic Investments**: The Council is looking to continue to pursue developments that produce financial returns while at the same time supporting the delivery of housing and regeneration priorities;

- **Commercial Ventures**: The Council will seek to take advantage of commercial opportunities wherever possible to cover costs and to review our fees and charges in order to maximise income in line with corporate objectives. Commercial opportunities will be pursued in line with the guiding principles set out in the Commercial Strategy

- To carry out an annual **Financial Review** of the historic budget outturn position and of our base budget to ensure maximum value is obtained from those resources already allocated – effectively to ensure financial discipline and good housekeeping are maintained;

- Using **Reserves** in a sustainable and prudent manner to support the Council's strategies and priorities. This will be supported by the Reserves Policy. It is recognised that reserves can only be used on a 'one off' basis. However, they can play an important part in supporting initiatives or investments which can deliver future benefits;

- To maintain the Council's financial standing it is important that it continues its proactive approach to **Service & Financial Planning** and ensures that budget plans are deliverable and that investments are focussed on securing our financial health; and

- To continue to monitor any potential financial impacts of **Brexit** (for example on the Council's procurement plans) following withdrawal in January 2020 .

3. Medium Term Financial Plan Context

Service & financial planning takes place within the context of the national economic and public expenditure plans; this MTFP has been formulated within the context of the current UK economic position, continued reductions on local government funding and political uncertainty surrounding the shape of Brexit and the ongoing impacts of COVID-19 on council finances and the wider economy .

In response to this financial challenge, local government has innovated, streamlined services and increased productivity. The Government's plans to devolve more responsibilities through the localisation of business rates has been delayed (date to be confirmed), however the detail as to whether councils will be required to take on additional responsibilities remains unclear. The devolution of business rates is intended to be fiscally neutral but how this will work in practice is currently being developed alongside the Fair Funding Review. These changes will bring both risks and opportunities.

The Economy and Public Spending

There remains considerable uncertainty in financial and economic forecasts. In October 2021 as part of the budget statement, HM Treasury reported to Parliament:

- *Gross domestic product (GDP) grew 0.4 per cent in August 2021, according to the latest figures, remaining 0.8 per cent below its pre-pandemic level;*

- *GDP grew by 2.9% in June-August 2021 compared to the previous three-month period (March-May);*
- *Two of the headline sectors provided a positive contribution to three – month growth in June - August. The services sector grew by 3.7%, production by 0.3% and construction fell by 1.3%;*
- *As restrictions were lifted and consumer and business confidence returned, the economy grew by 5.5% in the second quarter of 2021.*

In their October report, the Office for Budget Responsibility (OBR) forecast that The economy is now expected to grow by 6.5 per cent in 2021.

Forecasts for Bank Rate

Bank Rate is not expected to go up quickly after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%

Table 1: FORECAST INTEREST RATES	**Dec-21**	**Jun-22**	**Dec-22**	**Jun-23**	**Dec-23**	**Jun-24**
	%	**%**	**%**	**%**	**%**	**%**
Forecast Bank Rate	0.1	0.25	0.25	0.5	0.5	0.75

Source: *Link Asset Management October 2021*

Inflation

The MPC indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its most recent statement

Table 2: FORECAST INFLATION (CPI)	**2021**	**2022**	**2023**	**2024**
	(Q3)	**(Q3)**	**(Q3)**	**(Q3)**
	%	**%**	**%**	**%**
Forecast CPI	2.7	3.3	2.1	1.9

Source: *Link Asset Management October 2021*

Economic Growth

Economic growth – as measured by Gross Domestic Product (GDP)

- *The latest estimate for the unemployment rate covering the three months to August has fallen to 4.5 per cent,*
- *GDP is still expected to grow by 6.5 per cent in 2021 and to regain its pre-pandemic level around the turn of the year, some months earlier than we expected in March*

Source: *Office of Budget Responsibility October 2021*

Context: Potential ongoing implications of the COVID-19 economic situation for local government

- It may be harder to collect sums due, for example for council tax and business rates. Despite these increasing pressures, to date our performance on income collection remains consistently strong.
- Increased demand for services to assist residents falling into hardship.
- Suppliers and contractors being at risk of liquidation, potentially affecting delivery of services.
- Cost inflation pressures may be greater than assumed.
- Impacts on our supply chain eg. price increases, impacts on operational delivery of capital schemes, supplier workforce impacts.

Local Government Funding

The local government sector has been one of the areas hardest hit by the Government's deficit reduction plan. For Reigate and Banstead Government Revenue Support Grant reduced from £1.6 million in 2014/15 to nil by 2017/18.

Over recent years the framework for local government funding has been subject to a sustained period of change and uncertainty:

- April 2011 – New Homes Bonus introduced
- April 2013 - Business Rates Retention introduced
- October 2015 – 100% BRR and Funding Review announced
- April 2016 – Government and LGA working groups set up and start meeting
- Early 2017 - Call for evidence on Fair Funding and Business Rates Retention consultation
- April 2017 – New Homes Bonus scheme changes
- May 2017 election – Business Rates Retention primary legislation falls; Fair Funding Review to continue
- Summer 2017 – announcement of move to 75% Business Rates Retention; confirmation of new Business Rates Baseline and continuation of Fair Funding Review – all for 2021/22
- July 2018 – new simplified Business Rates Reset first suggested
- December 2018 – no figures beyond 2020/21 available; indications that 'Negative Revenue Support Grant' will result in significant funding reductions for councils like Reigate & Banstead
- December 2018 – new consultations on Fair Funding Review, Business Rates Retention and confirmation of a full Reset of Business Rates growth
- December 2019 - Spending Round19 – one-year settlement for 2020/21 only

- July 2020 - Spending Review20 – delayed to autumn 2020 due to Government's COVID-19 pandemic response.
- September 2020 - the Chancellor confirmed the Government's intention to complete a multi-year Spending Review in 2021, setting revenue and capital budgets for 2022/23 to 2024/25. The stated intention was to lay laid out the intention that the review would set out how the Government would 'Build Back Better', by:
  - 'ensuring strong and innovative public services' (highlighting, in particular: the NHS, education, criminal justice and housing as priority services for investment);
  - 'levelling up';
  - 'Leading the transition to net zero';
  - 'advancing global Britain'; and
  - delivering the Government's plan for growth.

- October 2020 - Spending Review20 – the Government confirmed that this would be another one year review and was published on 25 November 2020. It focussed on prioritising funding to support the ongoing response to the pandemic to:
  - control and suppress the virus;
  - increase support to public services; and
  - support jobs and businesses.

- June 2021 - the Government launched a consultation which could see business rates revaluations take place every three years instead of the current five. The consultation is part of the fundamental review of business rates which the Treasury now indicated will not conclude in 2021 as previously planned, instead publishing 'preliminary conclusions in autumn 2021 ahead of 'final conclusions' in spring 2022.
  - Between 1990 and 2010, business rates revaluations took place every five years. The 2015 revaluation was postponed until 2017 and in May 2021, the 2021 revaluation was postponed until 2023 to reduce uncertainty for businesses affected by COVID-19. The Treasury argues that making revaluations more frequent would ensure they better reflect changing economic conditions.

- July 2021 - the Housing, Communities and Local Government Select Committee published its report on *Local Authority Financial Sustainability and the Section 114 Regime* following their inquiry into a number of local authorities that had issued Section 114 Notices during 2020/21. The Government responded in October 2021, stating that it would "*take stock of the impact the pandemic has had on both local authority resources and service pressures*" to determine the future of local government finance reforms, such as the Fair Funding Review.

Local Government Funding – Current Position

The last three-year Spending Review was in 2015, covering the financial years 2016/17, 2017/18 and 2018/9. As explained above, the anticipated 2018 Spending

Review never took place and departmental budgets were instead 'rolled over' into 2019/20, while the Spending Review in 2019 was also cancelled and replaced by an interim Spending Round that set out current spending by departments for one financial year (2021/22) and capital investment plans for two financial years (2021/22 and 2022/23). Spending Review20 was then delayed from July to November 2020 to enable the Government to remain focused on responding to the COVID-19 pandemic.

