ANNEX 2

MEDIUM TERM FINANCIAL PLAN - Summary

2024/25 to 2028/29
November 2023

ANNEX 2

APPENDICES

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GLOSSARY

Introduction

This Medium-Term Financial Plan (MTFP) is a summary of the Council's key financial information, including the budget challenges faced, 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 2023 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 2024/25 and in support of the Service & Financial Planning Budget report being presented in November.

Key changes since the July 2023 budget report include:

- Updated forecast for pay cost inflation;
- Updated forecast for interest rates from Bank of England;
- Update forecast for service budget income;
- Updated forecasts for council tax and business rates income; and
- Latest assumptions on the continuation of Government grants.

As usual, this reflects forecasts before any savings, income and growth from service & financial planning reviews are taken into account.

The Service & Financial Planning report being presented in November 2023 sets out the detailed actions required to deliver a balanced budget that is consistent with the direction and objectives set out in this MTFP.

1. Medium Term Financial Plan Objectives

The objectives of this MTFP are to help us:

- Provide a robust financial framework to assist decision-making processes;
- Manage council finances within the context of a forward-looking service & financial planning framework;
- Prioritise resources to align spending plans with our vision and strategic objectives and resident priorities;
- Recognise the ongoing funding challenges that will need to be addressed through changes to how services are delivered, realising new sources of income and delivery of cashable budget savings, or a combination of all three;
- Maintain council tax resource levels;
- Maintain a balanced budget and continue to strengthen that position;

- Maintain the General Fund reserve at a minimum of 15% of the annual net Revenue Budget to cover significant unforeseen expenditure;
- Maintain Earmarked Revenue Reserves for specific purposes, consistent with achieving our priorities and managing risks. The use of Earmarked Revenue Reserves will be in line with the Council's 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 latest fees and charges policy;
- Demonstrate probity, prudence and strong financial control;
- Manage financial risks;
- Continually review budgets to ensure resources are targeted on key objectives;
- Continue to improve our approach to commissioning and procurement to ensure value for money for local taxpayers;
- Support new ways to ensure financial sustainability and maximise income to deliver our priorities. This includes the development of commercial projects to capture both revenue income and capital growth opportunities;
- Pursue opportunities for securing external funding; and
- Support opportunities for working in collaboration with partners where this will support our priorities and improve service value for money.

2. Medium Term Financial Plan Priorities

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

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

- Government **Finance Legislation**. There are key pieces of Government legislation which will impact upon the future financial position of the Council. In particular the impact of the localisation of business rates and any additional responsibilities will need to be fully evaluated as well as the Government's planned Fair Funding Review of local Government finance which continues to be delayed but is still 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 managing risks and supporting initiatives or investments which can deliver future benefits;

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

3. Medium Term Financial Plan Context

Service & financial planning takes place within the context of the national economic and public expenditure plans; this MTFP has been formulated within the context of the current UK economic position and continued pressure on local government funding.

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 Sector Finances and Government borrowing

There remains considerable volatility and movements in latest financial and economic forecasts. In September 2023 the Office for National Statistics (ONS) reported:

- *Public sector net borrowing excluding public sector banks (PSNB ex) in September 2023 was £14.3 billion, £1.6 billion less than in September 2022 and the sixth highest September borrowing since monthly records began in 1993.*
- *The interest payable on central government debt in September 2023 was £0.7 billion, £7.2 billion less than in September 2022 and the third lowest in any month since monthly records began in 1997; this was largely because of the fall in the Retail Prices Index (RPI) between June and July 2023 reducing the inflationary impact on index-linked gilts.*
- *PSNB ex in the first half of the financial year (April to September 2023) was £81.7 billion, £15.3 billion more than in the same six-month period last year but £19.8 billion less than the £101.5 billion forecast by the Office for Budget Responsibility (OBR) in March 2023.*
- *Public sector net debt (PSND ex) was £2,599.0 billion at the end of September 2023 and was provisionally estimated at around 97.8% of the UK's annual gross domestic product (GDP); this is 2.1 percentage points higher than in September 2022 and continues at levels last seen in the early 1960s.*
- *Excluding the Bank of England, public sector net debt was £2,372.9 billion or around 89.3% of GDP, £226.2 billion (or 8.5 percentage points) lower than the wider measure.*
- *Public sector net worth (PSNW ex) was in deficit by £667.3 billion at the end of September 2023; this compares with a £519.4 billion deficit at the end of September 2022.*

- *In September 2023, the public sector spent more than it received in taxes and other income, requiring it to borrow £14.3 billion. This was £1.6 billion less than was borrowed in September 2022 and is the sixth highest September borrowing since monthly records began in 1993, behind those around the coronavirus (COVID-19) pandemic period, and those following the global financial crisis.*
- *Central government forms the largest part of the public sector and includes HM Revenue and Customs, the Department of Health and Social Care, the Department for Education, and the Ministry of Defence. The relationship between central government's receipts and expenditure is the main determinant of public sector borrowing.*

- *In September 2023, central government borrowed £10.7 billion, £3.8 billion less than in September 2022 but £5.9 billion less than the £16.6 billion forecast by the Office for Budget Responsibility (OBR). Central government's receipts were £77.3 billion, £3.4 billion more than in September 2022 and £1.9 billion more than the £75.4 billion forecast by the OBR in March 2023*
- *In September 2023, the interest payable on central government debt was £0.7 billion, £7.2 billion less than in September 2022, and £4.1 billion below the OBR's March 2023 forecast of £4.8 billion. This was the third lowest interest payable in any month since monthly records began in April 1997, behind that of March 2018 and March 2019, and largely because of recent movements in monthly inflation.*
- *Central government net cash requirement (excluding UK Asset Resolution Ltd and Network Rail) was £15.2 billion in September 2023, £1.5 billion more than in September 2022 but £1.4 billion less than the £16.6 billion forecast by the OBR in March 2023.*

- *In September 2023, UK general government gross debt was £2,436.7 billion at the end of Quarter 2 (Apr to June) 2022, equivalent to 101.9% of gross domestic product (GDP).*
- *UK general government deficit (or net borrowing) was £43.9 billion in Quarter 2 2022, equivalent to 7.2% of GDP.*

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

Economic Growth

- *According to the figures released by the ONS, UK gross domestic product (GDP) is estimated to have increased by 0.2% in August 2023. In terms of the broader picture wage growth continues to be stronger in sectors with ability to demand higher wages, like finance and manufacturing. Whereas industries such as retail, that which have a high number of employees earning close to the minimum wage, experience comparatively weaker wage growth.*
- *Interestingly, the public sector has witnessed a rise in pay growth, despite ongoing threats of industrial action from doctors, nurses, and teachers. Unions have successfully secured notable pay agreements in certain segments of the private sector, particularly where staff scarcity is prevalent.*
- *The UK economy saw a return to growth in April as consumer spending rebounded and fewer strikes, but the potential for higher interest rates creates uncertainty.*

