ANNEX 2

MEDIUM TERM FINANCIAL PLAN - SUMMARY
2022/23 to 2027/28
November 2022

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GLOSSARY

1. 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 2027/28 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 2022 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 2023/24.

Key changes since the July 2022 MTFP report include:

- Service budget savings, income and growth proposals;
- Updated forecasts for council tax and business rates income;
- Updated forecast for borrowing and investment income costs to reflect Capital Programme and balances forecasts; and
- The latest position Government funding announcements.

2. 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 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.

3. 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 Government's 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 financial impacts of **Brexit** (for example on the Council's procurement plans) following withdrawal in January 2020.

4. 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 June 2022 the Office for National Statistics (ONS) reported:

- *UK general government gross debt was £2,436.7 billion at the end of June 2022, equivalent to 101.9% of gross domestic product (GDP.*
- *UK general government deficit (or net borrowing) was £43.9 billion, equivalent to 7.2% of GDP.*
- *The general government gross debt and deficit figures published here (for 1997 onwards) are fully consistent with those published in our public sector finances august 2022, published on 21 September 2022.*

Source: ONS: Quarterly estimates of UK government debt and deficit.

In October 2022, following various prior announcements, the Office for Budget Responsibility (OBR) confirmed:

- *The Chancellor has announced that the publication of our autumn forecast will be set to a later date of 17 November. That day our latest outlook for the economy and public finances will accompany the Chancellor's Autumn Statement.*

Source: Office for Budget Responsibility, Commentary on Public Sector Finance, October 2022.

Interest Rates

The Bank of England's Monetary Policy Committee (MPC) has increased Bank Rate at each of its meetings since December 2021, when it rose from 0.1% to 0.25%. Throughout the first four MPC meetings of 2022, Bank Rate increased at 0.25% increments. However, the August and September MPC meetings each resulted in 0.5% uplifts to Bank Rate bringing it currently to 2.25%, alongside expectations of continued upwards movements to follow as inflation continues to rise. Inflation now stands at 10.1% compared to the MPC's target of 2%. The MPC has continued to reiterate that it will 'respond forcefully' to persistent inflationary pressures within the economy.

Table 1: FORECAST INTEREST RATES	September 2022 %	December 2022 %	March 2023 %	June 2023 %
Forecast Bank Rate	2.25	4.00	5.00	5.00

Source: *Link Asset Management October 2022*

Inflation

The consumer price inflation (CPI) rate in the United Kingdom increased to 10.1% in October year on year. Inflation is expected to peak at 11% in the next few months before starting to fall back. This peak is lower than previously forecast due to the Government intervention in respect of energy bills, which while reducing previous expectations may result in it remaining elevated for longer. The MPC have recognised in the minutes of the September meeting that the economy has been subject to a succession of very large shocks and that "monetary policy will ensure that, as the adjustment to these shocks continues, CPI inflation will return to the 2% target sustainably in the medium term."

Table 2: FORECAST INFLATION (CPI)	2022/23 %	2023/24 %	2024/25 %	2025/26 %	2026/27 £%
Forecast CPI	9.3	6.0	2.5	2.6	2.5

Source: *Link Asset Management October 2022*

Economic Growth

The Growth Plan 2022 makes growth the government's central economic mission, setting a target of reaching a 2.5% trend rate. Sustainable growth will lead to higher wages, greater opportunities and provide sustainable funding for public services.

The United Kingdom currently faces a period of high inflation. The government has already taken significant steps to address high energy bills, the biggest challenge, by announcing the Energy Price Guarantee. This will mean the average household will pay no more than £2,500 per year for a period of two years from October 2022. The government has committed to a new six-month Energy Bill Relief Scheme for businesses and other non-domestic energy users, including charities and public sector organisations, providing them with a discount on energy prices.

Taken together, these policies will significantly reduce inflation and support growth in the short term.

The government will also make significant interventions in the energy market to help reduce costs and improve resilience, over the longer term. Agreements will be negotiated with major gas producers and electricity generators to bring down wholesale prices. The new Energy Markets Financing Scheme, delivered with the Bank of England, will help to reduce disruption to the UK's wholesale gas and electricity market. The North Sea Transition Authority will launch a new oil and gas licensing round.

To drive higher growth, the government will help expand the supply side of the economy. The Growth Plan sets out action to unlock private investment across the whole of the UK, cut red tape to make it quicker to deliver the UK's critical infrastructure, make work pay, and support people to get onto the property ladder. New Investment Zones will provide time-limited tax reliefs, and planning liberalisation to support employment, investment, and home ownership.
The Growth Plan makes good the government's commitment to cut taxes for people and businesses. The government will cut National Insurance contributions from November and cancel the Health and Social Care Levy.

The government is going further to deliver tax cuts. From 23 September the threshold from which Stamp Duty Land Tax (SDLT) must be paid will be doubled … the threshold at which first-time buyers begin to pay SDLT will increase … and the maximum value of a property on which first-time buyers' relief can be claimed will also increase.

The government is committed to fiscal sustainability and reducing debt as a proportion of Gross Domestic Product (GDP) over the medium-term. The government will take the responsible decisions that are needed to achieve this aim, including keeping spending under control. The Chancellor has commissioned the Office for Budget Responsibility to produce a forecast before the end of the calendar year.

Taken together, reforming the supply side of the economy, cutting and simplifying tax, and maintaining fiscal discipline will drive efficiency, enhance UK competitiveness, and help to boost growth sustainably in the long term.
HM Treasury, UK Growth Plan (Revised) – September 2022

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 performance on income collection remains consistently strong;
- Increased demand for services to assist residents falling into hardship;

- Reduced demand for some services, eg. car parks;
- Suppliers and contractors being at risk of liquidation, potentially affecting delivery of services;
- Cost inflation pressures greater than previously-assumed; and
- Impacts on the Council's supply chain eg. price increases, impacts on operational delivery of capital schemes, supplier workforce impacts.

Potential impacts of inflation for budget-setting:

- Increased expectation from staff and the representatives during annual pay negotiations and impacts of inflation-linked increases in the National Living Wage;
- Existing suppliers demanding significant increases to reflect their operating costs;
- Energy and fuel cost pressures;
- Cost of new building contracts higher than estimated;
- Suppliers and contractors being at risk of liquidation, potentially affecting delivery of services and increased business rate debt write-offs;
- Requirement to increase Council fees and charges that are linked to CPI;
- Higher than budgeted interest on balances but also increased cost of borrowing;
- Review of the Council tax referendum limit by Government and/or other measures introduced to mitigate the impacts of council tax for households;
- Review of the NNDR Multiplier used by Government to set annual business rate increases; and
- Revision of some of Government's Spending Review21 baseline assumptions.

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.

This means that 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 expected at that time to go ahead in 2022/23
- July 2018 – new simplified Business Rates Reset first suggested
- December 2018 – no figures beyond 2021/22 were available; indications that 'Negative Revenue Support Grant' would 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
- Spending Round19 – one-year settlement for 2020/21 only
- Spending Review20 (SR20) – delayed to autumn 2020 due to the Government's COVID-19 pandemic response - 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.
- Provisional Local Government Finance Settlement 2021/22 - published in December 2020. Covered one year only; based on Spending Review20 (SR20) funding levels. There remained a commitment from the Government to return to multi-year settlements at some point but that would depend on whether COVID-19 continued to have significant impacts on local government finances during 2021/22.
- The 2022/23 Provisional Local Government Finance Settlement, published in December 2021, was for one year only and was based on Spending Review 2021 (SR21) funding levels that were announced in November. Once again, the emphasis was on providing stability by rolling forward key elements of 2021/22 funding alongside extra cash for priority areas, such as social care. The approach was designed to maximise the scope for manoeuvre in implementing finance reform in later years by keeping open options for years 2 and 3 of the SR21 period. The main points are set out below:
  - **Council Tax** – the council tax referendum limit would be 2% for lower tier authorities; it was confirmed that districts would be allowed to apply increases of the higher of the referendum limit or £5.

  - **Business Rates (NNDR) Retention –** the business rates multiplier was once again frozen instead of increasing in line with inflation. Therefore, the three elements of the Business Rates Retention system (Baseline Need, NNDR Baseline and Tariff/Top Up amounts) remained at 2020/21 levels. However, the Under-Indexing Multiplier Grant has been increased to ensure that local authorities' shares of NNDR income was not impacted (although the indexing basis is now RPI instead of CPI).

  - **Top Up/Tariff Adjustments ('Negative RSG')** – as in previous years, the Government eliminated the negative RSG impacts for another year.

- **Lower Tier Services Grant** – the un-ringfenced lower tier services grant of £111m was retained. The purpose is to ensure that no authority has a total Core Spending Power less than in 2021/22. Distribution was based on 2013/14 Settlement Funding Assessment formulae.

- **Services Grant** – new un-ringfenced grant introduced for all tiers.

- **New Homes Bonus** - 2022/23 allocations were announced and paid with the legacy payments due from 2019/20. As previously announced, there were no legacy payments for the new 2022/23 in-year allocations. The baseline (‘deadweight’) of 0.4% was maintained.

- **Rough Sleepers and Troubled Families Programmes** - no announcements were made**.**

- **Homelessness Prevention** – £315.8 million Homelessness Prevention Grant for 2022/23 was announced on 21 December; this included £5.8 million to fund new burdens following implementation of changes in the Domestic Abuse Act.

- **COVID-19 Funding** – as expected no further allocations were announced.

- **Local Government Funding Reform** – the only announcement regarding funding reform was as follows:

  “Government is committed to ensuring that funding allocations for councils are based on an up-to-date assessment of their needs and resources. The data used to assess this has not been updated in a number of years, dating from 2013-14 to a large degree, and even as far back as 2000.

  Over the coming months, we will work closely with the sector and other stakeholders to update this and to look at the challenges and opportunities facing the sector before consulting on any potential changes”.

- **June 2022** – the then Secretary of State for Levelling Up, Housing & Communities indicated that the outcome of the Fair Funding Review would be announced ‘during the 2022 calendar year’ along with a two-year funding settlement for 2023/24 and 2024/25.

- **September 2022** – the former Chancellor’s Fiscal Event on 23 September 2022 included a number of measures with a potential impact on local government:

  - The Health and Social Care Levy, due to be introduced from April 2023, and the increases to National Insurance contributions that had been implemented from April 2022 were cancelled while the Government committed to maintaining the additional spending on health and social care that was associated with the introduction of the Levy;

- There was a commitment to streamlining local growth funds and giving local government more flexibility over the next two years;

- Introduction of a Planning and Infrastructure Bill to streamline and speed up the planning process for major infrastructure projects;

- Introduction of Investment Zones across the UK, including:
  - tax incentives (in tax sites) and liberalisation of planning rules (in development sites);
  - 100% business rates relief for 10 years;
  - Councils to retain 100% of business rates growth above an agreed baseline for 25 years in designated sites;
  - liberalised planning;
  - Zones to be delivered in partnership with upper tier local authorities and mayoral authorities working in partnership with lower tier councils.
  - Zones to be chosen following a rapid expression of interest process;

- Energy Bill Relief Scheme to assist businesses and other non-domestic energy users, including public sector organisations, including:
  - Discounted wholesale gas and electricity prices for six months;
  - Review of the scheme in three months to inform decisions on future support after March 2023.

- **October 2022** - the September Fiscal Event was followed by a period of significant political and economic turmoil and appointment of a new Prime Minister and Chancellor:

  - Many of the measures proposed in September were revoked to reduce the forecast gap resulting and on 17 October the new Chancellor announced a set of measures ahead of the rescheduled November announcement of the Medium Term Fiscal Plan.

    - The abolition of the health and social care levy (or reductions in stamp duty) would not be reversed.

    - The Energy Bill Relief Scheme (for non-domestic customers, including public organisations) would no longer last for two years. Instead, these schemes will continue until April 2023, with a Treasury-led review to decide the parameters for a support scheme after that.