As summarised above, for the past two years, the Government has announced single-year Spending Reviews, in 2019 due to the political turbulence around Brexit and in 2020 given the COVID-19 pandemic.

Prior to 2019, there had been three Spending Reviews since 2010, with each impacting on local government's strategic financing:

- 2010 established the initial path of reductions to local government grant funding and introduced the Council Tax Freeze Grant and New Homes Bonus;
- 2013 continued on this trajectory and introduced the Better Care Fund; and
- 2015 saw the scrapping of the Council Tax Freeze grant, and the introduction of referendum limits for council tax and the introduction of the Social Care Precept.

Spending Review 2021 therefore potentially represents the first return to multi-year statements since 2015.

In October 2021, the Chancellor's Autumn Budget and Spending Review21 document covered the following key themes:

- **Investing in growth** – through changes to the taxation system and by increasing capital expenditure on research and development; through further investment in infrastructure across road, rail, digital and locally; and a package of additional measures aimed at boosting skills;
- **Supporting people and businesses** – through a range of measures, including reducing the taper on Universal Credit from 63% to 55% and a 6.6% increase to the National Living Wage to £9.50 an hour from April 2022. There will also be adjustments to business rates, including a temporary relief for retail, hospitality and leisure properties, a freeze on the business rates multiplier and a new business rates relief for investment in property improvements from 2023;
- **Building back greener** – through measures aimed at reducing transport as an emitter of greenhouse gases; extending efforts to reduce greenhouse contributions from buildings; supporting decarbonisation of energy and industry through new technologies and protecting and enhancing the natural environment;
- **Levelling up** – including publication of a Levelling Up White Paper by the end of this year, setting out in more detail the framework and next steps towards levelling up opportunities and boosting livelihoods across the country. Spending Review21 also announced the first £1.7 billion allocations through the Levelling Up Fund;

- **Advancing Global Britain** – through the government policy on development on diplomacy, tackling global challenges and defence and security; and
- **Seizing opportunities of Brexit** – through measures on alcohol duty reform, a package of reforms to air passenger duties and developing freeports

Fiscal Rules

- The Budget statement announced a new charter for budget responsibility:
  - The first fiscal rule commits to ensuring that underlying public sector net debt, excluding Bank of England borrowing, falls as a percentage of GDP; and
  - The second commits to everyday spending being paid through taxation rather than borrowing.

  Both rules must be met by the third year of every forecast period.
- There were also commitments to:
  - ensure that public sector net investment does not exceed 3% of GDP on average over the rolling forecast period; and
  - to ensure that expenditure on welfare is contained within a predetermined cap and margin set by the Treasury.

Council tax

- The referendum threshold is expected to remain at 2% per year through the SR period, with an additional 1% per year for social care authorities.
- No announcements were made about whether there will be an extension of the additional funding to support authorities with increased costs of Localised Council Tax Support.

Business Rates

- The latest fundamental review of the business rates system has now been completed, and the outcome has been published. The Chancellor's speech highlighted that the Government does not intend to abolish business rates, but stated that it plans to launch a consultation on an Online Sales Tax.
- Other notable announcements include a further freeze of the business rates multiplier (following a freeze for 2021/22) and an extension of the Retail, Hospitality and Leisure relief (this time at 50%, lower than the 66% currently applicable, with a cash cap of £110,000 – up from the £105,000 cap applicable in 2021/22). The Government anticipates that the relief will cost £1.7bn nationally in 2022/23. Local authorities will be compensated for the consequent income losses.
- The Government also announced that, after the next revaluation in 2023, revaluations will take place every three years.
- There will also be a new relief introduced from 2023, which will allow businesses to benefit from 100% relief for 12 months from when they make improvements to their premises. A relief will also be introduced for

plant and machinery used in onsite renewable energy generation and storage. It is understood that local authorities will be compensated for the consequent income losses.

Business Rates Retention

- No announcement was made about the Government's plans for funding reform or a reset of the Business Rates Retention system, both of which were originally expected to be implemented in 2019/20, but which have been delayed a number of times.
- However, the Government has announced that it is expecting the current pilots to continue throughout the Spending Review period and end when there was a reset, so the continuation represents a strong signal that a reset should not be expected during this Parliament.

Housing

- Investment was announced in affordable housing with a view to delivering £10bn of investment during this Parliament and one million new homes in the Spending Review21 period to 2024/25. Of this, £300m will be distributed to local authorities (and mayoral combined authorities) to support the development of smaller brownfield sites.
- There will also be £65m invested to 'digitise' the planning system.
- By 2024/25, an additional £639m will have been committed to rough sleeping. The Rough Sleeping Initiative and Homelessness Prevention Grant will continue.

Funding Reform

- The Chancellor's autumn 2021 announcements did not address the question of whether negative RSG grant will be removed.

Funding Changes with Implications for this Council

As set out above, the consultations and announcements over recent years that are likely to have implications for this Council's funding position are summarised below:

Fair Funding Review

- Intended to be introduced in 2021/22, but now delayed again as a consequence of the COVID-19 pandemic, the Review will set new funding baselines and confirm any transitional arrangements.
- The Chancellor's Autumn 2021 Budget did not confirm when they will now take place; there may be further information in the Provisional Settlement announcement in December 2021.

Business Rates Growth: Reset and 'Alternative' System

- The Government's stated aim is to balance risk and reward through a system of *Resets, Safety Nets, Levies, Tier Splits* and *Pooling*. Also to simplify the system by looking again at appeals, while addressing income volatility and introducing more simplification. This too was put back to 2022/23.

- The Chancellor's Autumn 2021 Budget did not confirm when they will now take place; there may be further information in the Provisional Settlement announcement in December 2021.

Business Rates Revaluation

- Delayed by an additional year to 2023 as a consequence of the COVID-19 pandemic;
- In June 2021 the Government launched a consultation on revaluations taking take place every three years instead of the current system of every five years;
- The Chancellor's Autumn 2021 Budget confirmed that three year revaluations will commence in 2023

New Homes Bonus:

- Alongside the single-year allocation in 2020/21 the Government stated that there will be further changes to the system, for example further changes to the methodology based on a reduced funding allocation and/or the allocation of higher amounts to fewer authorities (or lower amounts to many).
- The Chancellor's Autumn 2021 Budget did not confirm when they will now take place; there may be further information in the Provisional Settlement announcement in December 2021.

Specific Grants:

- There is still an expectation that these will be rolled into the funding system when 75% business rates retention is introduced (date to be confirmed)
- The Tax Income Guarantee and Lower Tier Services Grant were introduced in 2021/22; for the purposes of this report these are assumed to continue in 2022/23;
- The Chancellor's Autumn 2021 Budget did not confirm any further details; there is expected to be further information in the Provisional Settlement announcement in December 2021.

Negative RSG Grant:

- It has also not yet been confirmed when this will cease. Further information may be announced as part of Spending Review21; for the purposes of this report it is assumed to cease by 2026/27;
- The Chancellor's Autumn 2021 Budget did not confirm when these changes will take place; there is expected to be further information in the Provisional Settlement announcement in December 2021.

Council Tax:

- There is a possibility of increased freedoms (primarily for social care precepting authorities).
- The Chancellor's Autumn 2021 Budget did not confirm whether they will now take place; it is now unlikely that any changes will be made.