- *Published data in September 2023 showed GDP expanded by 0.2 percent in August 2023 following a fall of 0.6% in July 2023, revised down from the previous 0.5% fall in the last forecast, reversing the previous month's contraction. This growth, in line with analysts' expectations, was primarily driven by a 0.3 percent expansion growth in all sectors with service output rising by 0.4% in August 2023.*
- *While latest GDP data raises hopes of avoiding a recession this year, concerns remain as the full impact of high interest rates has yet to be experienced, making it too soon to be confident in recovery. Market expectations are that the Bank of England will continue raising rates in the months ahead, are boosted by the strong labour market and the resilience of the economy, to bring inflation down to its 2 percent target.*

Source: Arlingclose and ONS November 2023

Interest Rates

The MPC held the UK Bank Rate at 5.25% at its meeting on 2 November 2023. Due to current inflation and wage data, it is possible that rates could increase further but the MPC has clearly stated that this is data dependent and affected by the following factors;

- *The risks lie to the upside. Further strong CPI inflation data for September at 6.7% could result in a further increase if inflation remains sticky and stubborn.*
- *The MPC will however cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until services inflation and wage growth ease. The stickiness of these data suggests that rate cuts will happen later than previously expected. We see rate cuts lowering to 3% by mid 2025.*
- *Long-term gilt yields are expected to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility.*

Source: Arlingclose and Bank of England MPC notes September 2023

Inflation

- *CPI inflation whilst currently running at 6.7% (ONS September) is expected to fall towards the end of the 2023 year as oil and other energy costs begin to ease. In the modal forecast conditioned on market interest rates, an increasing degree of economic slack and declining external pressures lead inflation to fall to materially below the 2% target in the medium term, but the Committee continues to judge that the risks to that forecast are skewed significantly to the upside.*
- *The mean projection for CPI inflation, which incorporates these risks, is at or just below the 2% target in the medium term.*

Source: *Arlingclose September 2023*

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 Business Rates (NNDR) Multiplier used by Government to set annual business rate increases;
- PWLB lending costs will continue to fluctuate because the lending rate is based on gilt yields; and
- Revision of some of Government's Spending Review21 baseline assumptions.

The MTFP forecasts do not include provision for general price inflation. Business cases for budget growth for specific contract price increases will be considered when the draft budget for 2024/25 is prepared in the autumn.

Local Government Funding

Over recent years 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 – implementation timing has not yet been confirmed
- 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
- December 2020 - Provisional Local Government Finance Settlement 2021/22 - Covered one year only; based on Spending Review20 (SR20) funding levels.
- December 2021 - the 2022/23 Provisional Local Government Finance Settlement, was for one year only and was based on Spending Review 2021 (SR21) funding levels.
- December 2022 – the 2023/24 Provisional Local Government Finance Settlement was for one year only and once again was based on rolling-over Spending Review 2021 (SR21).

  Once again, the emphasis was on providing stability by rolling forward key elements alongside extra cash for priority areas, such as social care, and a commitment to increase district and borough authorities' Core Spending Power (the Government's measure of the resources available to local authorities to fund service delivery) by at least 5%, after taking account of the increased council tax referendum limit that was announced in the November Autumn Statement.

  The Government introduced the Minimum Funding Guarantee Grant to support this commitment which was received for the first time in 2023/24.

  While welcome this was still below the forecast rate of CPI at 5.5% and the 9.2% increase for upper tier councils that was advised in the settlement.

  The announcement did set out some core principles for 2024/25 including maintaining funding and council tax increases at 2023/24 levels. It is felt that the 2024/25 settlement may possibly be a repeat of 2023/24 in the sense of a further year extension.

  The current expectation is that local government funding reform will now take place after the next general election, no earlier than 2025/26.
- November 2023 – at the time of preparing this report no further updates have been issued.

Service & Financial Planning: Government Funding Assumptions
For the purposes of preparing this MTFP and the draft 2024/25 budget the following has been assumed:

- No changes to total local government funding;
- The most far-reaching funding changes will continue to be delayed;

  When implemented, the funding changes are forecast to reduce this Council's Government retained share of business rates. This is as a consequence of the removal of 'Negative RSG' grant and the Business Rates reset. It is assumed that there will be no other transitional funding arrangements for these changes;

- Another ‘roll-over’ settlement for 2024/25 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 possible – but this will only be confirmed in the provisional settlement announcement in December 2023. The ‘deadweight’ of 0.4% will be maintained but there are no longer any legacy payments in respect of previous years’ allocations.
- The Services and Minimum Funding Guarantee grants will continue for another year – also to be confirmed in the provisional settlement.
- Council taxbase growth of up to 1.5% per annum and council tax increases continue to be capped at a maximum of 2.99%. The funding for Council Tax Support introduced in 2023/24 will continue; and
- The business rates baseline reset will continue to be delayed. The business rates multiplier will be frozen instead of increasing in line with inflation, therefore, the three elements of the NNDR Retention system (Baseline Need, NNDR Baseline and Tariff/Top Up amounts) will remain at 2023/24 levels. And the Under-Indexing Multiplier Grant will be increased to ensure that local authorities’ shares of NNDR income is not impacted (although the indexing basis is now RPI instead of CPI). The NNDR Revaluation in April 2023 will not have significant impacts on this Council’s funding position (or its own NNDR costs) due to the associated transitional support arrangements.

4. 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 & Wellbeing, 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, the 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

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

Commercial Strategy

Commercial Strategy
While service efficiencies and council tax increases are important, their contribution to addressing the financial challenges faced by the Council is limited. It is therefore important that the Council also operates more commercially in some areas, where this is consistent with the ethos of the organisation. This means maximising existing net income streams and generating new ones to support service delivery. This requires investment – and will have an element of risk – but it will also enable the Council to develop and grow into a self-sustaining organisation.

To guide its work in this area, the Council has adopted a Commercial Strategy (Part 1 - November 2020 and Part 2 - 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 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 a 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 Strategy also includes a Commercial Activity Action Plan, progress on which will be reported annually. The Action Plan will support delivery of new income generation opportunities for inclusion in future MTFP forecasts. An annual report on progress against Strategy objectives is presented in December each year.

The Partner, Shareholder and Trustee Executive Sub-Committee, supported by other Executive Members, has been working to develop and implement the Council's commercial agenda. This has included (and will continue to include) consideration of potential investment opportunities, opportunities to improve the performance of the Council's existing asset portfolio and activity in relation to companies within which the Council has an interest. The sub-committee considers all potential and existing commercial activity in the context of the wider economic and policy framework within which the Council needs to operate.

The 2024/25 budget proposals and MTFP include forecasts for income from newly-constructed commercial units at The Rise (Marketfield Way) development. These are based on an assessment of the level of rental income net of landlord overheads and handover expenses. Forecasts will be updated in future budget and MTFP reports as the remaining units at the development are handed over and tenancies are signed.

Forecasts for other commercial projects, including the vacant commercial units at Wheatley Court (Cromwell Road), will be included when individual business cases have been approved and delivery timescales are confirmed.

Work also continues under the Strategy to review the Council's property assets in order to identify potential development opportunities that can be formulated into a project pipeline.

5. Budget-Setting Priorities 2024/25

The Priorities that will be taken into account when preparing the draft Budget for 2024/25 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

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 this Council's performance compared to other councils across a range of published measures is published on the LGA website at https://lginform.local.gov.uk/

6. 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
The 2022/23 Original Revenue Budget approved by Council in February 2022 was £19.980 million.