    - There would be more difficult decisions to be made on public finances and Government departments would be asked to find efficiencies within their budgets.

  - The Chancellor planned to make further changes to fiscal policy to put public finances on a sustainable footing and address the remaining £40bn fiscal gap. It was expected that this would through be a combination of tax increases and public sector spending cuts.

- In October 2022 the Institute for Fiscal Studies (IFS) published a report on local government funding which it described as being 'out-of-date and arbitrary' and a threat to the Government's levelling up agenda. It outlined that the main estimates of councils' spending needs have not been updated since 2013, which themselves were predictions based on old data, in some cases as far back as the 2001 census.

  - 'As a result, funding allocations are increasingly out-of-date and arbitrary in relation to local socio-economic circumstances'.
  - Their research found that local government funding does not consider the differences in population growth since it was last updated. In addition, the spending needs and revenue-raising capacity of authorities are taken into account in an ad-hoc way, which in the case of council tax is 'arguably unfair'.
  - They highlighted that 'in recognition of the unsatisfactory state of the council funding system' the Government had detailed plans to reform it in 2015 under the Fair Funding Review. However, no firm date has been set for the implementation of reforms.

- In summary, there remains considerable uncertainty when the provisional local government funding settlement will be announced but it is assumed to be by the end of December.

  - This is expected to be a 'rollover' settlement and there is little sector confidence that forecast inflationary pressures on council budgets will be funded;
  - The last Spending Review in October 2021 was based on 3.3% real terms growth for local government in 202/23 and 2023/24 (based on inflation predictions at that time) whereas CPI is now running at 9.9%;
  - The timing of the Fair Funding review is once again unknown; and
  - The planned NNDR revaluation is expected to go ahead in April 2022 but there is no indication yet whether NNDR will increase in line with CPI.

  This MTFP has been prepared against a backdrop of Treasury warnings of 'inevitable' tax rises as the Prime Minister tries to address the shortfall in public finances. They have said that 'tough decisions' are needed on tax increases, as well as on spending. Separately, it is reported public sector workers face pay rises of no more than 2 per cent across the board.

BBC Online: Treasury warns of tax rises to fill financial hole

Hunt's dismal choices as he faces £40bn black hole
An article explores how the Chancellor Jeremy Hunt could be weighing up reductions in benefits and departmental budgets in his Autumn Statement. Councils have pushed back on the prospect of cuts to funding amid ongoing demand and cost pressures. Cllr James Jamieson, LGA Chairman said: "Without certainty of adequate funding for next year and beyond, and given the funding gaps they face, councils will have no choice but to implement significant cuts to services including to those for the most vulnerable in our societies."

Service & Financial Planning: Government Funding Assumptions
For the purposes of preparing this MTFP and the draft 2023/24 budget the following has been assumed:

- No changes to total local government funding as a result of the two-year roll-over settlement;
- The most far-reaching funding changes will be delayed until at least 2025/26;
- When implemented, the funding changes are forecast to reduce this Council's Government funding by £1.230m 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;
- A 'roll-over' settlement for 2023/24 means that the Settlement Funding Assessment (SFA) and grants are unlikely to change, and there will be no additional funding allocated for local government next year;
- A further New Homes Bonus (NHB) award is more likely than not – this will be confirmed in the provisional settlement announcement in December;
- It is assumed that the Lower Tier Services Grant and Services Grant will continue for another year – also to be confirmed in the Provisional Settlement;
- The Settlement announcement will confirm how the previously-awarded funding for the short-lived reduction in employer's National Insurance Contributions will be withdrawn;
- Council taxbase growth of up to 1.0% per annum and council tax increases continue to be capped at a maximum of 1.99% or £5; and
- The business rates baseline reset will be delayed until 2025/26.

5. Corporate Plan Priorities

The Council's Corporate Plan 2020-2025 sets out our priorities for the five year period, 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 & Intervention, Towns & Villages, Economic

Prosperity, Shaping our Places, Clean & Green Spaces, Environmental Sustainability, Financial Sustainability, Commercial Activities, Operational Assets and Skills & Great People.

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 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 and Part 2 was approved in December 2021.

The definitions and principles that the Strategy 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 such activity will be approached, and future investment focused.

Part 1 sets out three guiding principles for our commercial activity:

- **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 explains that the main elements of our commercial approach will be:

- A project pipeline to establish new income streams from asset activity while also delivering broader corporate objectives.
- Ensuring that existing income streams we already rely on from our assets are maintained and where possible increased; and that we repurpose, redevelop or dispose of those assets that cost us money.
- Investing in new assets to secure income or deliver savings whilst also delivering corporate priorities.
- Continuing to sell or trade services where we already do this; and looking to introduce new trading activity where this aligns with our local government remit and areas of expertise.
- Taking a more commercial approach to fees and charges.

The Commercial Strategy 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.

6. Budget-Setting Priorities

The Priorities that will be taken into account when preparing the draft Budget for 2023/24 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; and

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

Value for Money
The Council will assess and challenge the value for money (economy, efficiency and effectiveness) provided by each service through the service & financial planning process.

Information about our performance compared to other councils across a range of published measures is published on the LGA website at https://lginform.local.gov.uk/

7. The Revenue Budget

The Revenue Budget comprises five 'building blocks' as follows:

- **Net Cost of Services**: These are the direct costs incurred in delivering services through the three Directorates, net of specific income generated by them;

- **Central Budgets**: These are costs incurred and income received that are not service-specific, eg. treasury management costs and income and audit fees;

- **Sources of Funding**: These income budgets are general, non-service specific income sources. They include other grant funding from Central Government and this Council's share of Non-Domestic Rate income which includes the continued impact (benefit) of the one-off elimination of 'Negative Revenue Support Grant' that was announced by the Government in September 2019 and has continued in subsequent years pending the outcome of local government funding reforms;

- **Council Tax**: After the budget requirement has been established for the other blocks then the amount required by this Council from council tax can be calculated; known as the 'Demand on the Collection Fund'; and

- **Contributions (to)/from Reserves**: This relates to use of Earmarked Revenue Reserves, which have been allocated to fund specific purposes. The impact of the use of Reserves is a reduction in the total income demand on council taxpayers. It also refers to the use of funds from the General Fund Balance to support the annual revenue budget.

Revenue Budget Outturn 2021/22
The 2021/22 Original Revenue Budget approved by Council in February 2021 was £17.395 million.

At 31 March 2022 the full year provisional outturn for Services and Central Budgets was £18.030 million against a management budget of £18.523 million, resulting in an overall net underspend of (£0.493 million) (2.7%).

The net effect of COVID income losses was £1.034 million; including this in the outturn results in an overall net overspend of £0.541 million (2.9%) which was funded by calling on the Reserve that was set aside for COVID-19 income losses during the year. All other COVID-19 expenditure during the year was funded through Government grant

Service Budgets

The 2021/22 Original Budget for Services approved by Council in February 2021 was £16.240 million. At 31 March 2022 the full year outturn was £16.485 million against a management budget of £17.368 million resulting in an underspend of £0.883 million (5.1%).

Table 3: REVENUE BUDGET MONITORING AT 31 March	Original Budget £m	In-Year Adjustments £m	Management Budget £m	Year-end Outturn £m	Year End Variance £m
Service Budgets	16.240	1.127	17.368	16.485	(0.883)
Central Budgets	1.155	-	1.155	1.545	0.390
Sub-Total	**17.395**	**1.127**	**18.523**	**18.030**	**(0.493)**
COVID-19 Income Losses	-	-	-	1.388	1.388
COVID-19 Sales, Fees & Charges Grant	-	-	-	(0.354)	(0.354)
Sub-Total	**17.395**	**1.127**	**18.523**	**19.064**	**0.541**
COVID-19 Pandemic – unplanned expenditure					1.249
COVID-19 Pandemic – Government funding					(1.249)
Total Revenue Budget Outturn 2021/22 inclusive of COVID-19 Pandemic Expenditure and Funding					**0.541**
Transfers from Reserves:					
Contribution from COVID-19 Pandemic Reserve					(0.541)
Net Outturn Position:					**-**

The key variances leading to the underspend are:

Organisation:

- £0.240m underspend in Electoral Services driven by lower election costs and associated temporary staff and promotional expenditure.
- £0.212m underspend in Land Charges driven to higher revenue due increased transaction volumes during the stamp duty holiday.

Place:

- £0.326m underspend in Planning Policy driven by vacancies in the team.
- £0.265m underspend in Refuse & Recycling driven by higher garden waste income.

- £0.142m underspend in Fleet driven by lower fuel consumption compared to budget.
- £0.287m overspend in Development Services driven by higher consultancy costs.

People:

- £0.417m overspend in Revenues, Benefits & Fraud, mainly driven by cuts to DWP subsidy grant.

Senior Management Team:

- £0.324m underspend pending the team restructure.

The service & financial planning process for 2023/24 has included an assessment of whether any Service budgets require realignment to reflect historic outturn trends.

<u>COVID-19 Expenditure and Funding</u>
Additional expenditure of £1.249 million that was incurred during 2021/22 in delivery of ongoing activity relating to the pandemic was funded in full through calling on the Government grants that had been allocated to support the response.

In addition £0.497 million of unspent grants were carried forward for use in 2022/23.

Service Income was £1.388 million lower than the approved budget during the year as a result of COVID-19, primarily due to £1.030 million lower Car Parking revenue. These losses were partially funded by a £0.354 million Sales, Fees & Charges grant from Government.

<u>Central Budgets</u>
The 2021/22 Original Budget for Central Budgets approved by Council in January 2021 was £1.155 million.

At 31 March 2022 the outturn was £1.545 million against a management budget of £1.155 million resulting in an overspend of £0.390 million (33.7%).

This overspend was mainly as a consequence of £0.344 million of employer pension contributions paid to Surrey Pension Fund at the close of the year. These had not been notified when the Original Budget was approved in February 2021.

Revenue Budget 2022/23
The Revenue Budget for 2022/23 was approved in February 2022. In summary it comprises:

Table 4: BUDGET SUMMARY 2022/23	Budget 2022/23 £m
1. Net Cost of Services[1]	17.898
2. Central Budgets[1]	2.082

Table 4: BUDGET SUMMARY 2022/23	Budget 2022/23 £m
NET EXPENDITURE 2022/23	**19.980**
3. Council Tax	15.222
4. National Non-Domestic Rates (NNDR)	1.710
5. Other Un-ringfenced Grants	1.271
6. Grants Transferred to Reserves: • Homelessness Prevention • Transfer to Reserves	 0.668 (0.668)
7. Call on Earmarked Reserves in 2022/23	1.565
8. Use of funds from the General Fund Balance to support the 2022/23 Revenue Budget[2]	0.212
NET SOURCES OF INCOME 2022/23	**19.980**

NOTES:
1. After reallocation of the sum held in Central budgets for the 2022/23 pay award plus in-year budget transfers.
2. The actual sum to be drawn from Reserves to support the budget will depend on the budget outturn position for 2022/23. Over recent years the budget outturn has been an underspend position with no requirement to call on Reserves.

Service Budgets

Service budgets are summarised in the table below:

Table 5: SERVICE BUDGETS 2022/23	Budget 2022/23 £m
ORGANISATION	
Communications / Customer Service	1.151
Finance	1.244
ICT	1.810
Legal & Governance	2.281
Organisational Development & HR	0.816
Corporate Policy, Projects & Performance (including Environmental Sustainability)	0.449
Property & Commercial	(1.203)
PLACE	
Economic Prosperity	0.282
Neighbourhood Operations	5.324
Place Delivery	0.371
Planning	0.718

Table 5: SERVICE BUDGETS 2022/23	Budget 2022/23 £m
PEOPLE	
Community Partnerships	1.312
Housing	1.026
Revenues, Benefits & Fraud	0.806
Leisure & Intervention	0.538
SENIOR MANAGEMENT TEAM	0.973
TOTAL	**17.898**

Central Budgets

Central budgets are summarised in the table below. They comprise those budget items that are corporate in nature and are not associated with delivery of specific services.