Service & Financial Planning: Government Funding Assumptions

For the purposes of preparing this MTFP and the draft 2022/23 budget the following has been assumed:

- No significant changes to total local government funding as a result of Spending Review21;
- The most far-reaching funding changes will be delayed until at least 2023/24;
- When implemented, the funding changes are forecast to reduce this Council's Government funding by £0.0.740m in year one followed by a further £0.220m and £0.250m in each of the two subsequent years (£1.23om in total). This is as a consequence of the removal of 'Negative RSG' grant and the Business Rates reset. The forecast assumes there will be no other transitional funding arrangements for these changes;
- Council taxbase growth of up to 1.5% per annum and council tax increases continue to be capped at a maximum of 1.99% or £5; and
- Funding from New Homes Bonus to cease in 2022/23 (no new allocations).

4. Corporate Plan Priorities

The Council's Corporate Plan 2025 sets out our priorities for the next five years, and explains how the Council will focus its resources and deliver services to those living, working and spending time in Reigate & Banstead.

This MTFP has been developed to align with the Plan vision and priorities.

The Corporate Plan includes objectives in relation to Housing, Vulnerable People, Communities & Community Safety, Leisure & Wellbeing, Towns & Villages, Economic Prosperity, Shaping our Places, Clean & Green Spaces, Environmental Sustainability, Financial Sustainability, Commercial Activities, Operational Assets and Skills & Great People.

The Plan includes:

- A set of 'cross-cutting commitments' describing how the Council will deliver services, covering aspects such as communications, customer contact, partnership working and environmental sustainability
- A 'housing' objective to do more to secure the delivery of homes that are more affordable for local people.
- Objectives about communities and vulnerable people, reflecting the Council's proactive housing, family support and community development activities
- An objective that recognises the need for the Council to support towns and villages in the borough to thrive and an updated objective on Shaping our Places recognising the future focus of our work in this area

To achieve our financial sustainability objective, our Corporate Plan 2025 explains that the Council will:

- Ensure that our budget setting process is transparent and well-managed to deliver a balanced budget outcome each year

- Run an effective collection team to recover money owed to us

- Operate in an efficient and rigorous way across all our day-to-day financial Operations

- Publish and keep up-to-date our Capital Investment Strategy; and

- Need to increase Council Tax every year to reflect increasing costs, but the Council will review this position annually.

Commercial Strategy

Following the Member task group review of commercial activity in 2018, and the establishment of the Commercial Ventures Executive Sub Committee and a new Commercial directorate in 2019, Part 1 of the Commercial Strategy was developed in consultation with Commercial Ventures Executive Sub Committee members and approved by the Executive in November 2020.

The definitions and principles that it includes, and the categories of activities it sets out, are intended to assist in the understanding of why this Council needs to undertake commercial activity, and how funding allocated in 2020/21 and 2021/22 will be focused. It also includes a Commercial Activity Action Plan, progress on which will be reported annually. The Action Plan will support delivery of new income generation opportunities for inclusion in future MTFP forecasts.

Part 1 sets out what commercialisation means to this Council, including:

- Income generation for reinvestment into Council frontline services;

- Creating a culture that encourages skills that support an enhanced approach to commercial work, including a positive culture and behaviours;

- Providing a response to reduction of Government grant and the increased need to be financially self-sustaining, whilst creating opportunity to change and supplement existing activities;

- Allowing optimisation of income and identifying new revenue opportunities that fit the remit and ambition of this Council;

- Using resources in an agile fashion to meet changing needs of residents; and

- Promoting internal efficiency and effectiveness when approaching commercial activities;

It is based on three guiding principles:

- **Principle 1:** Our commercial activity will be ethical, and consistent with the Council's statutory responsibility to promote economic, environmental and social wellbeing in the borough, and our corporate objectives as well as in line with all relevant advice and guidance;

- **Principle 2:** Any decisions which have a commercial aspect will be based on a robust assessment of the business case using consistent relevant criteria, and appropriate due diligence and risk assessment; and

- **Principle 3:** Surplus income generated through our commercial activities will be used to ensure the financial sustainability of the Council and continued delivery of services for local people.

Part 2 of the Strategy is now in development; it will provide more detail about the implementation of commercial activity, particularly investment activity.

Financial Sustainability Plan
Reliance on one-off measures such as the use of reserves is not without risks and will not be sustainable over the long-term. Going forward, solutions that reduce costs or increase income on a permanent basis will have to be identified for 2023/24 onwards. A Financial Sustainability Plan will be developed, focussing on four key areas:

Income Generation	• Pursuing opportunities to generate new income streams. • Optimising fees and charges. • Implementation of the Commercial Strategy.
Use of Assets	• Making effective use of existing assets, including the repurposing and sale of surplus properties.
Prioritisation of Resources	• Reviewing in-year budget monitoring forecasts to identify new opportunities for savings and efficiencies. • Reviewing the level of service provided and focussing resources on priority services. • Managing pay costs and making effective use of staff resources.
Achieving Value for Money	• Actively pursuing options to share with other councils to realise efficiency savings. • Identification of invest to save opportunities – including investment in technology and assets to reduce operational costs.

The Corporate Governance Group (comprising statutory officers and Directors) will oversee progress in the identification and delivery of initiatives in the Plan while delivery of individual projects will be managed within existing project management Boards.

Progress will be reported to Executive as part of quarterly performance reporting.

5. Budget-Setting Priorities 2022/23

The Priorities that will be taken into account when preparing the draft Budget for 2022/23 are set out below:

- To ensure resources are aligned with the emerging **Corporate Plan priorities**

- To maintain a **balanced budget** such that expenditure matches income from council tax, fees and charges, and government and other grants and to maintain that position

- To set a rate for **council tax** which maximises income necessary to deliver our strategic objectives while ensuring that Government referendum limits are not exceeded. The percentage increase will be reviewed annually and be approved by Full Council

- To **maximise other income** by setting fees and charges, where we have the discretion and need to do so, at a level to ensure at least full cost recovery, promptly raising all monies due and minimising the levels of arrears and debt write offs

- To ensure a long-term sustainable view is taken of our **investments** and that appropriate risk analyses are used when considering new investments

- To consider and take advantage of **commercial opportunities** as they arise to deliver new income streams

- To maintain an adequate and prudent level of **Reserves** and regularly review their planned use and allocation to support delivery of our priorities.

- To address the legacy financial challenges forecast as a consequence of the **COVID-19 pandemic**.

6. Revenue Reserves

The Council holds Reserves to provide protection against financial risks. Our current level of reserves provides a relatively secure financial base compared to many authorities; it is important to ensure an appropriate balance between securing the financial position of the Council and investing in delivery of services.

Reserves can be held for four reasons:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing.

- A contingency to cushion the impact of unexpected events or emergencies.
- A means of building up funds to meet known or predicted liabilities.
- A means of setting aside sums for future identified uses and / or investments

There is an opportunity cost of holding reserves in terms of restricting capacity to invest in current service delivery but this is offset by the additional flexibility that reserves provide when manage budget risks and adverse variations.

The level of Reserves is being reviewed throughout service & financial planning with the aim of presenting the final recommended use of reserves in 2022/23 onwards as part of the January budget report. This will include an assessment of the adequacy and allocation of current reserves and the associated risks and opportunities.

General Fund Balance
The General Fund Balance Reserve is held to manage the impact of any unexpected events/emergencies. The Section 151 Officer is required to review the level of the General Fund Balance annually in relation to the overall financial position of the Council. CIPFA guidance on Local Authority Reserves and Balances (2003) and the Local Government Act of 2003 do not recommend a specific value or budget %.

The Council's Section 151 Officer advised in the January 2021 budget report that a working balance of £3.0m is considered the minimum level required. This represents just over 15% of the net budget for 2021/22. This minimum level will be reviewed again as part of 2022/23 service & financial planning.

Earmarked Revenue Reserves
Earmarked Revenue Reserves may be used as part of a planned process to balance the budget in order to avoid short term actions which may not be in the best interests of the Council. They also allow funds to be set aside for specific purposes, often spanning more than one financial year.

Useable Revenue Reserves
Revenue Reserves have increased steadily over recent years.