At 31 March 2023 the full year provisional outturn for Services and Central Budgets was £18.301 million against a management budget of £20.062 million, resulting in an overall net underspend of (£1.761 million) (8.8%).

Table 1: REVENUE BUDGET MONITORING AT 31.3.23	Original Budget £m	In-Year Adjustments £m	Management Budget £m	Year-end Outturn £m	Year End Variance £m
Service Budgets	18.023	(0.043)	17.980	17.826	(0.154)
Central Budgets	1.957	0.124	2.082	0.475	(1.606)
Sub-Total	**19.980**	**0.081**	**20.062**	**18.301**	**(1.761)**

The service & financial planning process for 2024/25 will include an assessment of whether any budgets require realignment to reflect historic outturn trends.

<u>Service Budgets</u>
The 2022/23 Original Budget for Services approved by Council in February 2022 was £18.023 million. At 31 March 2023 the full year outturn was £17.826 million against a management budget of £17.980 million resulting in an underspend of £0.154 million (0.9%).

The key variances leading to the underspend are:

Organisation
- Property & Facilities Energy Costs - £0.393 million overspend due to higher costs of electricity and gas;
- Property & Facilities - £0.388 million overspend due to lower than budgeted rental income and higher rates and property maintenance costs;
- Legal Services - £0.170 million underspend due to vacancies.

Place
- Refuse & Recycling - £0.702 million underspend due to increased income from a higher volume of garden waste subscriptions & lower waste disposal costs;
- Car Parking - £0.515 million underspend due to higher than expected income from pay & display car parks;

- Environmental Health & JET – £0.140 million underspend due to successful court actions against landlords and higher income from EV charging points. .

People

- Revenues, Benefits & Fraud - £0.824 million overspend due to net impact of lower subsidy and higher Housing Benefit costs partially offset by lower net staff costs and higher fees & charges income;
- Harlequin - £0.147 million underspend driven by higher income from amateur shows and lower staff costs due to vacancies.

Management Team

- £0.124 million underspend driven by lower cost of restructured team.

Central Budgets

The 2022/23 Original Budget for Central Budgets approved by Council in February 2022 was £1.957 million. At 31 March the outturn was £0.475 million against a management budget of £2.082 million resulting in an underspend of £1.606 million (77.1%).

This underspend is mainly as a result of lower Treasury Management costs and a lower Minimum Revenue Provision requirement.

Revenue Budget 2023/24

The Revenue Budget for 2023/24 was approved in February 2023.

Table 2: BUDGET SUMMARY	Budget 2023/24 £m
1. Net Cost of Services	20.618
2. Central Budgets	2.576
NET EXPENDITURE	**23.194**
3. Council Tax	16.293
4. Business Rates (NNDR)	3.994
5. Other Un-ringfenced Grants	
• Services Grant	0.093
• New Homes Bonus Grant	1.034
• Minimum Funding Guarantee Grant	0.803
6. Grants Transferred to Reserves:	
• Homelessness Prevention	0.686
• Transfer to Reserves	(0.686)

Table 2: BUDGET SUMMARY	Budget 2023/24 £m
7. Call on Earmarked Reserves:	
• Government Funding Risks Reserve	0.484
• IT Strategy Reserve	0.493
Use of funds from the General Fund Balance to support the Revenue Budget[1]	-
NET SOURCES OF INCOME	**23.194**

NOTE 1: The actual sum to be drawn from Reserves to support the budget will depend on the budget outturn position for 2023/24. Over recent years the budget outturn has been an underspend position with no requirement to call on Reserves.

<u>Service Budgets</u>
Service budgets are summarised in the table below:

Table 3: SERVICE BUDGETS	Budget 2023/24 £m
ORGANISATION	
Communications / Customer Service	1.170
Finance	1.260
ICT	2.396
Legal & Governance	2.259
Organisational Development & HR	0.733
Corporate Policy, Projects & Performance (including Environmental Sustainability)	0.532
Property & Commercial	0.431
PLACE	
Economic Prosperity	0.288
Neighbourhood Operations	4.803
Place Delivery	0.334
Planning	0.693
PEOPLE	
Community Partnerships	1.306
Housing	0.898
Revenues, Benefits & Fraud	2.161
Leisure & Culture	0.408
SENIOR MANAGEMENT TEAM	0.946
TOTAL	**20.618**

<u>Central Budgets</u>
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 4: CENTRAL BUDGETS	Budget 2023/24 £m
Insurance	0.467
Treasury Management	(0.087)
Housing Benefits – net subsidy	(0.714)
Budget for Central Pay Costs	0.243
Employer Pension Costs	2.240
Central Vacancy Turnover Provision	(0.150)
Apprenticeship Levy	0.080
Central Recruitment & Visa Expenses	0.045
Central Training Budget	0.082
External Audit Fees	0.150
Internal Audit Fees	0.065
Preceptor Grants – Horley Town Council Double Taxation	0.044
Funding Contribution – Banstead Commons Conservators	0.111
TOTAL	**2.576**

7. Revenue Budget Funding 2023/24

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

Table 5: REVENUE BUDGET FUNDING	Budget 2023/24 £m
Council Tax	16.293
National Non-Domestic Rates	3.994
Other Un-ringfenced Grants:	
• Services Grant	0.093
• New Homes Bonus Grant	1.034

Table 5: REVENUE BUDGET FUNDING	Budget 2023/24 £m
• Minimum Funding Guarantee Grant	0.803
Call on Earmarked Reserves[1]:	
• Government Funding Risks Reserve	0.484
• IT Strategy Reserve	0.493
Use of funds from the General Fund Balance to support the Revenue Budget	-
TOTAL	**23.194**

NOTE 1: The actual sum to be drawn from Reserves to support the budget will depend on the budget outturn position for 2023/24.

Factors taken into account include:

Retained Business Rates Income and Negative RSG Grant	• Includes continued funding for 'negative RSG', until NNDR reform date is confirmed
Council Tax	• The 2023/24 increase is based on a 2.99% Band D equivalent increase and the forecast tax base increase • £0.150 million, which is equivalent to the additional income to be billed compared to 2022/23, was allocated to a new Reserve in 2023/24 to help fund any additional discretionary support
New Homes Bonus	• Includes updated forecasts for New Homes Bonus based on the December 2023 Provisional Settlement announcement, comprising a £1.034 million allocation for 2023/24 and no legacy payments.
Contributions (To)/From Reserves	• Calls on earmarked Reserves for specific purposes as detailed in the table.

8. 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 2023/24
The referendum cap was confirmed with the Provisional Local Government Funding Settlement Announcement in December 2022, being the 2.99% for district councils. This was the recommended increase approved by Council in February 2023.

The Band D charge increased from £242.46 to £249.71, an increase of £7.25 per annum (14 pence per week).

Total income from council tax for this council therefore increased from £15.222 million to £16.293 million.

The impacts of the forecast changes in the taxbase and collection performance was an increase from 62,274 to 63,495 properties representing a taxbase increase of 1,220.61 (1.96%) compared to 2022/23.