Table 6: CENTRAL BUDGETS 2022/23	Budget 2022/23 £m
Insurance	0.465
Treasury Management	0.813
Employer Pension Costs[1]	0.350
External Audit Fees	0.053
Budget for Pay Increases[2]	-
Preceptor Grants – Horley Double Taxation	0.038
Apprenticeship Levy[3]	0.078
Central Recruitment & Visa Expenses	0.045
Central Training Budget	0.082
Internal Audit Fees	0.059
Central Pay Cost Provision	0.099
TOTAL	**2.082**

NOTES:
1. Compensated Added Years Pension Contributions
2. Transferred from Central to Service budgets in April 2022 to reflect allocation of the pay increase across services
3. To be confirmed when final pay costs are known.

Central budgets include £0.038m funding for a preceptor grant to Horley Town Council. This is the latest instalment under a 10-year agreement (2014/15 to 2023/24) to eliminate ‘double taxation’ whereby Horley residents pay direct to the Town Council for the local services that it provides. A decision will be required during budget setting for 2024/25 whether to continue this arrangement.

In 2023/24 onwards the cost of housing benefit payments and associated government funding will be reported in budget monitoring as Central Budget item instead of within

Service budgets (Revenues, Benefits & Fraud) on the basis that these are costs that are generally outside Council's direct control.

8. Revenue Budget Funding

The sources of funding for the revenue budget are set out in the table below.

Table 7: REVENUE BUDGET FUNDING 2022/23	Budget 2022/23 £m
1. Council Tax	15.222
2. National Non-Domestic Rates (NNDR)	1.710
3. Other Un-ringfenced Grants	
• Lower Tier Services Grant	0.107
• Services Grant	0.164
• New Homes Bonus Grant	1.000
4. Call on Earmarked Reserves in 2022/23:	
• Government Funding Risks Reserve *(Housing Benefit subsidy reduction)*	0.115
• Pension Reserve	0.350
• COVID-19 Risks Reserve	1.100
5. Use of funds from the General Fund Balance to support the 2022/23 Revenue Budget[1]	0.212
NET SOURCES OF INCOME 2022/23	**19.980**

NOTE 1: The actual sum to be drawn from Reserves to support the budget will depend on the budget outturn position for 2022/23.

Factors taken into account include:

Retained Business Rates Income and Negative RSG Grant	• Includes continued funding for 'negative RSG', as confirmed in the November 2021 Spending Review and December Provisional Settlement; • Reset of Business Rates will not impact in 2023/24; • The Business Revaluation in April 2023 will be 'cost neutral';
Council Tax	• The 2022/23 increase is based on a £5.00 Band D equivalent increase and the forecast tax base;
New Homes Bonus	• Includes updated forecasts for New Homes Bonus based on the December 2021 Provisional Settlement announcement, comprising £0.325 million for 'legacy' payments from previous years'

	allocations plus a £1.169 million allocation for 2022/23. £0.495 million was transferred to the COVID-19 Risks Reserve to help fund forecast parking income losses. The remaining grant is used to help fund the annual budget;
Contributions (To)/From Reserves	• Includes the net contribution of £0.212 million that will be required from the General Fund Balance to address the forecast remaining Revenue Budget gap in 2022/23; • Also includes calls on other earmarked Reserves for specific purposes as detailed in the table.

9. Council Tax

Decisions around the annual council tax increase and taxbase growth are two key variables in the MTFP.

Although this is a significant funding source, it remains subject to restrictions by Government. The Localism Act included a requirement to hold a local referendum if any council tax increase is deemed 'excessive' and the limit for increases is set each year.

The forecast amount of council tax to be collected takes into account local decisions on discounts, exemptions and reliefs and the local council tax support scheme.

Council Tax 2022/23
The referendum cap was confirmed with the Provisional Local Government Funding Settlement Announcement in December 2021, being the higher of 1.99% or £5.00 for district councils. £5.00 (2.20%) is to this Council's advantage as it yields a higher level of income. This was the approved recommended increase.

The Council Tax increase of £5.00 increased a Band D charge from £237.46 to £242.46, an increase of 10 pence per week.

The total income from council tax for this council therefore increased from £14.365 million to £15.222m.

As reported to Council in December 2021, the impacts of the forecast increase in the taxbase and collection performance for 2022/23 was 716.7 Band D equivalent properties, an increase of 2.6% compared to 2021/22.

COVID-19 Impacts
As forecast, overall collection rates were slightly lower than target in 2021/22 due to ongoing challenges caused by the pandemic; recovery action through the courts was still recovering following court closures in 2020/21 and Revenues team capacity was reduced due to the competing demands of processing business grants and the Household Support Fund for Government. Nevertheless recovery performance in comparison to other councils remained strong.

Council Tax Policy

No new changes to council tax policy were introduced in 2022/23.

As part of budget-setting for 2023/24 onwards consideration will be given to new opportunities to levy additional council tax premiums to encourage owners to bring properties back into use:

- Empty and unfurnished properties - removal of the 28 day council tax discount from 2023/24 onwards;
- Empty and furnished second homes – charge 200% council after the first 12 months from 2023/24 onwards.
- Long-term empty properties – commence charging the 100% premium after 12 months - instead of the current 24 months - from 2024/25 onwards.

Council Tax Precepts 2022/23

Table 8: ANALYSIS OF COUNCIL TAX BY PRECEPTOR		
Authority	£000	% share
Surrey County Council	94,767.78	73.60
Surrey Police & Crime Commissioner	18,406.53	14.29
Reigate & Banstead Borough Council	15,099.12	11.72
Horley Town Council	464.79	0.36
Salfords & Sidlow Parish Council	42.62	0.03
	128,780.84	**100.00%**

Table 8.1: ANALYSIS OF COUNCIL TAX BY PRECEPTOR				
			Increase	
Authority	2022/23	2021/22	£	%
Surrey County Council	1,595.42	1,549.10	46.32	2.99%
Surrey Police & Crime Commissioner	295.57	285.57	10.00	3.50%
Reigate & Banstead Borough Council	242.46	237.46	5.00	2.11%
Horley Town Council	42.42	41.51	0.91	2.20%
Salfords & Sidlow Parish Council	30.37	29.72	0.65	2.20%
	2,206.25	**2,143.36**	**62.89**	**2.93%**

Local Council Tax Support Scheme

The Council funds around 10% of council tax for eligible claimants. This reduction in income is taken into account when the taxbase is calculated as part of budget-setting. No general Government funding is provided; the costs reduce the amount of council tax retained by the preceptors.

The Local Scheme applies to working age households; pensioner claims are assessed and funded through a national scheme. It covers claims from three main categories of claimants:

Table 9: LOCAL COUNCIL TAX SUPPORT SCHEME Category	Number of Claims	Annual Cost £m
Vulnerable	1,875	2.923
Working Age – employed	601	0.552
Working Age – not employed	1,178	1.512
Annual Cost to Preceptors		**£4.987m**

The Vulnerable group is mainly made up of households with a disability benefit in payment. The two Working Age groups have to pay at least 10% of their Council Tax, and there are a few other restrictions in place.

The Scheme is scheduled for review during 2022/23. Any changes proposed would be subject to consultation and would need to take into account the impacts on recovery performance if support is reduced.

Council Tax Collection Performance 2021/22

This Council's collection performance for council tax in 2021/22 was 98.17% (98.06% in 2020/21); 42nd highest performance compared to all English local authorities.

Council Tax Options 2023/24

Each 1% increase in Council Tax generates £0.153m additional income for this borough. A £5 increase in 2023/24 would yield £0.493m additional income.

Council Tax Forecasts

For MTFP modelling purposes, the Council Tax income forecast at June 2022 is set out below:

Table 10: COUNCIL TAX FORECAST	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Forecast Resources	15.222	15.590	16.070	16.550	17.050	17.560
Annual Increase in Income		0.368	0.480	0.480	0.500	0.510
Cumulative Increase in Income		0.368	0.848	1.328	1.828	2.338
Band D	£242.46	£247.46	£252.46	£257.46	£262.58	£267.81
Band D Increase	-	£5.00	£5.00	£5.00	£5.12	£5.23
Taxbase Increase	1.62%	1.18%	1.0%	1.0%	1.0%	1.0%
Annual Band D % Increase		2.11%	2.11%	2.06%	2.02%	1.99%

NOTE:
1. Subject to confirmation in the January Budget report when forecasts for the number of new homes and Local Council Tax Support claims are updated. Also subject to confirmation of the referendum limit by Government.

10. Business Rates (National Non-Domestic Rates)

In 2013, the Government introduced a scheme through which local authorities retain a proportion of any business rates growth above a set ‘baseline’. The purpose was to give authorities a financial incentive to encourage and foster economic growth within their area and to work collaboratively with other authorities and business organisations to achieve that growth.

While this scheme was broadly welcomed by the sector, there remain concerns over the potential volatility of this income stream due to the level of appeals; even a small variation in the overall revenue generated can result in a significant financial impact.
The current expectation for the funding reforms to take effect no sooner than the financial year 2024/25.

The Government was previously undertaking a review of how business rates will operate going forward and had stated its intentions to achieve 75% localisation of business rates from 2022. However this is no longer the intention and further updates are awaited.

As explained above, in 2024/25 onwards, the Council expects to see further significant decline in Government funding support as retained business rates receipts and Negative RSG Grant’ are phased out. It remains unclear how these reductions will be implemented but we are assuming this will be clearer when the outcome of the Fair Funding Review and Business Rates Reset are announced. Current MTFP forecasts are based on the information that is currently available.

Business Rates Pooling
A small number of Surrey authorities are once again planning to establish a voluntary Business Rates Pool with Surrey County Council using the same methodology as in previous years. The Pool is not open to Reigate & Banstead due to the relative size of our business rates Tariff.

Business Rate Appeals
Business rate forecasts include an assessment of the likelihood of successful appeals following consideration by the Government’s Valuation Office Agency.

‘Negative Revenue Support Grant’
The Council expects to see a further significant decline in Government funding support as retained business rates receipts and ‘Negative RSG Grant’ are phased out. It remains unclear how these reductions will be implemented but we are assuming this will be clearer when the outcome of the Fair Funding Review and Business Rates Reset are announced. MTFP forecasts are based on the information that is currently available.

Business Rates Collection Performance 2021/22
Collection performance for business rates in 2021/22 was 99.8% (99.8% in 2020/21)); this was the highest performance in the country of all English local authorities.

Business Rates Forecast at November 2022

Table 11: NNDR FORECAST[1]	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Forecast NNDR Resources	1.710	2.300	2.600	2.600	2.600	2.600
Less ‘Negative RSG Grant’				(0.700)	(0.900)	(1.200)
Net Forecast[1]	1.710	2.300	2.600	1.900	1.700	1.400
Annual Increase / (Reduction)		0.590	0.300	(0.700)	(0.200)	(0.300)
Cumulative Increase / (Reduction)		0.590	0.890	0.190	(0.010)	(0.310)

NOTE:
1. Subject to confirmation in the January Budget report following the Provisional Settlement announcement

These forecasts take into account the impacts of spreading 2020/21 collection fund losses over three years and the removal of pandemic support measures after 2021/22.

11. New Homes Bonus

The New Homes Bonus was introduced in 2011/12. Authorities are rewarded with a financial bonus, equal to the national average council tax on each additional property built which is paid for a number of years as a non-ring-fenced Government grant. 80% of the Bonus is paid to the district council and 20% to the county council. here is an enhanced payment for new affordable homes.