Table 3: USEABLE REVENUE RESERVES	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**2017/18 £m**	**2018/19 £m**	**2019/20 £m**	**2020/21 £m**
General Fund Balance	6.075	6.717	8.737	5.912	12.547	12.547	8.949	3.000
Earmarked Reserves	9.526	10.963	13.485	19.075	21.703	25.042	32.646	38.738
Total Reserves	**15.601**	**17.680**	**22.222**	**24.987**	**34.250**	**37.589**	**41.595**	**41.738**
Reserves as a % of the Net Revenue Budget	119.14%	135.01%	169.70%	190.81%	261.55%	287.05%	255.26%	240.00%

COVID 19 Reserves
In addition, the 2021/22 Reserves include sums set aside following the COVID-19 pandemic:

- £2.000m to cover ongoing general expenditure and to help mitigate the impacts of income losses;
- £0.108m Government funding for discretionary business grants received in 2020/21 and carried forward to 2022/23; and
- £0.534m for other pandemic funding received in 2020/21 and to be used in 2021/22 to help fund general costs.

Opportunity Cost of Holding Reserves
The opportunity cost of holding reserves has to be considered. Unused balances are used to either reduce temporary borrowing or are invested to generate income. In measuring the opportunity cost of holding reserves, consideration needs to be taken of the interest earned. The opportunity cost of holding reserves is therefore a judgment whether the 'worth' of expenditure foregone is more than the income generated. Given the current economic climate it is a balanced judgement as to whether to invest / spend reserves or to retain them.

Assessing the Adequacy of Reserves
The Chartered Institute of Public Finance and Accountancy (CIPFA) state that the Institute 'does not accept a case for introducing a statutory minimum level of reserves, even in exceptional circumstances'. It does however confirm that authorities should make their own judgment on such matters, taking into account all relevant local circumstances on the advice of their Chief Finance Officer.

The Local Government Act 2003 requires the Chief Finance Officer to formally report on the adequacy of the proposed financial reserves. To arrive at assessing the adequacy of reserves a number of issues need to be addressed:

- What are the strategic, operational and financial risks facing the Council?
- Does the Council comply with the requirements to ensure that there is an adequate system of internal control?
- Are the key financial assumptions in formulating the Council's budget robust and reasonable?
- Does the Council have adequate financial management and cash flow arrangements?

In addition there are a number of questions an authority can ask to demonstrate that it is managing its affairs satisfactorily:

- What is the track record of the Council in its budgetary and financial management?
- What is the Council's record regarding council tax collection?
- What is the Council's capacity to manage in-year budgetary pressures?
- What is the strength of the Council's financial reporting?

- What are the procedures to deal with under and over spends during and at the year end?
- In the case of Earmarked Revenue Reserves, will there be expected calls on the reserves that prompted the setting up of the reserves in the first place?

Finally, there is a need to look at the assumptions made in setting the budget, not just for the coming year but also under the MTFP. The budgetary assumptions cover:

- Inflation and interest rate projections.
- Estimate and timings of capital receipts.
- Treatment of planned efficiency savings.
- Financial risks involved in major funding arrangements.

Capital Reserves
In addition the Council holds Capital Reserves to help fund delivery of the Capital Programme. At 1 April 2020 they comprised:

- Section 106 contributions £12.772 million
- Community Infrastructure Levy £8.721 million
- Other Capital Grants & Contributions £3.263 million

7. Medium Term Financial Plan Forecast 2021/22 onwards

The latest review of Medium-Term Financial Plan budget forecasts has identified a number of pressures that will need to be addressed through service & financial planning in 2022/23 onwards.

They include:

- Making budget provision for future pay and pensions increases
- Budgeting for the costs of approved borrowing to fund planned Capital Programme commitments
- The impacts on available resources of Government funding reductions in future years, including the loss of Negative RSHG Grant, the Fair Funding Review and Business Rates Reset
- Revenue and capital budget growth to deliver priorities in the new Corporate Plan – details to be confirmed during service & financial planning
- The ongoing financial impacts of the COVID-19 pandemic; in particular continued reductions in parking income forecasts
- The requirement to address other budget risks and opportunities that have been identified during budget-setting, including:
    - IT Resilience – investment to address risks;
    - Property Rental Income – significant lease renewals during the year;
    - Procurement & Contract Management and Data Insight – investment in additional capacity;

- Family Support & Refugee Resettlement – new funding opportunities; and
- Government Waste & Resources Strategy impacts – 2024/25 onwards;

The service & financial planning process over the summer and early autumn has started to quantify the impacts as the details are confirmed; also identifying the new sources of income to help address them.

The key factors that will influence the forecast gap include:

Service Expenditure	• New budget pressures that have been identified through the service & financial process; the approach to funding them will be confirmed when the final budget proposals are reported in January. • Legacy impacts of the COVID-19 pandemic on parking income budgets
Central Budgets	• Treasury Management costs will rise significantly over the MTFP period as a consequence of the borrowing requirement to fund the approved Capital Programme
Council Tax	• Council tax setting assumptions • Any legacy impacts of the COVID-19 pandemic on recovery performance and Local Council Tax Support take-up
NNDR	• Removal of Negative RSG Grant and the Business Rates reset • Any legacy impacts on recovery performance of the COVID-19 pandemic
Use of Reserves	• Funding for the 2021/22 budget includes drawing £0.235 million from the General Fund Reserve. If equivalent savings, efficiencies or new sources of income are not identified for 2022/23 this requirement to call on Reserves will continue to increase, and further reduce available balances.
Budget Outturn	• In previous years the budget outturn position has been a revenue budget underspend of at least £1.0 million, primarily due to the inclusion of Contingency budgets that were deleted for 2021/22 onwards.

The latest MTFP forecast is set out at Appendix 2.

8. Capital Investment Strategy

The latest Capital Investment Strategy was reported to Executive in July 2021 and sets out a framework for funding and investment decisions in respect of capital assets, in the context of our vision and priorities and available financial resources.

The Capital Investment Strategy demonstrates that we take capital expenditure and investment decisions in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long-term context in which capital expenditure and investment decisions are made, and takes into account to both risk and reward and impact on the achievement of priority outcomes.

When setting its capital programme, each authority must have regard to:

- Service objectives – the capital spending plans should be consistent with the Corporate Plan;
- Stewardship of assets – as demonstrated by our asset management planning approach;
- The value for money offered by investment plans – as demonstrated by the appraisal of the options;
- The prudence and sustainability of investment plans – their implications for external borrowing;
- The affordability of capital investment plans – the implications for the council tax; and
- The practicality of capital expenditure plans – whether the forward plan is achievable.

Decisions on the Capital Programme have an impact on the Revenue Budget, in relation to:

- The revenue costs of financing capital, including prudential borrowing; and
- The ongoing running costs and/or income generated by new capital assets.

Capital investment decisions therefore have implications for the Revenue Budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within our financial plans and to demonstrate that the capital investment is affordable.

Our revenue and capital budgets are integrated with the financial impact of the proposed Capital Programme, being reflected in the Revenue Budget estimates.

The Council will only invest where capital spending plans are affordable, prudent and sustainable. The key constraint on capital investment is the scope to afford the financial implications in terms of acceptable council tax levels.

As supported by the Capital Investment Strategy, the Council's capital investment plans over the next 5 years are set out in the Capital Programme. The efficient and effective use of capital resources, including sound asset management, is fundamental to achieving our long- and medium-term aims and objectives. It is also critical to achieving the delivery of the required savings and income across the Council to secure a balanced budget.

Medium Term Capital Programme
While Revenue Budget expenditure is concerned with the day-to-day running of services our Capital Programme is concerned with investment in the assets required to deliver services or help generate new income streams. The Medium-Term Capital Programme sets out how capital resources will be used to achieve our vision and corporate priorities.