Council Tax Policy
No policy changes are recommended for 2023/24, however a review has taken place for 2024/25 and recommendations are proposed in the Service & Financial Planning report being presented in November.

Local Council Tax Support Scheme allowances and premiums increased on 1 April in line with other national increases contained within the Housing Benefit Regulations 2006 and the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2022; the Scheme is also scheduled for review during 2023/24.

Council Tax Precepts 2023/24

Table 6.1: ANALYSIS OF COUNCIL TAX BY PRECEPTOR		
Authority	**£000**	**% share**
	£	**%**
Surrey County Council	106,359,931	74.64%
Surrey Police & Crime Commissioner	19,719,742	13.84%
Reigate & Banstead Borough Council	15,855,416	11.13%
Horley Town Council	524,965	0.37%
Salfords & Sidlow Parish Council	42,915	0.03%
	142,502,969	**100.00%**

Table 6.2: ANALYSIS OF COUNCIL TAX CHANGES BY PRECEPTOR				
Authority			**Increase**[1]	
	2022/23	**2023/24**	**£**	**%**
Surrey County Council	1,626.39	1,675.08	48.68	2.99
Surrey Police & Crime Commissioner	295.57	310.57	15.00	5.07
Reigate & Banstead Borough Council	242.46	249.71	7.25	2.99
Horley Town Council	43.17	47.76	4.59	10.63
Salfords & Sidlow Parish Council	29.72	29.72	0.00	0.00
	2,237.31	**2,312.84**	**75.52**	**3.38%**

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 Government funding support 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 7: LOCAL COUNCIL TAX SUPPORT SCHEME (June 2022) Category	Number of Claims		Annual Cost £m	
	2022	2023	2022	2023
Vulnerable	1,875	1,940	2.923	3.061
Working Age – employed	601	480	0.552	0.493
Working Age – not employed	1,178	1,041	1.512	1.369
Annual Cost to Preceptors			**4.987**	**4.923**

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 December 2022 Settlement Announcement included funding for additional Council Tax Support in 2023/24, representing up to an extra £25 in support for working age and pensioner households for cost of living pressures.

The Scheme has been reviewed during 2023/24 and changes recommended for 2024/25 are subject to consultation and would need to take into account the impacts on recovery performance if support is reduced.

The Scheme was scheduled for review during 2023/24. Any changes proposed are subject to consultation and would need to take into account the impacts on recovery performance if support is reduced.

There have been no major changes to the Scheme since its introduction in 2013, other than to increase support in line with other national benefits. After seeking Member and Officer views during 2023/24 on potential scheme designs, the law requires consultation with taxpayers and preceptors as well as advice groups and other stakeholder before any final decisions are made on changes.

Options for change would be to:

- Reduce the level of support to households, which would have negative impacts on household finances;

- Increase the level of support, by allowing all households receiving support to qualify for up to 100% of their Council Tax liability to be covered; or
- Maintaining the scheme as it is.

After considering the options and taking into consideration the cost-of-living pressures on households, the planned approach is to increase levels of support for 2024/25.

Before considering the proposed increases for the Council Tax Support Scheme, it should be noted that all Council Tax support awards are strictly means tested before approval and for claimants and this is dependent upon a number of conditions. The key criteria for these conditions are:

- Claimant's circumstances (for example income, number of children, benefits and residency status);
- Overall household income available (including savings, pensions and a partner's income) and
- How many children or other adults live with the resident of the Borough.

The following increases are recommended for the revised Council Tax Support Scheme; that the maximum 90% support for households is increased to 100%, and other restrictions are removed. These other restrictions include removing the minimum limit of support of £5 per week, lifting the Band restriction of Band E and above and increasing capital limits to match those within the vulnerable scheme.

The implementation of these changes would increase the level of LCTS by approximately £0.250m.

The costs of this increase will be offset by removing the 28-day discount to homes that are empty and unfurnished.

Council Tax Collection Performance 2022/23
This Council's collection performance for council tax in 2022/23 was 98.17% (98.65% in 2020/21).

Council Tax Options 2024/25
Each 1% increase in Council Tax generates £0.159 million additional income for this borough. A 2.99% increase in 2024/25 would yield £0.669 million additional income.

Council Tax Forecasts
For MTFP modelling purposes, the Council Tax income forecast at November 2023 is set out below:

Table 8: COUNCIL TAX FORECAST	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Forecast Resources	15.855	16.524	17.228	17.921	18.641	19.390
Annual Increase in Income	0.756	0.669	0.704	0.693	0.721	0.749
Cumulative Increase in Income	0.756	1.425	2.129	2.821	3.542	4.291
Band D	£249.71	£257.18	£264.87	£272.79	£280.95	£289.35
Band D Increase	£7.25	£7.47	£7.69	£7.92	£8.16	£8.40
Taxbase Increase	1.96%	1.19%	1.23%	1.00%	1.00%	1.00%
Annual Band D % Increase	2.99%	2.99%	2.99%	2.99%	2.99%	2.99%

NOTE: 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 in December.

9. 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. Over recent years the Government has been undertaking a review of how business rates will operate going forward and has stated its intentions to achieve 75% localisation of business rates. However, the full impact of this cannot be assessed until the details of these changes are release by the Government.

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

Business Rates Collection Performance 2022/23
Collection performance for business rates in 2022/23 was 99.8% (99.94% in 2021/22).

Business Rates Forecast at November 2023

The Table below provides the latest November forecast for business rates for the Council.

Table 9 : NNDR FORECAST	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Forecast NNDR Resources	3.994	3.344	2.524	2.574	2.624	2.678
Annual Increase / (Reduction)	-	(0.650)	(0.820)	0.050	0.050	0.054
Cumulative Increase / (Reduction)	-	(0.650)	(1.470)	(1.420)	(1.370)	(1.320)

The forecast for retained business rates income is based on the latest figures published by DLUHC after taking account of recovery performance. The forecast is subject to confirmation when the Provisional Local Government Settlement is published in December. Any changes when the final income from business rates is confirmed are managed through a call on, or contribution to, the Government Funding Risks Reserve.

10. 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. There 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 '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. Legacy payments for previous years have now ceased.

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.

11. 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 at Annex 6.2 of the Service & Financial Planning report with details of forecast balances at Annex 6.1. The level of Reserves be reviewed during service & financial planning over the summer with the aim of presenting the recommended use of reserves in 2024/25 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 2023 budget report that a working balance of £3.5 million is considered the minimum level required. This represents just over 15% of the net budget for 2023/24. This minimum level will be reviewed again as part of 2024/25 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.

The most significant call on Reserves during the year is expected to be the requirement to make prudent provision for credit losses on investments.

Useable Revenue Reserves
Revenue Reserves have remained buoyant over recent years with a peak during the pandemic when significant additional Government funding was received and held in Reserves until used.

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.

12. Medium Term Financial Plan Forecast 2024/25 Onwards

An early review of Medium-Term Financial Plan budget forecasts has identified a number of new budget pressures that will need to be addressed in 2024/25 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.

The service & financial planning process over the summer will focus 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. The outcome of service & financial planning will be reported in November.

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 2024/25 onwards.