New Homes Bonus was revised for the 2017/18 financial year with the length of time it is paid reducing from four years (for the 2017/18 award) and to one year from 2020/21 onwards. A new ‘baseline’ of +0.4% (‘deadweight’) growth was also introduced before any Bonus is paid. The retained funds were used by the Government to support authorities with adult social care responsibilities.

The Government originally set out its intention to end New Homes Bonus as part of the Fair Funding Review. The objective is to replace this mechanism with a different means of incentivising and rewarding housing growth. The detail and timing remain unclear due to the delay in the Fair Funding review.

12. Revenue Reserves

The Council holds Reserves to provide protection against financial risks. The 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; and
- 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 Reserves Policy is set out in the budget report with details of forecast revenue Reserve balances held at 31 March 2022. The level of Reserves be reviewed during service & financial planning over the summer with the aim of presenting the recommended use of Reserves in 2023/24 onwards as part of the November 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 2022 budget report that a working balance of £3.0 million is considered the minimum level required. This represents just over 15% of the net budget for 2022/23. This minimum level will be reviewed again as part of 2023/24 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 generally increased over recent years.

Table 12: USEABLE REVENUE RESERVES	2015/16 £m	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
General Fund Balance	6.717	8.737	5.912	12.547	12.547	8.949	3.000	3.000
Earmarked Reserves	10.963	13.485	19.075	21.703	25.042	32.646	38.738	42.596
Total Reserves	**17.680**	**22.222**	**24.987**	**34.250**	**37.589**	**41.595**	**41.738**	**45.596**
Reserves as a % of the Net Revenue Budget	135.01%	169.70%	190.81%	261.55%	287.05%	255.26%	240.00%	230.28%

COVID 19 Risks Reserve
The 2022/23 Reserves include funds to help mitigate the impacts of income losses.

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; and
- Financial risks involved in major funding arrangements.

It is likely that the current allocation of funds to Reserves will have to be reviewed as part of the Financial Sustainability Programme.

Capital Reserves
In addition the Council holds Capital Reserves to help fund delivery of the Capital Programme. At 1 April 2022 they comprised:

- Section 106 contributions £14.074 million
- Community Infrastructure Levy £12.738 million
- Other Capital Grants & Contributions £4.263 million

13. Medium Term Financial Plan Forecast

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 2023/24 onwards.

They include:

- Making budget provision for future pay and pensions increases at a time of escalating inflation;
- 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 RSG Grant, the Fair Funding Review and Business Rates Reset; and
- Revenue and capital budget growth to deliver priorities in the new Corporate Plan – details to be confirmed during service & financial planning; and

The service & financial planning process over the summer focussed on quantifying the impacts of these potential pressures as the details are confirmed; also identifying the new sources of income that are to be delivered to help address them.

Financial Sustainability Programme
Reliance on one-off measures such as the use of Reserves to balance the budget 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.

In agreeing the budget for 2022/23, the Executive also agreed to commence a programme of work to ensure the future Financial Sustainability of the authority. The outcomes of initial work on this programme will be reflected as part of the 2023/24 budget setting process, with the programme continuing into future years to inform ongoing financial planning. It focuses 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.

Further details are provided in in Appendix 5.

Revenue Budget-Setting Assumptions 2023/24

The following assumptions will be used during service & financial planning over coming months when preparing the draft Budget estimates for 2023/24:

Council Tax	• To increase by the referendum limit – assumed to be £5 for this report. • Plus an increase to reflect forecast growth in the taxbase. • The impacts of local discounts, exemptions and the local council tax support scheme will be taken into account when preparing income forecasts.
Government Funding	• Fair Funding Review and loss of Negative RSG Grant will not take place until 2025/26.
Retained Business Rates Income	• Reset of Business Rates will not take place until 2025/26.
Fees & Charges	• For budgeting purposes it is assumed that fees and charges will increase in line with the Policy and that all fees and charged will be reviewed to ensure they comply.
Investment Income and Borrowing	• Investments and borrowing will be forecast in line with forecast balances (Reserves) and capital spending plans.
Pay Inflation	• An allowance for a pay award will be included in the draft Budget, in addition to forecast contractual pay increases. • This provides the option for pay rises but the specific rate of increase will be subject to established consultation processes.
Employer Pension Costs	• The March 2019 actuarial valuation of the Surrey Pension Fund confirmed that the Fund's total assets, which at 31 March 2019 were valued at £4.483m, were sufficient to meet 96% of liabilities (ie. the

present value of promised retirement benefits) accrued up to that date. The resulting total Fund deficit at the 2019 valuation was £196m.

- Each employer has a contribution requirement set at the valuation, with the aim of achieving full funding within an agreed time horizon and probability measure, as set out in the Fund's Funding Strategy Statement. Individual employers' contributions for April 2020 to March 2023 have been set in accordance with this requirement.
- For Reigate & Banstead this is based on a 15% payroll oncost charge plus a £2.2m lump sum annual deficit payment with the option to pay this in 'Year 1' at a discount.
- As part of budget-setting 2020/21 the approved approach for the next three years was:
    - To maintain the primary employer contribution rate at 15% of salaries.
    - To pay the secondary employer rate as an advance lump sum of £6.204m in April 2020 funded from the earmarked Reserve set aside for this purpose plus a contribution from General Fund Reserves at the beginning of 2020/21. This represented a saving of £0.397m compared to payment in three annual instalments from 2020/21 to 2022/23.
    - To aim to rebuild the Pensions Reserve ready for the next revaluation in 2022
- There also a requirement to fund c£350k per annum contribution for historic 'compensated added years' that were granted to retirees prior to 2015.
- The next actuarial review was at 31 March 2022 and any implications will be built into budgets for 2023/24 onwards when the outcome is known.

Price Inflation

- Previously the general assumption has been that services should first seek to cover price inflation from their existing budgets, unless tied contractually to significant cost increases that warrant additional funding.
- Significant increases would be subject to approval of budget growth through the service & financial planning process.
- The current escalating rate of inflation means that it is likely that more bids for inflationary budget growth will have to be considered.

Forecast Budget Gap

The forecast budget gap over the next five years is set out below. Further details are provided at Appendix 2

Table 13: MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2022/23 £m	Forecast Budget 2023/24 £m	Forecast Budget 2024/25 £m	Forecast Budget 2025/26 £m	Forecast Budget 2026/27 £m	Forecast Budget 2027/28 £m
FORECAST GAP	Balanced	**nil**	**1.374**	**3.032**	**3.082**	**3.222**
Annual Increase in Gap	Balanced	nil	1.374	1.658	0.050	0.140

Table 13: MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2022/23 £m	Forecast Budget 2023/24 £m	Forecast Budget 2024/25 £m	Forecast Budget 2025/26 £m	Forecast Budget 2026/27 £m	Forecast Budget 2027/28 £m
Gap as % of 2022/23 budget requirement	n/a	0.0%	6.9%	15.2%	15.4%	16.1%

The key factors that will influence the forecast gap include:

Service Expenditure
- No significant budget pressures have been identified to date but this will be subject to further review as part of the service & financial planning process.
- Delivery of Financial Sustainability Programme initiatives.
- While an estimate for the 2023/24 pay award has been included in the MTFP modelling this is subject to negotiation and has to be considered in the context of the significant financial challenges faced over the medium term. Employee costs comprise 35.8% of gross direct expenditure in the 2022/23 budget.

Central Budgets
- Treasury Management costs take into account the cost of borrowing requirement to fund the approved Capital programme, interest on forecast balances and repayments on loans to the council's companies.

Council Tax
- Council tax setting assumptions are based on a £5 increase and forecast movements in the taxbase.

NNDR
- Removal of Negative RSG Grant and the Business Rates reset are now forecast to take place in 2025/26; they have the effect of negating the benefit of forecast business rates growth over the MTFP period.

Use of Reserves & Grants
- Funding for the 2022/23 budget includes drawing £0.212m from the General Fund Reserve. If equivalent savings, efficiencies or new sources of income are not identified for 2023/24 this requirement to call on Reserves will continue to increase and further reduce available balances.
- Balancing the budget also depends on drawing from the Government Funding Risks Reserve and the Commercial Risks Reserve.
- Government grant funding that is being used to help fund the net budget requirement in 2022/23 includes: Lower Tier Services Grant (£0.107m), Services Grant (£0.164m) and New Homes Bonus (£1.000m).

In summary, as for the majority of councils, this authority is facing a challenging financial future. Over recent years budget efficiencies have been achieved to address the forecast gap, specifically through deletion of central budgets that were not required; these options are no longer available. While Reserves remain buoyant there is an underlying budget gap that must be addressed through the services & financial planning process; through reducing costs or generation of new sustainable sources of income.

14. Capital Investment Strategy

The latest Capital Investment Strategy was reported to Executive in July 2022 and set 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 such as buildings.

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.

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 the Capital Programme is concerned with investment in the assets required to deliver services or delivery 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 the 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 2022/23 to 2026/27

The Council forecasts its Capital Programme over a 5-year period and the latest position is set out in the table below as reported to Executive in January 2022 plus unspent balances brought forward from 2021/22.

Table 14: CAPITAL PROGRAMME 2021/22 to 2026/27 by SERVICE	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	
	BFWD £m	Projected £m	Projected £m	Projected £m	Projected £m	Projected £m	TOTAL £m
ORGANISATION SERVICES:							
Property Services	5.223	1.657	1.373	1.267	0.049	1.594	**11.164**
IT Services	0.224	0.200	0.260	0.250	0.200	0.200	**1.334**
Organisational Development	0.452	0.250	0.250	0.250	-	-	**1.202**
Environmental Strategy	0.250	-	-	-	-	-	**0.250**
PEOPLE SERVICES:							
Housing	0.519	1.304	1.304	1.304	1.304	1.304	**7.039**
Leisure & Intervention	0.172	0.100	0.100	0.100	0.100	0.100	**0.672**
Community Partnerships	0.075	0.030	-	-	-	-	**0.105**
PLACE SERVICES:							
Neighbourhood Operations	0.659	1.542	0.774	0.891	0.929	0.913	**5.708**
Place Delivery	9.410	15.100	-	-	-	-	**24.510**
Economic Prosperity	-	0.100	0.100	0.100	-	-	**0.300**
TOTAL APPROVED CAPITAL PROGRAMME	**16.983**	**20.283**	**4.161**	**4.162**	**2.581**	**4.110**	**52.280**

In addition to the sums included in the approved Capital Programme the Council has previously committed to invest.

- £64.0 million for investment in Commercial income-generating assets; and
- £30.0 million for investment in Housing projects.

Proposals for use of these funds will be subject to approval of reports by Executive or the Commercial Ventures Executive Sub Committee when the business cases are developed.

£36.983 million of resources allocated for previously-approved schemes have been brought forward from previous years, principally due slippage in the original forecast delivery date. These include:

Place Services	Marketfield Way (The Rise) - £6.986m Merstham Recreation Ground - £1.419m Horley Public Realm Improvements - £0.575m Preston Regeneration - £0.348m
Rolling Programmes	Beech House, London Road. Reigate - £3.000m Priory Park Maintenance - £0.213m Car Parks Capital Works - £0.358m Crown House - £0.210m Harlequin Property Maintenance - £0.206m Operational Buildings - £0.260m Pavilions Programme - £0.168m Tenanted Properties - £0.100m
Housing Development	Housing Delivery Programme - £20.000m Cromwell Road Development - £0.150m Lee Street Bungalows - £0.327k

The approved Capital Programme for 2022/23 onwards included growth for new initiatives and opportunities:

Table 15: CAPITAL GROWTH 2022/23	
Service Area	Approved Capital Growth
ORGANISATION	
IT Services	• Investment in IT networks
Property Services	• Existing asset maintenance rolling programme
PEOPLE SERVICES	
Housing	• Existing asset maintenance rolling programme
PLACE SERVICES	

Table 15: CAPITAL GROWTH 2022/23	
Service Area	Approved Capital Growth
Neighbourhood Services	• Continued investment in play area improvement, Air Quality Management equipment, parks & countryside, infrastructure & fencing and flood prevention.
Grant-funded schemes	• Growth of £1.3m to support the continued rolling budget for Disabled Facilities Grants, Home Improvement Agency services and Handy Person Scheme
Vehicles & Plant	• Continuation of the rolling investment programme

The final Capital Programme for 2023/24 to 2027/28 will be confirmed in the January budget report; no further significant growth proposals are anticipated at the time of preparing this report. The main area of growth the addition of 'rolled-forward' allocations for year 5 in 2027/28 and minor reprofiling of budgets between years.