The Council must have an affordable Capital Programme; affordability is assessed against business cases taking into account the level of future resources required to support project delivery and ongoing asset maintenance.

The strategic objectives of our Capital Programme can be summarised as follows:

- To maintain a five-year rolling Capital Programme which remains within the approved affordable, sustainable and prudential limits;
- To ensure capital resources are aligned with our strategic vision and corporate priorities by ensuring all schemes are prioritised according to the Council's prioritisation methodology;
- To identify opportunities for investment in new schemes that result in capital growth and/or new revenue income streams;
- To maximise available resources by actively seeking external funding to support Council priorities and disposing of surplus assets; and
- To use internal resources alongside external resources where appropriate to support the Capital Programme and minimise any borrowing costs.

Capital Programme – Revenue Budget Implications
As explained above, with the exception of earmarked Section 106 and CIL funds, the Council no longer has significant capital reserves, therefore, while a small number of schemes will be continued to be funded from capital grants, capital receipts and other contributions, the majority of the approved Capital Programme must be funded through prudential borrowing. The costs of repaying this borrowing fall on the revenue budget as treasury management costs in Central budgets.

Treasury management budgets have been updated to reflect the costs of borrowing for the approved Capital Programme for 2021/22 onwards net of interest on forecast balances. Details are set out in the Treasury Management Strategy for 2021/22 that was approved in April 2021.

The cost of managing and maintaining new capital assets will also have to be taken into account in the revenue budget as new assets come into use.

9. Treasury Management & The Prudential Code

CIPFA defines treasury management as:
"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the

risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management function is to ensure that this cash flow is adequately planned, with cash being available when needed. Surplus monies are invested with low risk counterparties in line with our risk appetite, ensuring adequate security and liquidity before considering investment return.

The second main function of treasury management is funding our Capital Programme. Our capital investment plans provide a guide to borrowing need, essentially for longer-term cash flow planning purposes, to ensure that the Council can meet our capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. We anticipate taking on long-term borrowing for the first time during 2021/22.

The contribution that the treasury management function makes is important, as the balance of debt and investment operations ensure liquidity and/or ability to meet budget commitments as they fall due, both on day-to-day revenue-funded activity and for larger capital projects. The treasury function balances interest costs of debt and investment income arising from cash deposits which in turn affect available resources. Cash balances generally result from our reserves and balances, therefore it is important to ensure adequate security of the sums invested, as a loss of principal will in effect result in a call on the General Fund Balance.

<u>Company Investments</u>
Our company investments are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day to day treasury management activities.

The Prudential Code
CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the 'Prudential Code') provides the framework for councils' capital investments. The key feature of the prudential system is that councils should determine the level of their capital investment – and how much they borrow to finance that investment – based on their own assessment of what they can afford, not just for the current year but also for future years.

The statutory basis for the prudential system is set out in the Local Government Act 2003, which:

- Confirms councils' power to borrow – which in the medium term must only be for capital purposes, while short-term borrowing can be for cash flow purposes;
- Makes it clear that, as previously, councils may not mortgage assets;
- Places a duty on councils not to exceed their prudential borrowing limits, or any national limits imposed by central government;

- Places a duty on councils to determine – and review – their own borrowing limits in accordance with the Prudential Code;
- Gives the Government a reserve power to impose borrowing limits that would override councils' own borrowing limits for national economic reasons;
- Makes it clear that credit arrangements should be treated as borrowing under the prudential system; and
- Confirms that councils may invest both for the prudential management of their financial affairs and for purposes relevant to their functions.

Following two consultations intended to take into account the changing landscape for local government following the sustained period of reduced public spending and the developing localism agenda, the Prudential Code was updated in December 2017. One of the main changes was to introduce the requirement to publish a Capital Investment Strategy.

In July 2021 CIPFA then announced that a strengthened Prudential Code will be published by the end of 2021. The revised Code will include clarification and examples of what is and is not classified as prudent borrowing activity.

Other key changes that will be implemented following consultation include:

- The inclusion of proportionality as an objective, so that an authority incorporates an assessment of risk against levels of resources;
- Clarifications to better define the types of commercial activity and investment that are no longer permitted; and
- The introduction of the Liability Benchmark as a Treasury Management indicator for local government bodies

CIPFA also plan to revise the Treasury Management Code to integrate Environmental, Social and Governance risks into the policy framework and update the guidance on development, retention of knowledge, skills, and training in this area.

10. Medium Term Financial Plan Risks & Sensitivities

The Council's Strategic Risk Register includes the following risk:

SR2: Financial Sustainability

The Council is now operating in a uniquely challenging and uncertain financial context.

- *In the wake of the COVID-19 pandemic and likely recession which will follow, the Council faces a period of unprecedented financial uncertainty.*
- *The ongoing financial settlement with the Government also remains unclear with the Fair Funding Review and Business Rate Reset and Revaluation being delayed.*
- *There most significant risks relate to the extent to which the Government will fund the unplanned expenditure that is being incurred to deliver the Council's COVID-19 responsibilities at the same time as experiencing material reductions in income from fees and charges and local taxes. If this substantial financial burden is not mitigated through direct*

Government support these unplanned financial pressures will have an adverse impact on the Council's capacity to deliver against its Corporate Plan ambitions in future years.

A summary of the mitigating actions is set out at Appendix 3.

Operational Risk Register – Budget-Setting
The principles and assumptions contained within this MPFP are aimed at ensuring that the Council is financially sustainable and continues to deliver high quality services.

Individual revenue and capital budget proposals will be subject to risk assessment as part of the service & financial planning process.

The Council, in common with most local authorities, continues to be at risk from a range of financial risks. They include:

Perceived Risk	Impact	Likelihood	Preventative Action
Failure to remain up to date with changes in relevant legislation, regulations and guidance	High	Low	Ensure that all relevant information is taken into account when producing MTFP and budget forecasts.
Changes in legislation affecting the scope of services and the cost of carrying them out	Medium	Medium	Maintain regular contact with Heads of Service regarding developments that have potential financial implications.
Local Government Financial Settlement worse than forecast	High	Medium	Model a range of MTFP and budget scenarios and strategies.
Outdated MTFP assumptions and/or significant variations due to economic factors	High	Low	Regularly review and update assumptions.
Inaccurate budget assumptions	High	Medium	Regularly review and update assumptions.
Unexpected financial events	High	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Deliverability of new income streams against forecast timescales	High	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Demographic and demand-led pressures	Medium	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.

Perceived Risk	Impact	Likelihood	Preventative Action
Reduction in existing fees & charges income (excluding pandemic impacts)	Medium	Low	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.
Contract risks e.g. contractor viability, non-delivery	Medium	Medium	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks. Maintain regular contact with Heads of Service regarding developments that have potential financial implications.
COVID-19 financial risks	High	Medium	Legacy impacts of the pandemic include ongoing cost pressures and income reductions.
Commercial Risks	High	Medium	Treasury management budget forecasts include assumptions regarding the accrued interest on loans to the council's companies. If the companies cannot repay their loans the sums outstanding and accrued interest may have to be written off (if not covered by sale of company assets).

Sensitivity Analysis
A small change in key underlying assumptions can produce a significant change in the budget.

Table 4: SENSITIVITY	Change	Estimated Annual Impact £000
Council Tax/Taxbase	+/- 1%	(144)
Business Rates Income		(18)
Staff Costs		235
Non-Pay Costs		120
Fees & Charges		(174)

Budget Uncertainties & Risks
While the approved budget for 2021/22 is robust, there remain, a number of uncertainties and risks to be addressed over the medium-term which are set out below.

The Economy:

- There is still uncertainty and a lack of confidence about the future of the economy as consequence of the COVID-19 pandemic and the UK's exit from the European Union;
- Any future economic slowdown nationally or globally - could result in lower income (through - for example - reduced discretionary spending or lower than anticipated recyclate prices) and increases in demand (benefits and statutory duties such as homelessness); and
- Any reduction in the number of employers in the Borough could also have an impact on retained Business Rates income.