In agreeing the budget for 2023/24, the Executive also agreed to continue a programme of work to ensure the future financial sustainability of the authority. The outcomes of work on the Financial Sustainability programme will be reflected as part of the 2024/25 budget setting process, with the programme continuing into future years to inform ongoing financial planning.

The Programme 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.

Revenue Budget-Setting Assumptions 2024/25

The following assumptions will be used during service & financial planning over coming months when preparing the draft Budget estimates for 2024/25:

Council Tax	• To increase by the referendum limit – assumed to be 2.99% 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 continue to be delayed to 2025/26 at the earliest.
Retained Business Rates Income	• Reset of Business Rates will continue to be delayed, again until 2025/26 at the earliest.
Fees & Charges	• The Council's Fees & Charges Policy is approved as part of budget setting each year. 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
Horley Town Council Double Taxation Grant	• The current ten year grant ends in March 2024. 2024/25 budget forecasts have been prepared on the assumption that this will be renewed.
Pay Inflation	• An allowance for a pay award of £1.750m 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 latest published actuarial valuation of the Surrey Pension Fund confirmed that the Fund's total assets, which at March 2022 were valued at £5.3bn, were sufficient to meet 102% of liabilities (ie. the present value of promised retirement benefits) accrued up to that date. The resulting total Fund surplus at the 2022 valuation was £101m. • 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 2023 to March 2026 have been set in accordance with this requirement. • For Reigate & Banstead this is based on a 15% payroll oncost charge plus a £1.869m lump sum annual deficit payment.

	• There also a requirement to fund £350k per annum contribution for historic 'compensated added years' that were granted to retirees prior to 2015
Price Inflation	• The general principle remains 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. As usual, this is the forecast before any savings, income and growth from service & financial planning reviews are taken into account. An updated forecast will be reported in the January draft budget report. Further details are provided at Appendix 2.

Table 10: MEDIUM TERM REVENUE BUDGET FORECAST	Approved 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 Budget 2028/29 £m
FORECAST GAP	Balanced	0.039	2.353	3.849	5.357	5.586
Annual Increase in Gap	-	0.039	2.314	1.535	1.508	0.229
Gap as % of current budget requirement	-	0.16%	9.9%	16.6%	23.1%	24.1%

The key factors that will influence the forecast gap include:

Service Expenditure	• Service budget pressures and savings have been reviewed as part of the service & financial planning process. Further work will continue to review the proposals for the January budget report. • Ongoing delivery of Financial Sustainability Programme initiatives. • While an estimate for the 2024/25 pay award has been included in the MTFP forecast this is subject to consultation and has to be considered in the context of the significant financial challenges faced over the medium term. Employee costs comprise 40.9% of gross direct expenditure in the 2023/24 budget. • Budget forecasts include forecasts for the net income to be delivered from The Rise development of £0.700 million in 2024/25.
Central Budgets	• Over the next three years net borrowing costs are forecast to remain fairly constant at around 3-4% of the net Revenue Budget and other Central budget costs are not expected to change significantly.
Council Tax	• Council tax setting assumptions are based on a 2.99% increase and forecast growth in the taxbase of 1.19%.

NNDR	• Removal of Negative RSG Grant and the Business Rates reset continue to be delayed; when implemented they are likely to have the effect of negating the benefit of forecast business rates growth over the MTFP period.
Use of Reserves & Grants	• While the 2023/24 budget was based on nil use of funds from the General Fund Balance Reserve, it does require a one-off call of up to £0.964m from the Government Funding Risks Reserve (for Housing Benefit subsidy reduction) and £0.493m from the IT Strategy Reserve. The ongoing requirement for this funding will be assessed as part of service & financial planning over coming months. • Government grant funding that is being used to help fund the net budget requirement in 2023/24 include: Services Grant (£0.093m); New Homes Bonus (£1.034m) and Minimum Funding Guarantee Grant (0.803m). These are expected to continue for 2024/25 and have been included in the budget proposals in the 2024/25 base budget.

In summary, as for the majority of councils, this authority continues to face 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.

Nevertheless this Council remains in a relatively strong position compared to the small number of councils that are now in serious difficulty; in particular those that are having to issue Section 114 notices due to inability to set a legal balanced budget.

Factors that underpin this Council's strength include:

- Healthy Revenue Reserve balances to help mitigate budget risks;
- A relatively low borrowing requirement and no long term external debt at present; and
- Effective corporate governance to ensure compliance with local government financial regulations and maintain effective control of spending.

13. Capital Investment Strategy

The latest Capital Investment Strategy was reported to Executive in July 2023 and sets out a framework for funding and investment decisions in respect of capital assets, in the context of our vision and priorities and available financial resources.

It builds on the Capital Strategy that was approved as part of the Treasury Management Strategy 2024/25 in June 2023.

The Capital Investment Strategy demonstrates that the Council makes capital expenditure and investment decisions in line with service objectives and takes 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.

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 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 2023/24 to 2027/28
The Council forecasts its Capital Programme over a 5-year period and the latest position is set out below as reported to Executive in January 2023 plus unspent balances brought forward from 2022/23. The planned use of resources is in line with the Medium-Term Financial Plan.

Additional detail is set out in the Capital Investment Strategy reported to Executive in July 2023.

<u>Capital Programme 2023/24 to 2028/29</u>
The current Capital Programme is summarised below (details at Appendix 3)

Table 11: CAPITAL PROGRAMME by SERVICE	2022/23 BFWD £m	2023/24 Projected £m	2024/25 Projected £m	2025/26 Projected £m	2026/27 Projected £m	2027/28 Projected £m	2028/29 Projected £m	Total £m
	ORGANISATION SERVICES:							
Property Services	6.383	1.420	1.267	0.909	1.597	0.089	-	**11.705**
IT Services	-	0.410	0.250	0.200	0.200	0.500	-	**1.560**
Organisational Development	-	0.250	0.250	-	-		-	**0.500**
Environmental Strategy	0.236	0.290	-	-	-		-	**0.526**
	PEOPLE SERVICES:							
Housing	7.444	3.270	1.419	1.419	1.419	-	-	**16.390**
Leisure & Culture	0.064	0.100	0.100	0.100	0.100	0.100	-	**0.564**
Community Partnerships	0.108	-	-	-	-	-	-	**0.108**
	PLACE SERVICES:							
Neighbourhood Operations	1.659	0.897	0.996	1.177	0.902	3.853	-	**9.484**
Place Delivery	8.222	2.148	-	-	-	-	-	**10.371**

Table 11: CAPITAL PROGRAMME by SERVICE	2022/23 BFWD £m	2023/24 Projected £m	2024/25 Projected £m	2025/26 Projected £m	2026/27 Projected £m	2027/28 Projected £m	2028/29 Projected £m	Total £m
CIL Capital Programme:								
CIL Capital Programme	-	3.935	-	-	-	-	-	**3.935**
TOTAL APPROVED CAPITAL PROGRAMME	**24.116**	**12.720**	**4.322**	**3.805**	**4.218**	**5.961**	**-**	**55.142**

Future Capital Investment Plans

In addition the Council has previously committed to invest:

- Up to £63.280 million in Commercial income-generating assets; and
- Up to £30.000 million in Housing projects; with £1.050 million committed to date for Temporary Accommodation acquisitions part-funded from the Housing Delivery Revenue Reserve.