Capital Programme Funding

Sources of funding for the 2022/23 to 2026/27 Capital Programme are summarised below:

Table 16: CAPITAL PROGRAMME FUNDING 2021/22 to 2026/27	2021/22 BFWD £m	2022/23 Projected £M	2023/24 Projected £M	2024/25 Projected £M	2025/26 Projected £M	2026/27 Projected £M	TOTAL
TOTAL CAPITAL EXPENDITURE 2022/23 to 2026/27	**6.983**	**10.283**	**4.161**	**4.162**	**2.581**	**4.110**	**52.280**
FUNDED BY:							
Capital Reserves	-	-	-	-	-	-	**-**
Capital Receipts	-	28.938	2.816	2.817	1.236	0.017	**35.824**
Capital Grants & Contributions	0.327	1.345	1.345	1.345	1.345	1.382	**7.089**
Prudential Borrowing	6.656	-	-	-	-	2.711	**9.367**
TOTAL CAPITAL FUNDING 2022/23 to 2026/27	**16.983**	**30.283**	**4.161**	**4.162**	**2.581**	**4.110**	**52.280**

Key sources of capital funding:

Capital Receipts

- Sale of capital assets results in a capital receipt that can be used to invest in new capital assets or to repay prudential borrowing.
- The main source of capital receipts over the duration of this Capital programme relate to delivery of major schemes including the Marketfield Way (The Rise) redevelopment. These capital receipts have been factored into forecast funding requirements. Flexible use of capital receipts – there are no current plans for use of this funding option.

Capital Grants & Contributions	• Forecasts of the future grant funding allocation for Disabled Facilities works have been updated to reflect forecast allocations. • They also include the Council's share of Section 106 and CIL funding. • Revenue funding equivalent to the historic New Homes Bonus grant allocation up to 2020/21 has been allocated to support implementation of the Housing Delivery Strategy.
Prudential Borrowing	• The primary source of long-term funding for the Capital Programme is now prudential borrowing, primarily from the Public Works Loans Board (PWLB). • Loans are managed through the approved Treasury Management Strategy and policies. • Interest on borrowing is paid to the PWLB and charged to the annual revenue budget along with the Minimum Revenue Provision that is necessary to set aside funds for eventual repayment of the loan principal. These costs have to be taken into account when setting a balanced Revenue Budget. • There are increasing restrictions on the type of capital expenditure that is eligible for prudential borrowing. Borrowing to fund investment solely for commercial gain is no longer permitted.
Revenue Budget Contributions	• There is no expectation that significant capital expenditure will be funded from the revenue budget in 2023/24.

Capital Programme – Revenue Budget Implications
As explained above, with the exception of earmarked Section 106 funds and some earmarked Housing capital receipts, the Council no longer has significant capital Reserves, therefore, while a small number of schemes will be continued to be funded from capital grants 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 will be updated to reflect the costs of borrowing for the approved Capital Programme for 2023/24 onwards net of interest on forecast balances. Details will be confirmed in the Treasury Management Strategy for 2023/24 that is reported to Audit Committee, Executive and Full Council for approval in March/April each year.

The costs of operating and maintaining new assets must also be factored into future revenue budget forecasts as they come into use. Budgets will also have to be established for any new income streams generated.

Capital Programme – Policy on Capitalisation of Salaries.
Costs incurred as a result of staff spending time on capital projects can be capitalised, provided that time can be linked to bringing a specific, separately identifiable asset into working condition, or substantially enhancing the working life of an existing asset.

15. 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 the Capital Programme. Capital investment plans provide a guide to borrowing need, essentially for longer-term cash flow planning purposes, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. To date there has been no requirement to take on long-term borrowing because Reserve balances remain healthy and are being used to cover short-term financing requirements.

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 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.

The Council's 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. They are reviewed to assess the expected credit loss (impairment) each year when preparing the annual statement of accounts.

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.

A strengthened Prudential Code was then published at the end of 2021. This revised Code includes clarification and examples of what is and is not classified as prudent borrowing activity.

Other key changes for implementation in 2023/24 onwards 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 commercial activity and investment; and
- The introduction of the Liability Benchmark as a Treasury Management indicator for local government bodies

At the same time CIPFA also revised 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.

16. Medium Term Financial Plan Risks & Sensitivities

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

SR2: Financial Sustainability

The effects of the Covid-19 pandemic, coupled with current adverse macroeconomic conditions and the wider local government funding context, have created conditions of unprecedented financial uncertainty and challenge for the Council. The Council is therefore increasingly reliant on generating additional income and identifying savings and efficiencies from existing budgets. If not mitigated, these financial challenges risk an adverse impact on the Council's ability to deliver its Corporate Plan objectives.

A summary of the mitigating actions is set out at Appendix 4.

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:

Table 17: BUDGET RISKS 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 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.
Reduction in existing fees & charges income	Medium	Low	Regular in-year budget forecasting, monitoring and reporting. Take action where adverse forecasts are identified. Regular reviews of key financial risks.

Table 17: BUDGET RISKS Perceived Risk	Impact	Likelihood	Preventative Action
Contract risks e.g. contractor viability, non-delivery	Medium	Low	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 risks	Medium	Low	Legacy impacts of the pandemic include ongoing cost pressures and income reductions. Income budgets were reviewed and re-set in 2022/23 where necessary to reflect the post-pandemic position.
Commercial Risks	High	High	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 will have to be written off (if not covered by sale of company assets). These risks are already reflected in the annual statement of accounts where the expected credit loss is calculated and balances are impaired.
Inflation Risks	High	High	Budget setting for 2023/24 will have to take into account the actual and forecast impacts of price inflation on pay, supplies & services, energy & fuel and contract costs.
Budget Volatility Risks	High	High	Several budgets are proving increasingly challenging to forecast accurately in the current economic situation. Therefore the budget-setting process includes consideration of how the risks will be funded if they crystalise, primarily by ensuring that adequate funding is held in Reserves to cover them. Examples include property rents, recyclate prices, Housing Benefit costs and funding, homelessness and energy costs.

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

Table 18: SENSITIVITY	Change	Estimated Annual Impact £000
Council Tax/Taxbase		(152)
Business Rates Income	+/- 1%	(18)
Staff Costs		249
Non-Pay Costs		125
Fees & Charges		(162)

Budget Uncertainties & Risks

While the approved budget for 2022/23 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;
- The impacts of exit continue and may affect investor confidence, whilst the lower value of the Pound may increase inflationary pressures;
- 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);
- Any reduction in the number of businesses in the Borough will have an impact on retained Business Rates income; and
- The escalating rate of inflation is an emerging concern.

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 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 efforts to become a more commercial organisation and fully explore income generating opportunities involving, for example, property investment, partnership working and providing services for other organisations. Government and CIPFA guidance on 'borrowing in advance of need' now limit some of 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;
- 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; and
- Several budgets are proving increasingly challenging to forecast accurately in the current economic situation. Examples include: property rents, recyclate prices, Housing Benefit costs and funding, homelessness and energy costs.

Financial Sustainability Programme Delivery:

- The Council has ambitious plans to take action to address the forecast budget gap through delivery of a wide range of projects and initiatives that are intended to will reduce expenditure, avoid new costs and increase income receipts. It is therefore important that this Programme is seen to be a key corporate priority and measures are put in place to ensure its delivery. Further details are provided at Appendix 5.

COVID-19 Pandemic

- The ongoing financial risks and uncertainties arising from the pandemic, as set out in this MTFP.

MTFP and Budget Monitoring and Review

The updated MTFP position will be 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 and supporting guidance.

Initiation of the Financial Sustainability Programme at the start of 2022/23 included establishing appropriate programme governance and reporting arrangements.

17. Budget Equalities Impact Assessments

The annual service & financial planning reports include information about the equality implications of budget proposals. Where new service changes, projects or policies are proposed, equalities impact assessments will be carried out by the responsible officers. Changes that affect Council staff will be discussed directly with individuals affected and with their representatives.

18. Budget Scrutiny

The annual draft budget proposals are considered by the Budget Scrutiny Panel of the Overview & Scrutiny Committee in December and the conclusions and recommendations of the Panel and the Committee are reported to the Executive for consideration when the final budget proposals are presented to them in January.

19. Consultation

The MTFP is published on the Council's website.

The annual budget proposals are circulated to the business community via the Business e-bulletin (which has in excess of 1,500 recipients).

20. Service & Financial Planning Process and Timetable

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 and funding • 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. The Policy is published as an appendix to the draft budget report.
Fees & Charges Policy.	Sets out a corporate view of the fees and charges levied by the Council for consideration each year. The Policy is published as an appendix to the draft budget report.
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 2023/24 is set out in the draft budget report.

21. 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 2022/23 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.

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

Table 19: 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.
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.
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 • Implementation of the Financial Sustainability Programme
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 • Implementation of the Financial Sustainability Programme
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.

Table 19: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
	Areas for Development: • Annual MTFP review and reporting, including financial risks assessment • Implementation of the Financial Sustainability Programme
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. Areas for Development: • Continued 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. Areas for Development: • 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. 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.

Table 19: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	

The main areas for further development during 2022/23 are set out above.

22. 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 on 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 20: 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	*Medium risk compared to the average*	Planned use of previously un-allocated Reserves (for example for investment in Housing) means that this position will be harder to maintain
Level of Reserves – compared to the annual revenue budget	*Lower risk than the average*	
Changes in Reserves over recent years	*Lower risk than the average*	
Interest payable compared to recent budget	*Lower risk than the average*	Planned growth in the Capital Programme and associated borrowing means that this position will not be maintained.
Gross external debt	*Lower risk than the average*	
Fees & Charges - as % of service budgets	*Higher risk than the average*	Implementation of the new Fees & Charges Policy and planned review should 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 the average*	Risk may increase if budget increases without the ability to levy a proportionate increase in council tax.
Funding growth - compared to Government baseline	*Increasing risk*	This risk is expected to increase as Government funding reduces and the ingoing impacts of the COVID-19 pandemic on income budgets are confirmed.

23. 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 2023/24.

APPENDICES

1. Revenue Budget 2022/23
2. Medium Term Revenue Budget Forecast 2023/24 to 2027/28
3. Capital Programme 2022/23 to 2026/27
4. Strategic Financial Risks

GLOSSARY

ANNEX 2

APPENDIX 1

REVENUE BUDGET 2022/23

REVENUE BUDGET 2022/23	**Approved Budget 2022/23 £m**
ORGANISATION	
Communications / Customer Service	1.151
Finance	1.244
ICT	1.810
Legal & Governance	2.281
Organisational Development & HR	0.816
Corporate Policy, Projects & Performance (including Environmental Sustainability)	0.449
Property & Commercial	(1.203)
PLACE	
Economic Prosperity	0.282
Neighbourhood Operations	5.324
Place Delivery	0.371
Planning	0.718
PEOPLE	
Community Partnerships	1.312
Housing	1.026
Revenues, Benefits & Fraud	0.806
Leisure & Intervention	0.538
SENIOR MANAGEMENT TEAM	0.973
SERVICE BUDGETS TOTAL	**17.898**
Central Budgets	2.082
NET EXPENDITURE 2022/23	**19.980**
Council Tax	15.222
National Non-Domestic Rates	1.710
Other Un-ringfenced Grants	
Lower Tier Services Grant	0.107
Services Grant	0.164
New Homes Bonus Grant	1.000
Call on Earmarked Reserves in 2022/23	

REVENUE BUDGET 2022/23	**Approved Budget 2022/23 £m**
Government Funding Risks Reserve	0.115
Pension Reserve	0.350
COVID-19 Risks Reserve	1.100
Use of funds from the General Fund Balance to support the 2022/23 revenue Budget	0.212
NET SOURCES OF INCOME 2022/23	**19.980**
Budget Gap	Nil

NOTE: The actual sum to be drawn from Reserves to support the budget will depend on the budget outturn position for 2022/23.