Future Government Funding:

- The outcome of the Fair Funding Review and Business Rates reset along with the end of Negative RSG Grant;
- The end of New Homes Bonus payments over the coming years will have an impact on reserves, but no direct budget impact; and
- The Homelessness Reduction Act requires Councils to provide more support to homeless people and people at risk of becoming homeless. The Government has committed ring-fenced funding towards this duty but there remains a question mark over the longer term.

Revenue Budget Savings and Income Generation:

- Following the significant budget reductions in recent years, it has become increasingly difficult to generate additional ongoing savings. If the Council is to deliver financial sustainability then we will need to continue our efforts to become a more commercial organisation and fully explore income generating opportunities involving, for example, asset use, partnership working and providing services for other organisations. Government and CIPFA guidance on 'borrowing in advance of need' is likely to limit the options that may otherwise have been considered to deliver new commercial income streams.

Corporate Plan 2025:

- The Corporate Plan sets out the Council's vision and objectives over the medium term and will enable it to target its resources in the most efficient and effective way; and
- The main challenge, as ever, will be balancing our ambitions as a high performing council with our ability to resource those ambitions. The prioritisation of services like Housing Delivery and Environmental Sustainability will place new demands on existing resources. A combination of careful stewardship and an innovative approach to service delivery will be required to ensure that we achieve our goals.

Budget Risks:

- Given the uncertainty over future economic conditions and the business rates regime, it is prudent to maintain our capacity to protect services from unforeseen financial pressures. Once used, however, it may prove difficult to replenish reserves; and
- Despite significant improvements in recent years the Pension Fund remains a risk over the longer term as future economic downturns may impact on the value of Fund investments and liabilities.

COVID-19 Pandemic

- While the more significant financial impacts had reduced at the time of preparing this report, ongoing impacts on parking income receipts remain a concern.

MTFP and Budget Monitoring and Review
The updated MTFP position has been reported as part of the draft Budget report in November.

The processes and procedures relating to the monitoring of the Revenue Budget and Capital Programme are set out in the Council's Financial Procedure Rules.

11. Service & Financial Planning Process 2022/23

As explained above, this MTFP represents an overarching view of our finances and looks to anticipate future demands and pressures so that we can take timely decisions to secure financial sustainability.

The MTFP is supported by a number of key documents which contribute to management of the overall financial position. These are:

Revenue Budget Report	Produced on an annual basis – draft in November and final in the following January. It sets out the plan for setting and managing a balanced budget for the following financial year. It is here the detailed decisions on revenue and capital expenditure are presented, including proposed budget savings and growth. The recommended Budget is supported by operational budget detail that forms the basis for in-year budget monitoring and management.
Capital Programme	Sets out capital expenditure plans over the medium term. This is aligned with the Revenue Budget where it results in costs of borrowing and income streams.
Capital Investment Strategy	Updated on an annual basis and sets out the framework for investing in capital assets over the medium term. Objectives: • Ensure capital expenditure contributes to the achievement of the Council's organisational strategy • Set a Capital Programme which is affordable and sustainable

	• Maximise the use of assets • Provide a clear framework for decision making and prioritisation relating to capital expenditure • Establish a corporate approach to the review of asset utilisation
Treasury Management Investment Strategy	Sets out the approach to managing the cash available to the Council and how to maximise its value. Also sets out the Council's investment and borrowing arrangements and controls.
Reserves Policy	Sets out the reasons for holding reserves and how they will be used, including financial limits where appropriate.
Fees & Charges Policy	Sets out a corporate view of the fees and charges levied by the Council for consideration each year.
Annual Council Tax Report	Approved by Full Council in February each year

Service & Financial Planning Objectives
The objectives for service & financial planning each year are to:

- Help Members determine budget priorities and their timing;
- Forecast the changes in demand for services and match demand with likely resources;
- Assess the likely implications of changes in legislation on resources;
- Model the future costs of alternative policies; and
- Provide a framework for programming activities by individual services.

Service & Financial Planning Timetable
The timetable for Service & Financial Planning 2022/23 is set out in the covering report.

12. CIPFA Financial Management (FM) Code

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code.

The CIPFA FM Code was therefore introduced in October 2019 and will be applicable from 1 April 2021. Work was undertaken as part of 2021/22 budget-setting to review compliance with the Principles and Standards in the Code and to identify any actions required to address any gaps identified.

CIPFA explain that reasons for introducing the Code include: '… *the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely*….'.

The Code has several components, comprising:

- An introduction explaining how the FM Code applies, a principles-based approach and how it relates to other statutory and good practice guidance on the subject;
- The CIPFA Statement of Principles of Good Financial Management, the benchmarks against which financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles; and
- The FM Code then translates these principles into financial management standards which will have different practical applications according to the circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within the code, reflecting the non-prescriptive approach adopted by CIPFA.

The Principles focus determining whether, in applying standards of financial management, a local authority is financially sustainable. They cover:

- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture;
- Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs;
- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making;
- Adherence to professional standards is promoted by the leadership team and is evidenced;
- Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection; and
- The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

ANNEX 2

The supporting financial management Standards are summarised in the table below:

Table 5: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
Section 1: The responsibilities of the chief finance officer and leadership team	
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.* Areas for Development: • Finance team development now that all permanent vacancies are filled
Section 2: Governance and financial management style	
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control. Areas for Development: • Review and update the Financial Procedure Rules and Scheme of Delegation in the Constitution to ensure they are current and relevant
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).
E	The financial management style of the authority supports financial sustainability. Areas for Development: • Review and update the Financial Procedure Rules and Scheme of Delegation in the Constitution to ensure they are current and relevant
Section 3: Long to medium-term financial management	
F	The authority has carried out a credible and transparent financial resilience assessment. Areas for Development: • Annual MTFP review and reporting, including financial risks assessment
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members. Areas for Development: • Annual MTFP review and reporting, including financial risks assessment

Table 5: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.
Section 4: The annual budget	
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans. <u>Areas for Development:</u> • Annual MTFP review and reporting, including financial risks assessment
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
Section 5: Stakeholder engagement and business plans	
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions. <u>Areas for Development:</u> • Development of the Council’s business case model and toolkit to ensure it reflects good practice relating to preparation of the financial case
Section 6: Monitoring financial performance	
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability. <u>Areas for Development:</u> • Implementation of internal audit recommendations relating to contract management
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
Section 7: External financial reporting	
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.

Table 5: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
	Areas for Development: • Continued development of the closedown plan and supporting processes to improve the quality and timeliness of the annual accounts
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

The main areas for further development are set out above.

13. CIPFA Resilience Index

As part of the service & financial planning process officers undertake a financial resilience assessment by that considers principally whether the authority has in place a credible plan and planning process that gives confidence that it can deliver a sustainable budget over the medium term. The scope of this assessment includes:

- the authority's current financial position;
- an assessment of its future financial prospects;
- the extent to which the authority has embraced the financial resilience factors set out below;
- the key financial risks facing the authority, drawing on potential future scenarios including 'best' and 'worst' case scenarios – for the environment in which the authority operates and for the services that it provides;
- the use of independent, objective measures wherever possible to assess the risks to the authority's financial resilience and sustainability;
- the authority's understanding of the risks associated with all resources used for service delivery, including its workforce, its physical assets, its strategic business partners (including 'group' entities such as its companies), its information technology infrastructure, etc;
- the robustness of the plans that the authority has put in place to address these risks; and
- the capacity and capability of the authority, its leadership team and its officers to manage the authority's finances in a sustainable manner.