Projects will be added to the Capital Programme as new business cases are approved.

Capital Programme Funding

Sources of funding for the Capital Programme are summarised below:

Table 12: CAPITAL PROGRAMME FUNDING	2022/23 BFWD £m	2023/24 Projected £m	2024/25 Projected £m	2025/26 Projected £m	2026/27 Projected £m	2027/28 Projected £m	Total £m
TOTAL CAPITAL EXPENDITURE	**24.116**	**12.720**	**4.322**	**3.805**	**4.218**	**5.961**	**55.142**
FUNDED BY:							
Capital Reserves	1.039	-	-	-	-	-	**1.039**
Capital Receipts	9.571	-	-	-	-	-	**9.571**
Capital Grants & Contributions	2.875	9.642	1.345	1.345	1.345	-	**16.552**
Earmarked Reserves – Housing Delivery Strategy	-	-	-	-	-	-	**-**
Prudential Borrowing	10.631	3.078	2.977	2.460	2.873	5.961	**27.980**
TOTAL CAPITAL FUNDING	**24.116**	**12.720**	**4.322**	**3.805**	**4.218**	**5.961**	**55.142**

Key sources of capital funding:

Table 13: CAPITAL PROGRAMME FUNDING	
Capital Reserves	• Previously the Council benefitted from access to significant capital Reserves following the sale of its housing stock. Over recent years these Reserves have been utilised to invest in the capital programme. The remaining balance was nil at March 2023.

Table 13: CAPITAL PROGRAMME 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 previously 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.

Revenue Budget Impact of Capital Spending

With the exception of earmarked Section 106 and CIL 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 net of interest on forecast balances. Details were confirmed in the Treasury Management Strategy that is reported to Overview & Scrutiny Committee, Executive and Full Council for approval each year.

The costs of managing and maintaining new capital assets will have to be taken into account in the revenue budget as new assets 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 may be capitalised, provided that the time worked can be linked to bringing a specific, separately identifiable asset into working condition, or substantially enhancing the working life of an existing asset.

14. 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 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 that have been implemented in 2024/25 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;
- Quarterly performance reporting; and
- The introduction of the Liability Benchmark as a new Treasury Management indicator.

At the same time CIPFA also revised the Treasury Management Code to integrate Environmental, Social and Governance risks into the policy framework and to update the guidance on development, retention of knowledge, skills, and training.

15. 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.

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 14: 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.

Table 14: BUDGET RISKS **Perceived Risk**	**Impact**	**Likelihood**	**Preventative Action**
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.
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	Low	Low	Legacy impacts of the pandemic have been addressed during budget-setting for 2022/23 onwards.
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 2024/25 will have to take into account the actual and forecast impacts of price inflation on pay, supplies & services, energy & fuel and contract costs.

Sensitivity Analysis

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

Table 15: SENSITIVITY	**Change**	**Estimated Annual Impact on Budget Requirement Increase / (Decrease) £000**
Council Tax/Taxbase		(163)
Business Rates Income	+1%	(40)
Staff Costs		276
Non-Pay Costs		127
Fees & Charges		(173)

Budget Uncertainties Issues & Risks for 2024/25 and onwards

While the approved budget for 2023/24 is robust, there remain, a number of uncertainties and risks to be addressed over the medium-term which are set out below.

Future Government Funding:

- The outcome of the Fair Funding Review and Business Rates reset along with the end of Negative RSG Grant;
- The planned end of New Homes Bonus over coming years; and
- The Homelessness Reduction Act which 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. However Government and CIPFA guidance on ‘borrowing in advance of need’ limits some of the options that may otherwise have been considered to deliver new commercial income streams; and
- Excellent progress has been made over the past year to fill several of the Council’s longstanding void commercial properties. This has the dual benefit of maintaining rental income levels and also avoiding having to fund the costs of managing empty buildings (energy, rates, insurance, etc). However there is likely to always be periods of time when some units are vacant.

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.

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.

Service Budget Risks:

(i) Harlequin Theatre

- Following confirmation of the presence of Reinforced Autoclaved Aerated Concrete (RAAC) at the Harlequin Theatre in September 2023, there is an emerging a risk of income loss and additional costs. Work is in progress to confirm the extent of the problem and the remedial costs required alongside the timeframe for executing the rectification. It had been forecast that increased income would be possible for 2024/25, however the RAAC discovery has negated this income opportunity for the time being.

(ii) Geopolitical factors

- World-wide pressures continue to have a significant impact on the world economy and this impacts on the U.K. business, including local government. Inflationary fears and interest rate rises have affected most councils and there are still concerns over how long inflation and interest rates will remain at current levels and a recession. These pressures, particularly on the supply side impact on prices of energy and other supplies including oil, which are a key element of local council costs.

- The date for the next general election is drawing nearer and the latest date this could be is January 2025. This will fall into the financial year 2024/25 for the council. Any resulting policy changes could have a significant impact on local government.

(iii) Energy Prices

- Escalating electricity and gas costs were flagged as a significant issue when setting the budget for 2023/24 and £0.65m growth was included to address the forecast additional cost.
- 12 month contracts were subsequently renewed in March 2023 (gas) and October 2023 (electricity) and the budget has been adjusted to reflect the new lower tariffs and forecast energy prices in 2024/25. Action also continues to be taken to reduce consumption wherever possible.
- This has resulted in a reduced budget requirement of £0.35m as detailed in the service proposals above. However there is ongoing uncertainty due to the volatility of the supply market.

(iv) Temporary accommodation crisis and costs

- Councils provide a safety net for the most vulnerable people and migrants who need help, and the cost and availability of this is a budget risk for this Council for 2024/25 and future financial years.

- Figures from the Department of Levelling Up, Housing and Communities have shown that the cost of temporary accommodation to local authorities reached £1.7bn last year and is increasing rapidly.
- In October 2023 the District Councils network hosted an urgent meeting and issued a cross-party letter urging the Government to adopt measures to mitigate the impacts ahead of the Autumn Statement. Councils have shared information and explore solutions amid the “escalating social and financial crisis” created by the soaring need for temporary housing.
- Further updates will be provided on budget developments in this area and be reported in the January Budget report to Executive and Council.

(v) External Audit fees

- There is a risk of increases in external audit fees of up to 151%; this is currently being consulted upon with the Public Sector Audit Appointments (PSAA). The PSAA are due to publish their decision and new fee levels by 30 November 2023.

(vi) Housing Benefit subsidy

- £0.964 million budget growth may possibly be required in 2024/25 to fund the reduction in housing benefit subsidy and grants from Government (Department for Work and Pensions). This is a cautious estimate at November 2023 as the loss of subsidy can go up and down during the year and is dependent on many factors including government funding and discretionary housing payments. This growth requirement will be kept under review and further updates will be provided in the January budget report when firmer data is available to quantify any likely budget pressure.
- The continued impacts of pressures that were identified during budget setting for 2023/24 required budget growth of £0.500 million that was necessary.
- For 2024/25, any additional growth required if, it increases to £0.964m will again be funded by calling on the Government Funding Reserve that has been established to help manage this type of risk.
- Discretionary Housing Payments are provided to support some residents with rental payments, where they also receive Housing Benefit or the housing element of Universal Credit. The Department for Work and Pensions provides some funding to local authorities for this but it is not sufficient to meet demand. Local authorities are able to make payments above the DWP funding, but the additional cost has to be met from the Council’s budget. This Council’s funding for 2023/24 was £187,890.
- The key reasons why funding is forecast to reduce include:
  - The continued transition of claims to Universal Credit leaving this authority to manage those claims where a subsidy shortfall is likely;
  - Increased cost of claims from residents in supported housing which is recognised as a national funding issue for local authorities due to how the benefit rules currently operate;
  - Increased cost of making discretionary housing payments; and

- Cost to the council of recovering housing benefit overpayments.