ANNEX 2

APPENDIX 2

MEDIUM TERM REVENUE BUDGET FORECAST 2023/24 to 2027/28

at November 2022

MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2022/23 £m	Cumulative Impact 2023/24 £m	Cumulative Impact 2024/25 £m	Cumulative Impact 2025/26 £m	Cumulative Impact 2026/27 £m	Cumulative Impact 2027/28 £m
2022/23 Budget Requirement	**19.980**					
Service Budgets - Pay		1.500	2.750	3.750	4.750	5.750
Service Budgets – Savings/Income		(2.014)	(2.014)	(2.014)	(2.014)	(2.014)
Service Budgets – Growth		0.442	0.442	0.442	0.442	0.442
Service Budget Opportunities – IT Strategy investment		0.493	0.269	0.288	0.438	0.288
Call on IT Strategy Reserve		(0.493)	(0.269)	-	-	-
Service Budgets – forecast new net income streams – Marketfield Way and Wheatley Court		-	(0.250)	(0.400)	(0.500)	(0.800)
Service Budget risks – Government funding cuts		0.564	0.564	0.564	0.564	0.564
Call on Government Funding Risks Reserve		(0.564)	-	-	-	-
Commercial Budget risks – property management costs		0.650	-	-	-	-
Call on Commercial Risks Reserve		(0.650)				
Service Budget issues – energy cost inflation		0.700	-	-	-	-
Call on Government Funding Risks Reserve		(0.700)	-	-	-	-
Central Budgets – net savings		(0.136)	(0.136)	(0.136)	(0.136)	(0.136)
Central Budgets - Treasury Management – net savings		(0.761)	(0.761)	(0.761)	(0.761)	(0.761)
Council Tax		(0.368)	(0.848)	(1.328)	(1.828)	(2.338)
Business Rates		(0.590)	(0.300)	0.700	0.200	0.300
Government Grants		TBC in the December Provisional Settlement Announcement				
Lower Tier Services Grant						
Services Grant						

ANNEX 2

MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2022/23 £m	Cumulative Impact 2023/24 £m	Cumulative Impact 2024/25 £m	Cumulative Impact 2025/26 £m	Cumulative Impact 2026/27 £m	Cumulative Impact 2027/28 £m
New Homes Bonus						
Call on Reserves 2022/23						
Reversal of one-off call on Earmarked Reserves and General Fund Balance Contribution in 2022/23		1.927	1.927	1.927	1.927	1.927
Forecast Gap at November 2022 Compared to 2022/23 Budget		**nil**	**1.374**	**3.032**	**3.082**	**3.222**
Annual Increase in Gap		nil	1.374	1.658	0.050	0.140
Gap as % of 2022/23 budget requirement		0.0%	6.9%	15.2%	15.4%	16.1%

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APPENDIX 3

CAPITAL PROGRAMME 2022/23 to 2026/27

CAPITAL PROGRAMME 2022 to 2027 - DETAILS							
	2021/22 Bfwd	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m	£m	£m
ORGANISATION SERVICES							
PROPERTY SERVICES							
Rolling Property Maintenance Programmes							
Forum House, Brighton Road Redhill	0.170	0.100	0.150	0.150	-	0.100	**0.670**
Beech House, London Road, Reigate	3.000	-	-	-	-	-	**3.000**
Unit 61E Albert Road North	0.062	0.200	0.012	0.012	-	0.075	**0.360**
Regent House, 1-3 Queensway Redhill	0.075	0.100	0.090	0.090	-	0.090	**0.445**
Linden House, 51B High Street Reigate	0.028	0.029	0.012	0.012	-	0.015	**0.095**
Units 1-5 Redhill Distribution Centre Salfords	0.057	0.058	0.017	0.017	-	0.025	**0.174**
Crown House	0.210	0.075	0.075	0.075	-	0.075	**0.510**
Tenanted Properties	0.100	0.100	0.100	0.100	-	0.100	**0.500**
Tenanted Property Assets	0.060	0.076	0.076	0.076	-	0.076	**0.364**
Operational Buildings	0.260	0.110	0.095	0.080	-	0.080	**0.625**
Priory Park	0.213	0.010	0.010	0.030	-	0.050	**0.313**

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CAPITAL PROGRAMME 2022 to 2027 - DETAILS							
	2021/22 Bfwd	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m	£m	£m
Public Conveniences	0.017	0.004	0.004	0.020	-	0.095	**0.140**
Infra-structure (walls)	0.026	0.060	0.010	0.060	-	0.020	**0.176**
Allotments	0.030	0.012	0.012	0.022	-	0.012	**0.088**
Cemeteries & Chapel	0.060	0.020	0.020	0.040	-	0.020	**0.160**
Pavilion Replacement – Woodmansterne	0.020	-	-	-	-	-	**0.020**
Leisure Centre Maintenance	0.017	0.210	0.190	0.030	-	0.175	**0.622**
Existing Pavilions Programme	0.168	0.050	0.050	0.050	-	0.150	**0.468**
Car Parks Capital Works Programme	0.358	0.190	0.195	0.170	-	0.075	**0.988**
Earlswood Depot/Park Farm Depot	0.052	0.020	0.020	0.020	-	0.050	**0.162**
Community Centres Programme	0.034	0.075	0.067	0.065	-	0.125	**0.366**
Harlequin Property Maintenance	0.206	0.110	0.120	0.100	-	0.100	**0.636**
Building Maintenance - Capitalised Staff Costs	-	0.028	0.028	0.028	0.028	0.028	**0.140**
Massetts Road – Property Rolling Programme	-	0.021	0.021	0.021	0.021	0.021	**0.105**
Housing Temp/Emergency Repairs	-	-	-	-	-	**0.037**	**0.037**
Total	**5.223**	**1.657**	**1.373**	**1.267**	**0.049**	**1.594**	**11.164**
IT SERVICES							
Rolling Investment Programmes:							
ICT Replacement Programme	0.224	0.200	0.200	0.250	0.200	0.200	**1.274**
Replacement Photocopiers/ Printers	-	-	0.060	-	-	-	**0.060**

CAPITAL PROGRAMME 2022 to 2027 - DETAILS							
	2021/22 Bfwd	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m	£m	£m
Total	**0.224**	**0.200**	**0.260**	**0.250**	**0.200**	**0.200**	**1.334**
ORGANISATIONAL DEVELOPMENT							
Workplace Facilities: Estate/Asset Development	0.452	0.250	0.250	0.250	-	-	**1.202**
Environmental Strategy Delivery							
Environmental Strategy Delivery	0.250	-	-	-	-	-	**0.250**
PEOPLE SERVICES							
HOUSING							
Grant-Funded Schemes							
Disabled Facilities Grant	-	1.134	1.134	1.134	1.134	1.134	**5.670**
Home Improvement Agency (Part Grant Funded)	-	0.120	0.120	0.120	0.120	0.120	**0.600**
Handy Person Scheme (Housing Assistance Programme)	-	0.050	0.050	0.050	0.050	0.050	**0.250**
Lee Street Bungalows	0.327	-	-	-	-	-	**0.327**
Cromwell Road Development	0.150	-	-	-	-	-	**0.150**
Pitwood Park Development, Tadworth	0.043	-	-	-	-	-	**0.043**
Total	**0.519**	**1.304**	**1.304**	**1.304**	**1.304**	**1.304**	**7.039**
LEISURE & INTERVENTION							
Harlequin - Service Development	0.172	0.100	0.100	0.100	0.100	0.100	**0.672**

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CAPITAL PROGRAMME 2022 to 2027 - DETAILS							
	2021/22 Bfwd	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m	£m	£m
COMMUNITY PARTNERSHIPS							
Rolling Maintenance Programmes							
CCTV	0.075	0.030	-	-	-	-	**0.105**
PLACE SERVICES							
NEIGHBOURHOOD OPERATIONS							
Rolling Maintenance/Investment programmes							
Vehicle Wash Bay Replacement	0.350	-	-	-	-	-	**0.350**
Vehicles & Plant	0.182	1.056	0.448	0.565	0.578	0.562	**3.391**
Play Areas Improvement	-	0.230	0.230	0.230	0.230	0.230	**1.150**
Air Quality Monitoring Equipment	-	0.040	0.040	0.040	0.065	0.065	**0.250**
Parks & Countryside – Infrastructure & Fencing	-	0.045	0.045	0.045	0.045	0.045	**0.225**
Workshop Refurbishment	-	0.160	-	-	-	-	**0.160**
Contribution to Surrey Transit Site	0.127	-	-	-	-	-	**0.127**
Land Flood Prevention	-	0.011	0.011	0.011	0.011	0.011	**0.053**
Total	**0.659**	**1.542**	**0.774**	**0.891**	**0.929**	**0.913**	**5.708**
PLACE DELIVERY							
Marketfield Way (The Rise) Redevelopment	6.986	15.100	-	-	-	-	**22.086**
Horley Public Realm Improvements - Phase 4	0.575	-	-	-	-	-	**0.575**

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CAPITAL PROGRAMME 2022 to 2027 - DETAILS							
	2021/22 Bfwd	2022/23	2023/24	2024/25	2025/26	2026/27	Total
	£m	£m	£m	£m	£m	£m	£m
Merstham Recreation Ground	1.419	-	-	-	-	-	**1.419**
Redhill Public Realm Improvements	0.030						**0.030**
Pay on Exit Car Parking, Horley	0.052	-	-	-	-	-	**0.052**
Preston – Parking Improvements	0.348	-	-	-	-	-	**0.348**
Total	**9.410**	**15,100**	**-**	**-**	**-**	**-**	**24.510**
Economic Prosperity - Vibrant towns & villages	-	0.100	0.100	0.100	-	-	**0.300**
TOTAL APPROVED CAPITAL PROGRAMME	**16.983**	**20.283**	**4.161**	**4.162**	**2.581**	**4.110**	**52.280**

ANNEX 2

APPENDIX 4

EXTRACT: STRATEGIC RISK REGISTER STRATEGIC FINANCIAL RISKS

<table>
<tr><td>SR2</td><td colspan="2">Financial Sustainability</td><td>RED</td></tr>
<tr><td>Description</td><td colspan="3">The effects of the Covid-19 pandemic, coupled with current adverse macroeconomic conditions and the wider local government funding context, have created conditions of unprecedented financial uncertainty and challenge for the Council.

The Council is therefore increasingly reliant on generating additional income and identifying savings and efficiencies from existing budgets. If not mitigated, these financial challenges risk an adverse impact on the Council's ability to deliver its Corporate Plan objectives.</td></tr>
<tr><td rowspan="2">Owner</td><td>Portfolioholder</td><td colspan="2">Finance & Governance</td></tr>
<tr><td>Officers</td><td colspan="2">Chief Finance Officer</td></tr>
<tr><td>Controls</td><td colspan="3">The Council will continue to ensure that strong financial management arrangements are in place and will continue investment in skills and expertise to support the delivery of the Council's financial and commercial objectives while managing risks.

The Medium-Term Financial Plan (MTFP) sets out the forecast budget challenges over the coming five years and forms the basis for service and financial planning, while the Capital Investment Strategy provides an overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of Council services and how associated risk is managed.