The assessment makes reference to the following:

- Medium-Term Financial Plan;
- Capital Investment Strategy;
- Treasury Management Strategy;
- Planned medium-term use of Reserves;

- the most recent Budget Report;
- approach to the service & financial planning process;
- Budget monitoring reports and out-turn reports and Statement of Accounts;
- Asset Management Plan; and
- Key governance documents, eg Annual Governance Statement, Risk Register, etc

The Council's position at March 2021 against a range of financial measures compared to similar councils is available online through the CIPFA Financial Resilience Index at https://www.cipfa.org/services/financial-resilience-index-2021/resilience-index-2021.

Table 6: CIPFA RESILIENCE INDEX INDICATORS	This Council's Relative Risk Compared to Similar Councils	This Council's Prospects over the Medium Term
Reserves Sustainability – increase in reserves over recent years	*Not available*	*These scores are not available because CIPFA's model is based on an incorrect (significantly reduced) value for Reserves at 31 March 2020. CIPFA have been informed*
Level of Reserves – compared to the annual revenue budget	*Not available*	
Changes in reserves over recent years	*Not available*	
Interest payable compared to recent budget	Lower Risk than Average	Planned growth in the Capital Programme and associated borrowing means that this position will not be maintained.
Gross external debt	Lower Risk than Average	
Fees & Charges - as % of service budgets	Lower Risk than Average	Implementation of the new Fees & Charges Policy and planned review should further improve the Council's position against this indicator if it results in new and/or increased sources of income.
Ratio of Council tax contribution to revenue budget	Lower Risk than Average	Risk may increase if the budget increases without the ability to levy a proportionate increase in council tax.
Funding growth - compared to Government baseline	Medium Risk	This risk is expected to increase as Government funding reduces.

14. Conclusion

This MTFP presents a summary of the key financial processes and policies that help us forecast the likely financial position that Council will be facing over coming years.

It is the Council's primary financial planning tool and will form the basis for ongoing discussions throughout service & financial planning for 2022/23.

ANNEX 2

APPENDICES

1. Revenue Budget 2021/22

2. Medium Term Revenue Budget Forecast 2022/23 to 2026/27

3 Strategic Financial Risks

4. COVID-19 Pandemic – Financial Implications

ANNEX 2

APPENDIX 1

REVENUE BUDGET 2021/22

REVENUE BUDGET 2021/22	**Approved Budget 2021/22 £m**
ORGANISATION	
Communications & Customer Service	1.052
Finance	1.168
IT	1.810
Legal & Governance	2.022
Organisational Development & HR	0.785
Corporate Policy, Projects & Performance (incl. environmental sustainability)	0.420
Property Services	(1.510)
PLACE	
Economic Prosperity	0.398
Neighbourhood Services	3.119
Place Delivery	0.326
Planning	0.548
PEOPLE	
Community Partnerships	1.588
Housing	0.950
Revenues, Benefits & Fraud	0.525
Leisure & Culture	0.537
SENIOR MANAGEMENT TEAM	1.166
SERVICE BUDGETS TOTAL	**14.903**
Central Budgets	2.492
NET EXPENDITURE 2020/21	**17.395**
Council Tax	14.365
National Non-Domestic Rates	1.819
Un-ringfenced grants – transferred to Reserves:	
COVID-19 Emergency Funding – Allocation 5	0.638
New Homes Bonus – 2020/21 allocation from Central Government	0.887
Homelessness Prevention grant	0.668
Other Un-ringfenced grants	

REVENUE BUDGET 2021/22	**Approved Budget 2021/22 £m**
Lower Tier Services Grant	0.394
COVID-19 Tax Income Guarantee (estimate)	0.150
COVID-19 Local Council Tax Support Grant	0.190
Contribution to Earmarked Reserves:	
COVID-19 Emergency Funding – to COVID-19 Reserve	(0.638)
New Homes Bonus – to Government Funding Risks Reserve	(0.887)
Homelessness Prevention Grant	(0.668)
Call on Earmarked Reserves in 2021/22	
Government Funding Risks reserve	0.104
Commercial Risks reserve	0.138
Use of funds from the General Fund Balance to support the 2021/22 revenue Budget[1]	0.235
NET SOURCES OF INCOME 2020/21	**17.395**
Budget Gap	Nil

NOTE: 1. The actual sum to be drawn from Reserves to support the budget will depend on the budget outturn position for 2021/22.

ANNEX 2

APPENDIX 2

MEDIUM TERM REVENUE BUDGET FORECAST 2022/23 to 2026/27

MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2020/21 £m	Cumulative Impact 2022/23 £m	Cumulative Impact 2023/24 £m	Cumulative Impact 2024/25 £m	Cumulative Impact 2025/26 £m	Cumulative Impact 2026/27 £m
2021/22 Budget Requirement	**17.395**					
Service Budgets - Pay		0.800	1.600	2.400	3.200	4.000
Service Budgets – net service growth / savings 2022/23		0.001	0.001	0.001	0.001	0.001
Post-pandemic income reductions - parking		1.300	1.300	1.300	1.300	1.300
Net new sources of Income – Marketfield Way and Cromwell Road Decvelopments[1]		(0.150)	(0.650)	(0.800)	(0.800)	(0.800)
Central Budgets - Treasury Management – net borrowing costs[2]		0.775	0.945	1.053	1.622	1.622
Council Tax						
£5 per Band D equivalent plus impact of forecast taxbase		(0.540)	(1.050)	(1.580)	(1.970)	(2.290)
Business Rates[2]		0.109	(0.241)	(0.871)	(0.931)	(1.161)
Negative RSG Grant[2]		-	-	0.740	0.981	1.230
Grants and Reserves[2]						
Net Grants and Reserves		(1.577)	0.352	0.373	0.373	0.373
Forecast Gap at November 2021 Compared to 2021/22 Budget	**-**	**0.718**	**2.257**	**2.616**	**3.775**	**4.275**
Annual Increase in Gap		0.718	1.539	0.359	1.159	0.500
Gap as % of 2020/21 budget requirement		4.1%	13.0%	15.0%	21.7%	24.6%

Notes

1. To be confirmed as tenancies are signed.
2. To be confirmed in the January budget report.

ANNEX 2

APPENDIX 3

EXTRACT: STRATEGIC RISK REGISTER
STRATEGIC FINANCIAL RISKS

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
SR2	**Financial sustainability** The Council is now operating in a uniquely challenging and uncertain financial context. In the wake of the COVID-19 pandemic and likely recession which will follow, the Council faces a period of unprecedented financial uncertainty. The ongoing financial settlement with the Government also remains unclear with the Fair Funding Review and Business Rate Reset and Revaluation being delayed. There most significant risks relate to the extent to which the Government will fund the unplanned expenditure that is being incurred to deliver the Council's COVID-19 responsibilities at the same time as experiencing material reductions in income from fees and charges and local taxes. If this substantial financial burden is not mitigated through direct	Head of Finance Portfolio Holder: Cllr Schofield	Financial sustainability In the wake of the COVID-19 pandemic and resultant recession, the Council faces a period of unprecedented financial uncertainty. The most significant risks relate to the extent to which the Government will fund the unplanned expenditure that is being incurred to deliver the Council's COVID-19 responsibilities at the same time as experiencing material reductions in income from fees and charges and local taxes. If this substantial financial burden is not mitigated through direct Government support, then these unplanned financial pressures will have an adverse impact on the Council's capacity to deliver	The Medium-Term Financial Plan (MTFP) revenue budget forecasts and a five-year capital programme during service & financial planning for 2021/22 onwards, set out the forecast budget challenges over the coming five years. They form the basis for service & financial planning for 2022/23 onwards. These are being used to confirm the extent of the financial challenges faced and support strategic service & financial planning decisions. We will continue to implement the actions detailed in the Capital Investment Strategy that was approved by Executive in July 2021 and will be reviewed and updated annually. This will help ensure that capital investment decisions support delivery of the Council's strategic and financial objectives.	**R**	Treat	October 2021	**-**

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
	Government support these unplanned financial pressures will have an adverse impact on the Council's capacity to deliver against its Corporate Plan ambitions in future years.		against its Corporate Plan ambitions. The delivery of corporate plan objectives will similarly be jeopardised if the Council is unable to secure additional income streams. The ongoing financial settlement with the Government also remains uncertain. The Council is therefore increasingly reliant on income derived, and to be derived and generated, from investments, fees and charges and commercial activities – the ability to do so, however, may be further restricted by changes in legislation, regulations and codes of practice. Commercial activity and investments are similarly not without risk.	The Treasury Management Strategy for 2021/22 was approved in April 2021. This will ensure that treasury investments achieve target returns within approved security and liquidity limits. The Council will continue to ensure that strong financial management arrangements are in place and will continue to invest in skills and expertise to support delivery of the Council's financial and commercial objectives while managing associated risks. The Council's updated Medium-Term Financial Plan was reported to the Executive in July 2021. This sets out the forecast budget challenges over the coming five years. It will form the basis for service & financial planning for 2022/23 onwards. The Council's Capital Investment Strategy was reported to the Executive in July 2021.				