(vii) Property Rental Income

- Steady progress has continued over the past year to fill several of the Council's longstanding void commercial properties. This has the dual benefit of maintaining rental income levels and also avoiding having to fund the costs of managing empty buildings (energy, rates, insurance, etc). However there will always be periods of time when some units are vacant.

(viii) Government Resources & Waste Strategy

- An announcement on 20 October 2023 confirmed the outcomes of consultation on proposals set out in the Waste & Resources Strategy from 2018. These outcomes will be introduced via secondary legislation following enactment of the Environment Bill.

- The strategy sets out how the Government intends for the country to preserve material resources by minimising waste, promoting resource efficiency, and moving towards a circular economy.

- Three key measures from the strategy are:
  - Invoke the 'polluter pays' principle and extended producer responsibility (EPR) for packaging;
  - Introduce a deposit return scheme (DRS) for drinks containers, to reward people for bringing back bottles and encourage them not to litter their empties; and
  - Improve recycling rates by implementing the Simpler Recycling system for all LA in the country.

- These measures will have a considerable impact on local authorities, particularly the Simpler Recycling scheme, which will affect how kerbside recycling services are delivered in the near future.

- Timescales have been announced as follows;
  - EPR and DRS elements proposed for October 2025;
  - Simpler Recycling scheme for all households by March 2026; and
  - Full recycling for businesses with more than 10 FTE by March 2025 and for micro business 2 years later.

- Current recycling budgets are also experiencing significant volatility due to rapid pricing changes. At times the Council generates an income from recyclates while during other periods it has to pay to dispose of the same waste. This makes future budget planning challenging.

- The Simpler Recycling scheme will require RBBC to roll out recycling collections of Dry Mixed Recycling (DMR) and Food waste to the 5,500 properties who do not yet have the full service by the end of March 2026. The additional costs will have to be assessed as part of service & financial planning for 2025/26 onwards, taking into account any additional funding provided by Government for implementation.

(ix) Pension Fund

- 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 leading to increases in the cost of the employer contribution;

Grant-Funded Posts

An area for future consideration as part of budget-setting relates to posts that are currently funded through calling on the Homelessness Prevention grant that is held in an Earmarked Reserve. They comprise:

• Housing	10.9 FTE	£0.414m
• Revenues, Benefits & Fraud	1.0 FTE	£0.033m

The 2023/24 Homelessness Prevention grant allocation of £0.668 million was confirmed in December 2021 along with £0.011 million of new burdens funding This has been transferred to an earmarked Reserve until called upon to fund related expenditure. While there is currently sufficient grant funding available for these posts to continue in 2023/24 there remains a risk that the grant may cease and a decision will be required whether to continue to fund these posts through the Revenue budget as part of next years' service & financial planning process.

Other posts that are funded fully or in part from fixed term resources include**:**

• Community Partnerships	1.0 FTE	£0.045m	East Surrey Heartlands NHS
• Community Partnerships	0.4 FTE	£0.019m	Surrey County Council
• Leisure & Intervention	4.3 FTE	£0.167m	Refugee Support Grant
• Leisure & Intervention	4.0 FTE	£0.163m	East Surrey Partnership
• Planning & Development	2.0 FTE	£0.087m	CIL

Planning and Strategy

- As reported to Executive in October 2022, work on preparing the **Local Plan** will require the allocation of funding from the Corporate Plan Delivery Fund in 2022/23 onwards as the details and timings are confirmed. It is also anticipated that work on the Council's response to the Development Consent Order relating to Gatwick airport expansion will also require the allocation of funding from the Corporate Plan Delivery Fund in 2022/23 onwards as the details and timings are confirmed. During 2024/25 consideration will also have to be given to funding this authority's responsibilities as a planning authority and landowner under the Government's **Biodiversity Net Gain** strategy;
- The 2023/24 budget does not include any specific funding implications arising from implementation of other **strategies** that are currently in development.

The financial implications will be considered as part of service and financial planning for 2024/25.

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.

COVID-19 Pandemic

- The legacy impacts of the pandemic were addressed during budget setting for 2023/24 and are no longer considered to pose a financial significant risk.

MTFP and Budget Monitoring and Review
An updated MTFP forecast will be reported as part of the draft Budget report in November and the final Budget proposals in January.

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 included establishing appropriate programme governance and reporting arrangements.

16. 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.

17. Budget Scrutiny

Savings and growth proposals will be considered by the Budget Scrutiny Panel of the Overview & Scrutiny Committee in November 2023. The conclusions and recommendations of the Panel and the Committee are reported to the Executive.

18. Consultation

As part of the budget setting process, public consultation will be undertaken and budget proposals will also be circulated to the business community via the monthly Business e-bulletin.

Comments received will be reported to the Executive and taken into account in agreeing the final budget.

19. Service & Financial Planning Process and Timetable 2024/25

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 that 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 borrowing and operating costs and/or 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 Reserves Policy is approved as part of budget-setting each year.
Fees & Charges Policy.	Sets out a corporate view of the fees and charges levied by the Council for consideration each year. The Policy is approved as part of budget setting each year.
Council Tax Taxbase	Approved by Full Council in December each year
Annual Council Tax Report	Approved by Full Council in February each year

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

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

Service & Financial Planning Timetable
The timetable for Service & Financial Planning 2024/25 is set out in the November Service & Financial Planning report.

20. 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 introduced April 2021 and work was undertaken as part of 2023/24 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 16: 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.*

Table 16: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
	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 • Response to observations arising from internal audit reviews of Financial Resilience
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. Areas for Development: • Annual MTFP review and reporting, including financial risks assessment • Implementation of the Financial Sustainability Programme • Response to observations arising from internal audit reviews of Financial Resilience
J	The authority complies with its statutory obligations in respect of the budget setting process.

Table 16: CIPFA FINANCIAL MANAGEMENT STANDARDS	
FM Standard Reference	
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 and procurement
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.

The main areas for further development during 2024/25 are set out above.

21. 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/resilience-index.

The most recent snapshot, based on data published at March 2022, is set out below:

Table 17: 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 has to remain under review
Level of Reserves – compared to the annual revenue budget	*Medium risk compared to the average*	
Changes in reserves over recent years	*Medium risk compared to 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 may 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 is improving the Council's position against this indicator as it results in new and/or increased sources of income.
Ratio of Council tax contribution to revenue budget	*Higher risk than the average*	Risk may increase if the budget increases without the ability to levy a proportionate increase in council tax.
Funding growth - compared to Government baseline	*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.