The budget pressures identified by the MTFP will be addressed by the Council's Financial Sustainability Programme.

The Commercial Strategy sets out the commercial activity the Council will consider, provide a framework on option evaluation, and provide the basis on which commercial decision making will be made.

The Annual Revenue Budget sets out funding allocations for the current year and confirms officer accountability for ensuring that expenditure and income are managed within limits approved by Members. In year budget monitoring reports confirm compliance with these limits and report any action required to manage budget variances.

The Treasury Management Strategy helps ensure that investments achieve target returns within approved security and liquidity limits and that borrowing to fund the Capital Programme is affordable.

Internal audit will be utilised to review the approach taken to secure financial sustainability.</td></tr>
<tr><td>Mitigating actions/progress</td><td colspan="3">In addressing its significant financial challenges, the Council has established a Financial Sustainability Programme. This programme will take the form of a series of ambitious initiatives that reduce costs and/or increase income, enabling the Council to set a balanced budget reducing need to draw on Reserves. Key to this will be looking at delivering services differently to realise savings and/or increase income, as well as embedding lasting cultural change across the organisation.

The programme is premised on the following:</td></tr>
</table>

<table>
<tr><td colspan="2"></td><td colspan="3">

Projects – new ideas and opportunities for generating income and/or making savings.
Service and financial planning (2023/24 onwards) – for all budget areas, reviewing the services delivered and the associated budgetary requirements. Ensuring that there is a clear justification for all services delivered and that budgets are set accordingly. Opportunities for delivering services in a different way to unlock savings will also be explored.
Fees and charges – carrying out a fundamental review to ensure the full application of the fees and charges policy across the Council.

Updates to the programme will be reported to the Overview and Scrutiny Committee and Executive.
An updated MTFP was reported to the Overview and Scrutiny Committee and Executive in July 2022 (agenda available here).
The update confirmed that the risk of increasing costs, driven by inflationary pressures in the wider economy and disruption of the global supply chain, presents an increasing challenge to the Council's financial sustainability.
This is especially notable for the goods and services that the Council relies on to maintain service delivery. The Council continues to ensure the most financially advantageous/sustainable option is selected when procuring goods and services and, wherever possible, the Council will ensure that increased costs are reflected in the fees and charges levied or compensating budget savings will be sought.
</td></tr>
<tr><td rowspan="2">Score</td><td>Likelihood</td><td>More than likely</td><td rowspan="2">Direction of Travel</td><td rowspan="2">-</td></tr>
<tr><td>Impact</td><td>Significant</td></tr>
<tr><td colspan="2">Status</td><td colspan="3">Treat</td></tr>
<tr><td colspan="2">Last Update</td><td colspan="3">October 2022</td></tr>
</table>

ANNEX 2

APPENDIX 5

FINANCIAL SUSTAINABILITY PROGRAMME

Overview at November 2022

Background and Context

The need for a concerted focus on the financial sustainability of the Council was identified as part of the 2022/23 budget setting process, as reported to the Executive in November 2021 and January 2022.

Financial Pressures and the Forecast Funding Gap

In January 2022, the Council's Medium Term Financial Programme forecasted indicated a budget gap of £2.116 million in 2023/24, rising to £5.446 million by 2027/28. The key factors that influence the forecast gap are summarised in the covering report, and include:

- Service expenditure
- Central budgets
- Council tax and non-domestic (business) rates; and
- Future use of Reserves

More details about the likely scale of impact of the above is set out in this updated Medium Term Financial Plan.

Using Reserves

Although the Council has established ring-fenced Reserves to manage the financial risks it is facing (and these put it in a relatively secure financial position compared to many authorities) the use of Reserves to address the forecast funding gap represents a short term tactic. Ongoing reliance on one-off measures such as the use of Reserves is not without risk and will not be sustainable in the longer term. The Council therefore needs to reduce its costs and / or increase its income on a permanent basis to guarantee its financial sustainability for future years. More information about the Council's Reserves position can be found in the January 2022 budget papers.

Commercial Activity

The Council has also for several years now been pursuing a commercial approach, with the publication of Part 1 of its Commercial Strategy in November 2020 and Part 2 in December 2021. However, its ability to generate income from 'purely commercial' activity is now highly constrained, with restrictions meaning that borrowing to invest solely for financial return is not allowed, and new limitations to the types of capital spending where borrowing is permitted. These are underpinned by new Government controls on access to Public Works Loans Board (PWLB) borrowing and proposed changes to Minimum Revenue Provision accounting along with revised CIPFA Codes of Practice on Prudential Borrowing and Treasury Management that have been introduced over the past 18 months. The implications for this authority are explained in Part 1 of this MTFP report.

Companies

The establishment of arms-length trading companies reflects a further potential tool available to the Council to generate income. However, experience to date in this area has demonstrated that establishing and then growing such companies can be extremely time consuming and resource intensive. The Commercial Strategy Part 2 therefore confirms that the Council will take an incremental, long-term approach will be taken to growing trading activities, and that the focus will be in areas where we already have experience. This means that trading activity does not provide the short to medium term solution to addressing the Council's funding gap.

Financial Sustainability Programme

Taking into account the forecast funding gap, the parameters within which the Council can operate, and building on experience to date, the Executive therefore agreed in November 2021 to pursue a Financial Sustainability Programme, focusing on four key areas:

- **Income generation** (that is, pursuing opportunities to generate new income streams, optimising fees and charges and implementing 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 forecasts to identify new opportunities for savings and efficiencies, reviewing the level of service provided and focusing resources on priority services, and managing pay costs and making effective use of staff resources)
- **Achieving value for money** (including pursuing options to share with other Councils to realise efficiency savings and identifying invest to save opportunities, including investment in technology to reduce operational costs)

Financial Sustainability Programme

The Financial Sustainability Programme comprises the projects and activities that are being deployed to address represents a key component to mitigate against the Financial Sustainability risk identified on the Council's Strategic Risk Register.

Approach

Programme Scope and Objectives

The Council's Financial Sustainability focus is not a single plan, or project, but rather will encompass many different activities and projects. As such, it is being managed as a programme in line with the corporate Project and Programme Management Framework.

The main components of the programme are:

- **Service and financial planning:** reviewing all budget areas to ensure that there is a clear justification for the services being delivered and that budgets are set accordingly

- **Standalone projects and activities:** Scoping and where appropriate progressing new ideas and opportunities for generating income or introducing efficiencies

- **Fees and charges:** A comprehensive review to ensure that the Fees & Charges Policy is consistently applied across the Council.

The programme objectives are that it will:

- Act as a catalyst for - and foster an ongoing legacy of – cultural, behavioural and procedural changes to embed financial efficiency and acumen

- Identify and deliver on opportunities for increasing income and/or achieving cashable savings

- Maintain the provision of services at a level that is viable within the available budget envelope, recognising that this may involve delivering services differently.

In developing how we approach the programme; the following options were considered:

- **Option 1: Do nothing.**
  This option has not been selected as it is not a long term solution. Eventually the Council's Reserves will deplete and the time window available to make manged change will have been lost. Difficult decisions need to be made – this option would merely delay those decisions.

- **Option 2: Seek to close the budget gap as soon as possible.**
  This option has not been selected as it would require the application of blunt measures 'across the board'. This could have negative and destabilising impacts on service delivery and reduce operational capacity to deliver core responsibilities. The short timescales associated with this option would hinder the ability of the organisation to fully consider the options available and the implications of different options. There may also be significant costs associated with this option which could detract from any benefits gained.

- **Option 3: Seek to close the budget gap in a planned and controlled manner over a longer term.**
  This is the recommended option as it allows the Council to explore and evaluate options to close the budget gap in a way that maintains organisational stability and capacity. Given the longer term timescales involved, it will also enable the Council to pursue means to increase income to complement savings made.

<u>Programme Governance</u>
The Council's Corporate Governance Group, comprised of key senior and statutory officers, has overall operational responsibility for the Financial Sustainability Programme (FSP). To enable regular oversight of the programme and its progress, a Steering Group has been comprised (effectively a sub-group of Corporate Governance Group members), supported by officers from within the Projects & Performance Team.

Within the programme:

- Service and financial planning activities are being managed in the usual way (although with a more in-depth approach being taken): this means via a series of Management Team Awaydays, Executive Awaydays, and collaborative working between senior officers and Executive Members. This will culminate in the usual draft budget report to Executive and Budget Scrutiny process.

- Standalone projects and activities are being managed within their respective service areas. In the case of projects, these will be managed and reported in the usual way, using the Council's Project Management Framework, reporting to its officer Governance Boards, and with dashboards provided to Members.

- The Fees & Charges review is being overseen by officers within the Finance and Corporate Policy teams, working with budget holders across the Council. In some instances, a substantive review of an existing charge, or the introduction of a new charge, may warrant a project-based approach. While authority for agreeing fees and charges is delegated to relevant Heads of Services, it is intended that outcomes from the review will be included within the draft budget in November 2022.

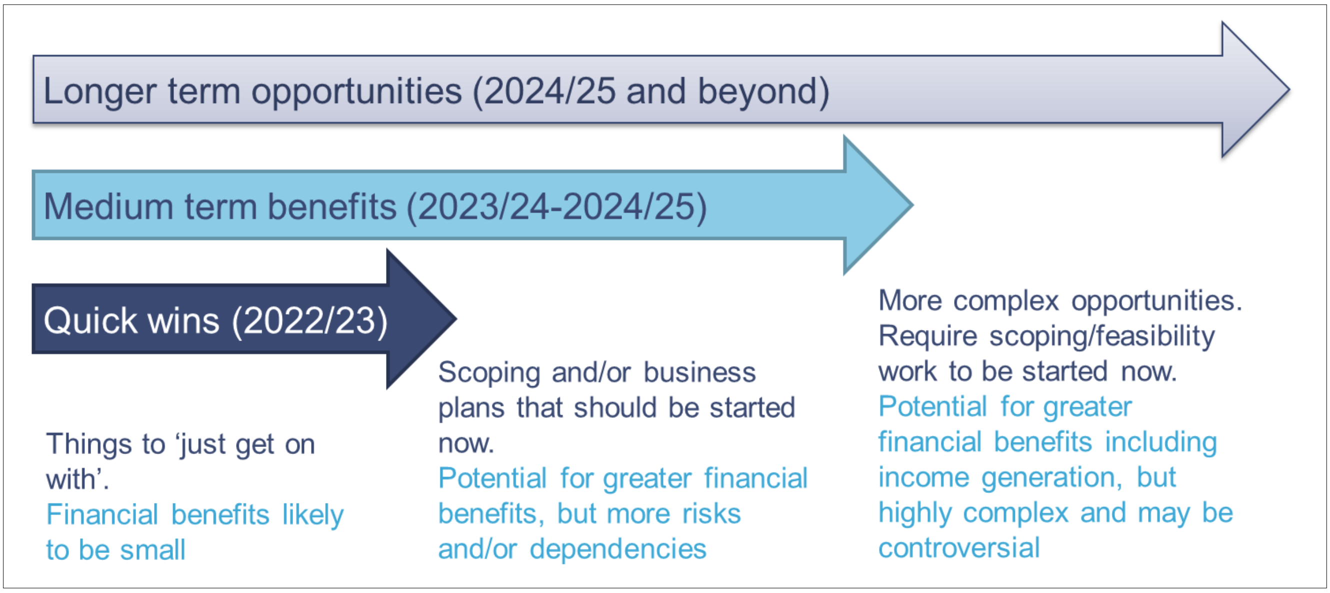
Programme progress is being reported to the Corporate Governance Group on a monthly basis. Monthly updates are also being provided to Executive Members via the informal Leader's Meeting, with the Leader and Deputy leader receiving more frequent briefings.