ANNEX 2

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
				The specific outcomes of the Government's Fair Funding Review and Business Rates Reset remain unknown; however, it is expected to result in significantly reduced funding. COVID-19 has resulted in material new financial risks, both in the previous and current financial year and over the medium term. Additional unbudgeted expenditure has been incurred to deliver the authority's response and budgeted sources of income have been impacted by reduced demand. At the close of the 2020/21 financial year, after taking account of additional COVID-19 expenditure, income shortfalls and funding, the overall budget outturn was a net underspend for the Council, with reserves remaining healthy. During 2021/22 the main area of concern remains the failure of income receipts to return to pre-COVID levels, particularly in relation to parking fees.				

ANNEX 2

Risk No	Risk Description	Owner	Controls	Mitigating Actions / Progress	Rating	Status	Last review Date	Direction of Travel
				Despite the impact of COVID-19 on priorities and workloads, the Council adopted Part 1 of its Commercial Strategy in Q3 2020/21 demonstrating the continued importance of: (i) adopting and implementing strategies that support sustainable income generation and (ii) taking forward income generating projects such as Horley Business Park, and a crematorium. As of Q2 2021/22, work is now underway on part 2 of the Commercial Strategy.				

ANNEX 2

APPENDIX 4

COVID-19 Pandemic – Financial Implications
at November 2021

2020/21 Impacts
The Revenue Budget for 2020/21 that was approved by Council in February 2020, was agreed before the impacts of the COVID-19 pandemic became apparent. It did not therefore consider the significant additional financial impacts that have been faced during 2020/21 on Service income and expenditure budgets and on Collection Fund income forecasts for council tax and business rates.

Throughout the year the pandemic has represented a potentially material financial risk to the Council's budget and financial position. The underlying analyses have evolved throughout the year therefore it is only now, at the close of the year that the final outcomes can be reported. Initially there was genuine concern across the local government sector that funding provided by the Government would not match the additional expenditure incurred or the income that was being lost. The final outcome was much more positive; for 2020/21 at least.

Wherever practicable the additional costs of delivering the Council's response to the pandemic have been recorded separately in order to track costs and ensure that all available Government funding was being claimed. As explained above, the primary exception was income losses as a consequence of the pandemic which have had to continue to be recorded against service income budgets.

The table below sets out a summary of the additional pandemic-related expenditure and the funding that has been received to offset it.

Table 7.1: COVID-19 EXPENDITURE AND FUNDING AT 31.3.21	**Additional Expenditure £m**	**Additional Funding £m**	**Net Expenditure / (Funding) £m**
COVID-19 Pandemic - Expenditure less specific grants & funding	3.782	(3.327)	**0.455**
COVID-19 Pandemic - other Government funding	-	(4.170)	**(4.170)**
COVID-19 Pandemic - discretionary business grants for distribution/retention (remaining balance at 31 March)	0.102	(0.340)	**(0.238)**

Total additional expenditure as a consequence of the pandemic in 2020/21 was £3.782m. The most significant areas of activity included:

- Supporting Shielded Residents and contributions to Voluntary Sector activities - £1.921m
- Council-wide expenses including staff redeployment, supporting remote working and compliance checks on grants - £0.631m
- Garden Waste additional expenses - £0.148m and customer refunds £0.475m

- Environmental & Regulatory checks and control measures - £0.220m
- Provision of support for the homeless - £0.156m
- Cultural services additional expenses - £0.080m
- Marketing and Public Notices - £0.071m
- Purchase of PPE - £0.153m

Specific grants and donations to support the above included:

Table 7.2: COVID-19 Specific Government Grants	**£m**
Contain Outbreak Management Funding to support vulnerable residents	1.331
Hardship Funding – to support council tax benefit claimants	0.755
Homelessness Support Grants	0.289
New Burdens Funding – for additional admin costs	0.275
Clinically Extremely Vulnerable Funding	0.253
Reopening the High Street Safely Grant	0.132
Emergency Assistance Funding	0.089
Other Funding & Donations	0.058
Compliance & Enforcement Grants	0.058
Environmental Response Funding	0.040
Environmental Health Grant	0.040
Winter Grant Funding – for food for families	0.007
Total	**3.327**

The majority of this funding was received direct from the Government but some came via Surrey County Council and also from the general public.

The general funding support from Government has comprised:

Table 7.3: COVID-19 General Government Funding Support	**£m**
Sales Fees & Charges Compensation Grant – representing c65% of all losses incurred	2.337
Emergency Grant for general COVID expenditure	1.833
Total	**4.170**

On balance the position at year end is much more encouraging than initially feared; all costs have been funded and income losses made good for 2020/21. There is also a healthy funding balance to carry forward to 2021/22 to help fund the ongoing pandemic response and impacts on service delivery, including income losses.

2021/22 Forecast Impacts

The latest forecast indicate that income losses of £1.772 million will be incurred in 2021/22 including:

- Parking - £1.300m;
- Sport & leisure - £0.278;

- Planning fees - £0.118m;
- Rental income - £0.051m; and
- Harlequin theatre - £0.020m

Expenditure of £1.323 million includes:
- Welfare response - £0.294m;
- 'Welcome back' initiatives - £0.166m; and
- Homelessness prevention - £0.1.01m

Additional Government COVID-19 funding for 2021/22 of £1.615 million includes a confirmed £0.638m grant for general COVID expenditure, £0.274m welfare support funding, £0.166m 'welcome back' funding and a further contribution towards Sales, Fees & Charges losses for quarter one only (£0.354m claimed). This will supplement the £2.000m that has been set aside in an Earmarked Reserve to fund 2021/22 income losses.

2022/23 and Medium-Term Impacts
Looking forward beyond 2021/22 it is now clear that ongoing parking income losses of £1.3 million are the most significant legacy of the pandemic that will have to be addressed as no further Government funding will be provide after carried-forward funds and Government grants have been exhausted. The unfunded impacts of these income losses will therefore have to be accommodated within budget-setting decisions for 2022/23 onwards.

Mitigation
As previously-reported, over the medium term, the main options for mitigating the financial impacts of COVID-19 include:
- Continue to lobby Central Government for additional funding in recognition of the residual impacts on district Councils and their ability to deliver services.
- Look to make offsetting savings and efficiencies where possible before calling on Reserves.
- Make use of Earmarked Revenue Reserves to close the gap. This has implications for the projects and services and other potential risks that were intended to be funded from these resources.

As a final resort it would be necessary to apply for permission from Government to capitalise some of the costs and financial impacts to enable the Council to borrow and fund them on a long-term basis. This would place the Council in the spotlight as being at risk of financial failure. The likelihood of having to take this course of action is considered to be very low given this Council's current financial position.

Further updates on forecast impacts on costs and income and how they might be funded will continue to be included in the quarterly budget monitoring reports throughout 2021/22 and 2022/23.