It should be recognised that delivering the Financial Sustainability Programme will not be straightforward or easy. It will require considerable input from senior and middle managers across the organisation and this represents a key risk for the programme. The Corporate Governance Group will regularly review organisational capacity and the prioritisation of workload to ensure this risk is managed and as necessary mitigated.

Progress to Date

The chosen approach to the Financial Sustainability Programme (option 3 above) means that the work will run across multiple financial years, and comprise assessment and implementation of changes over the short, medium and longer term, as illustrated below:

ANNEX 2



As set out in the 'Reporting' section below, regular updates will be provided to the Overview & Scrutiny Committee and Executive on programme progress. However, in terms of the process being followed, the following progress has been made at the time of writing (July 2022)

<u>Programme Set Up</u>
- ✓ FSP Steering Group established (February)
- ✓ Initial programme brief agreed by Corporate Governance Group (April)
- ✓ Programme plan and register in development (May)
- ✓ Programme support officer appointed (June)

<u>Service & Financial Planning</u>
- ✓ Initial review of budgets and services undertaken by Heads of Service (April/May)
- ✓ Peer challenge at Management Team Awayday (May)
- ✓ Discussion of budget and service options and prioritisation at Executive Awayday (June)

The key milestone for this element will be the November 2022 draft budget report to Executive.

<u>Standalone Projects and Activities</u>
- ✓ Identification and prioritisation of opportunities by Management Team (March/April)
- ✓ Project and activity scoping and development of (outline) business cases (ongoing)

Key milestones will be identified on a project by project basis.

<u>Fees & Charges</u>
- ✓ 2022/23 increases implemented for some charges (April 2022)
- ✓ Collation of fees and charges register and identification of higher value areas for priority review (May 2022)

- ✓ Budget holders progressing review (ongoing)

The key milestone for this element will be the November 2022 draft budget report to Executive.

Vacancy Control Mechanisms
From June 2022, a new vacancy control mechanism has been introduced to ensure that there is a robust business case for any recruitment undertaken to newly vacant posts. This may deliver some in-year savings.

Third Party Funding Opportunities
Services across the Council will continue to pursue third party funding opportunities where these can provide alternative sources of funding for future service activities. For example, the Council has already been successful in securing £0.5m of funding from health partners; work is currently underway to develop an investment plan to secure £1m of UK Shared Prosperity Funding.

Reporting Progress

To ensure transparency and allow for appropriate scrutiny, the Council will regularly report the progress it is making in relation to its Financial Sustainability Programme.

- Monthly updates will be provided to Executive Members via portfolio holder briefings and the informal Leader's Meeting.

- Quarterly reports will be provided to the Overview & Scrutiny Committee and Executive as part of the usual budget and performance monitoring arrangements. Updates on constituent projects will be reported via the project dashboards provided for Members.

- Proposed changes to future service provision and associated budgets will be presented in draft form to the Executive in November 2022, following which public consultation and consultation with the Overview & Scrutiny Committee (via its Budget Scrutiny Panel) will take place.

- A Communications Plan has been developed which will inform other strands of communications activity, including with staff, councillors and the public.

GLOSSARY OF TERMS

Actuarial Valuation
An independent report of the financial position of the Surrey Local Government Pension Fund carried out by an actuary every three years. The actuary reviews the pension fund assets and liabilities as at the date of the valuation and makes recommendations such as, employer's contribution rates and deficit recovery period, to the Council.

Baseline Funding Level
The amount of a local authority's start-up funding allocation which is provided through the local share of the estimated business rates aggregate at the outset of the scheme as forecast by the Government. It forms the baseline against which tariffs and top- ups are calculated.

Billing Authority
Reigate & Banstead Council is the Billing Authority with responsibility for calculating the amount to be raised through the council tax in this borough after taking into account the precepts levied by the major precepting authorities.

Budget Requirement
The Council's Revenue Budget after deducting funding streams such as fees and charges and any funding from Reserves (excludes council tax and business rates income).

Capital Expenditure
Spend on assets that have a lasting value, for example, commercial investments including land and buildings and large items of equipment such as vehicles. This can also include indirect expenditure in the form of grants or loans to other persons or bodies.

Capital Programme
The Council's plan for future spending on capital projects such as buying land, buildings, vehicles and equipment.

Capital Receipts
Proceeds from the disposal of land or other assets and can be used to finance new capital expenditure; but cannot be used to finance revenue expenditure.

Capping
This is the power under which the Government may limit the maximum level of local authority spending or increases in the level of spending year on year, which it considers excessive. It is a tool used by the Government to restrain increases in council tax.

CIPFA
The Chartered Institute of Public Finance and Accountancy is one of the UK accountancy institutes. Uniquely, CIPFA specialises in the public sector. Consequently, CIPFA holds the responsibility for setting accounting standards for local government.

Collection Fund
A statutory account maintained by the Council recording the amounts collected from council tax and business rates and from which it pays precepts to Surrey County Council, the Police & Crime Commissioner, Towns, Parishes and the Ministry for Housing, Communities and Local Government for business rates.

Collection Fund Surplus (or Deficit)
If the Council collects more or less than it expected at the start of the financial year, the surplus or deficit is shared with the major precepting authorities, Surrey County Council and the Police & Crime Commissioner, in proportion to the respective council taxes. These surpluses or deficits have to be returned to the council taxpayer in the following year through lower or higher council taxes. If, for example, the number of properties or the allowance for discounts, exemptions or appeals vary from those used in the council tax base, a surplus or deficit will arise. From 2013/14 onwards the collection

fund has included business rates income. The business rates surplus or deficit is shared with the Ministry for Housing, Communities and Local Government.

Core Spending Power
This is the Government's measure of the resources available to local authorities to fund service delivery. It sets out the funds that have been made available to local authorities through the Local Government Finance Settlement.

Council Tax Base
The council tax base for a Council is used in the calculation of council tax and is equal to the number of Band D equivalent properties. To calculate this, we count the number of properties in each band and work out an equivalent number of Band D equivalent properties. The band proportions are expressed in ninths and are specified in the Local Government Finance Act 1992. They are: A 6/9, B 7/9, C 8/9, D 9/9, E 11/9, F 13/9, G 15/9 and H 18/9, so that Band A is six ninths of the 'standard' Band D, and so on.

The Council Tax Calculation
The formal calculation of council tax as presented in the Council Tax Resolution to Full Council in February each year.

CPI and RPI
The main inflation rate used in the UK is the CPI (Consumer Price Index); the Chancellor of the Exchequer bases the UK inflation target on the CPI. The CPI inflation target is currently set at 2%. The CPI differs from the RPI (Retail Price Index) in that CPI excludes housing costs. Also used is RPIX, which is a variation on RPI, which excludes mortgage interest payments.

Earmarked Revenue Reserves
These balances are not a general resource but earmarked by the Council for specific purposes.

Financial Procedure Rules
These are a written code of procedures in the Council's Constitution, which provide a framework for the proper financial management of the authority. They cover rules for accounting and audit procedures, and set out administrative controls over the authorisation of payments, etc.

Financial Year
The local authority financial year commences on 1 April and finishes on the following 31 March.

General Fund
This is the main revenue fund of the local authority; day-to-day revenue budget spending on services is met from this fund.

General Fund Balance
This is the main unallocated Reserve that is held to meet any unforeseen budget pressures.

Gross Domestic Product (GDP)
GDP is defined as the value of all goods and services produced within the UK economy.

Gross Expenditure
The total cost of providing Council services, before deducting income from Government or fees and charges for services.

Housing Benefit Subsidy
Local authorities determine and pay applications for housing benefit in accordance with the national scheme and receive a Subsidy grant from Government to fund the costs. The Government is moving to a national scheme of universal credit which includes an element of housing benefit.

Individual Authority Business Rates Baseline
This is derived by apportioning the billing authority business rates baseline between billing and major precepting authorities on the basis of major precepting authority shares.

Local Share
From April 2013, local councils have been allowed to keep a proportion of the business rates they collect from businesses in their area. In most areas, half of business rates will have to be paid over to central government (the 50% scheme), with some piloting 100% business rates retention. Billing authorities continue to collect all of the business rates in their area on behalf of the major precepting authorities and central government. Reigate & Banstead's share of the 50% retained is 40%.

Lower Tier Services Grant
Lower Tier Services Grant was introduced in the local government finance settlement 2021 to 2022 for local authorities with responsibility for lower tier services.

Management Budget
The revenue budget that forms the basis for budget monitoring during the year, comprising the Original Budget plus any approves in-year adjustments.

Net Expenditure
This is gross expenditure less service income, but before deduction of government grant.

National Non-Domestic Rates (NNDR)
Also known as 'Business Rates', National Non-Domestic Rates are collected by billing authorities including Reigate & Banstead and, up until 31 March 2013 were all paid into a central national pool, then redistributed to authorities according to resident population. From 2013/14 local authorities have retained a 'Local Share', see above, the aim of which is to provide an incentive for councils to help local businesses set up and grow.

New Homes Bonus
Under this scheme councils receive a New Homes Bonus per each new property built in the borough for the first four years following completion. Payments are based on match-funding the council tax raised on each property with an additional amount for affordable homes. It is paid in the form of an un-ring-fenced grant. Since 2017/18 the scheme excludes the first 0.4% of growth ('the deadweight') is excluded to 'sharpen the incentive'.

Original Budget
The Revenue Budget that is approved by Council in February.

Prudential Borrowing
Set of rules governing local authority borrowing for funding capital projects under a professional code of practice developed by CIPFA to ensure that capital investment plans are affordable, prudent and sustainable. Local authorities generally borrow from the National Loans Fund via the Public Works Loan Board (PWLB), a statutory body operating within the UK Debt Management Office, an executive agency of the Treasury.

Reserves
We set aside resources to provide protection against difficult economic times. The level of Reserves helps ensure a relatively secure financial base. It is important to carry out regular reviews to ensure an appropriate balance between securing the future financial position of the Council and investing in current delivery of services.

Revenue Expenditure
The day-to-day running cost of services provided by Council.

Safety Net
In order to prevent local authorities having to drastically cut services as a result of a significant fall in business rate income and to provide some protection against major economic shocks, the government introduced a safety net mechanism to ensure that no local authority will experience a fall in business rate income of more than 7.5% in any one year under the 50% scheme. This safety net is paid for by a Levy on what the government deems to be 'excessive growth'.

Section 151 Officer

Legally councils must appoint under section 151 of the Local Government Act 1972 a named Chief Finance Officer to provide professional financial advice. In Reigate & Banstead this is the post of Head of Finance.

Service & Financial Planning
The annual process for reviewing service priorities and preparing budget forecasts.

Services Grant
Introduced as part of the local government finance settlement in 2022/23 to provide funding to all tiers of local government in recognition of the vital services delivered at every level of local government.

Settlement Funding Assessment (SFA)
A local authority's share of the local government spending control total (business rates and Revenue Support grant) which comprises its baseline funding level (in 2013/14 this was called the 'start-up funding allocation').

Specific Grants
As the name suggests, funding through a specific grant is provided for a specific purpose and cannot be spent on anything else e.g. Homelessness Prevention.

Spending Review
The Spending Review is an internal Government process through which the Treasury negotiates budgets for each Government department. The 2015 Spending Review set Government spending for the four financial years up to 2021/22. Subsequent spending reviews have been for one year only.

Tariffs and Top-Ups
Because the amount of business rates an individual authority is able to collect will vary enormously depending upon location and the characteristics of the authority, the government introduced a system of top-ups and tariffs to redistribute business rates around the country. Local councils with a relatively high level of business rates pay a tariff into a national pot which is used to pay top-ups to those local authorities with relatively low levels of business rates. Reigate & Banstead is a 'tariff' authority.

Treasury Management
The process of managing cash flows, borrowing and cash investments to support our finances. Details are set out in the Treasury Management Strategy which is approved by Executive and Full Council each year.