22. 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 2024/25.

APPENDICES

ANNEX 2

APPENDIX 1

REVENUE BUDGET 2023/24

REVENUE BUDGET 2020/21	**Budget 2023/24 £m**
ORGANISATION	
Communications & Customer Service	1.170
Finance	1.260
IT	2.396
Legal & Governance	2.259
Organisational Development & HR	0.733
Corporate Policy, Projects & Performance (incl. environmental sustainability)	0.532
Property & Commercial	0.431
PLACE	
Economic Prosperity	0.288
Neighbourhood Services	4.803
Place Delivery	0.334
Planning	0.693
PEOPLE	
Community Partnerships	1.306
Housing	0.898
Revenues, Benefits & Fraud	2.161
Leisure & Culture	0.408
SENIOR MANAGEMENT TEAM	0.946
SERVICE BUDGETS TOTAL	**20.618**
CENTRAL BUDGETS	2.576
NET EXPENDITURE 2020/21	**23.194**
Council Tax	16.293
National Non-Domestic Rates	3.994
Other Un-ringfenced Grants	1.930
Grants transferred to Reserves	0.686 (0.686)
Call on Earmarked Reserves	0.977
NET SOURCES OF INCOME 2020/21	**23.194**
BUDGET GAP	**NIL**

ANNEX 2

APPENDIX 2

MEDIUM TERM REVENUE BUDGET FORECAST 2024/25 to 2028/29

at November 2023

MEDIUM TERM REVENUE BUDGET FORECAST	Approved Budget 2023/24 £m	Cumulative Impact 2024/25 £m	Cumulative Impact 2025/26 £m	Cumulative Impact 2026/27 £m	Cumulative Impact 2027/28 £m	Cumulative Impact 2028/29 £m
Current Year Budget Requirement	**23.194**					
Service Budgets - Pay		1.750	4.000	6.250	8.500	9.500
Service Budgets – Savings/Income		(2.259)	(2.259)	(2.259)	(2.259)	(2.259)
Service Budgets – Growth		0.943	0.943	0.943	0.943	0.943
Service Budget risks – Government funding cuts H.B.		0.964	-	-	-	-
Call on Government Funding Risks Reserve to fund HB costs		(0.964)	-	-	-	-
Central Budgets - Treasury Management – net savings		(0.200)	(0.200)	(0.200)	(0.200)	(0.200)
Other Central Budgets – net savings		(0.176)	(0.176)	(0.176)	(0.176)	(0.176)
Council Tax 2.99% increase plus forecast taxbase increase and share of Collection Fund surplus		(0.669)	(1.425)	(2.129)	(2.821)	(3.542)
Business Rates (NNDR) Latest Forecast		0.650	1.470	1.420	1.370	1.320
Grants and Reserves Net change in call on Grants and Reserves		TBC in December				
Forecast Gap Compared to Current Budget	**Nil**	**0.039**	**2.353**	**3.849**	**5.357**	**5.586**
Annual Increase in Gap		0.039	2.314	1.535	1.508	0.229
Gap as % of current budget requirement		0.16%	9.9%	16.6%	23.1%	24.1%

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APPENDIX 3

CAPITAL PROGRAMME 2023/24 to 2027/28

CAPITAL PROGRAMME - DETAILS							
	2022/23 BFWD £m	2023/24 Projected £m	2024/25 Projected £m	2025/26 Projected £m	2026/27 Projected £m	2027/28 Projected £m	Total £m
ORGANISATION SERVICES							
STRATEGIC PROPERTY							
Rolling Property Maintenance Programmes							
Forum House, Brighton Road Redhill	0.270	0.150	0.150	0.100	0.100	-	**0.770**
Beech House, London Road Reigate	3.000	-	-	-	-	-	**3.000**
Unit 61E Albert Road North	0.074	0.012	0.012	0.012	0.075	-	**0.184**
Regent House, 1-3 Queensway Redhill	0.175	0.090	0.090	0.075	0.090	-	**0.520**
Linden House, 51B High Street Reigate	-	0.012	0.012	0.012	0.015	-	**0.050**
Units 1-5 Redhill Distribution Centre Salfords	0.115	0.017	0.017	0.017	0.025	-	**0.191**
Crown House	0.285	0.075	0.075	0.075	0.075	-	**0.585**
Tenanted Properties	0.167	0.100	0.100	0.100	0.100	-	**0.567**
Tenanted Property Assets	0.135	0.076	0.076	0.050	0.076	-	**0.413**
Operational Buildings	0.370	0.095	0.080	0.069	0.080	-	**0.694**
Priory Park	0.223	0.010	0.030	0.010	0.050	-	**0.323**
Public Conveniences	0.021	0.010	0.020	0.010	0.095	-	**0.156**
Infrastructure (walls)	0.031	0.010	0.060	0.010	0.020	-	**0.131**

ANNEX 2

CAPITAL PROGRAMME - DETAILS							
	2022/23 BFWD £m	2023/24 Projected £m	2024/25 Projected £m	2025/26 Projected £m	2026/27 Projected £m	2027/28 Projected £m	Total £m
Allotments	0.042	0.012	0.022	0.012	0.012	-	**0.100**
Cemeteries & Chapel	0.080	0.020	0.040	0.020	0.020	-	**0.180**
Pavilion Replacement - Woodmansterne	0.020	-	-	-	-	-	**0.020**
Leisure Centre Maintenance	0.159	0.190	0.030	0.036	0.175	-	**0.590**
Existing Pavilions Programme	0.097	0.050	0.050	0.050	0.150	-	**0.397**
Car Parks Capital Works Programme	0.563	0.195	0.170	0.080	0.075	-	**1.083**
Earlswood Depot/Park Farm Depot	0.061	0.020	0.020	0.020	0.050	-	**0.171**
Community Centres Programme	0.081	0.067	0.065	0.032	0.125	-	**0.370**
Harlequin Property Maintenance	0.270	0.120	0.100	0.030	0.100	-	**0.620**
Building Maintenance - Capitalised Staff Costs	0.028	0.028	0.028	0.028	0.028	0.028	**0.168**
Massetts Road Accommodation Works	0.021	0.021	0.021	0.021	0.021	0.021	**0.126**
Temporary & Emergency Accommodation Works	0.095	0.040	0.040	0.040	0.040	0.040	**0.290**
Total	**6.383**	**1.419**	**1.307**	**0.909**	**1.597**	**0.089**	**11.704**
IT SERVICES							
ICT Replacement Programme	-	0.200	0.250	0.200	0.200	0.200	**1.050**
Replacement Printers and Photocopiers	-	0.060	-	-	-	-	**0.060**
Total	**-**	**0.260**	**0.250**	**0.200**	**0.200**	**0.200**	**1.110**
ORGANISATIONAL DEVELOPMENT							

ANNEX 2

CAPITAL PROGRAMME - DETAILS							
	2022/23 BFWD £m	2023/24 Projected £m	2024/25 Projected £m	2025/26 Projected £m	2026/27 Projected £m	2027/28 Projected £m	Total £m
Workplace Facilities: Estate/Asset Development	-	0.250	0.250	-	-	-	**0.500**
ENVIRONMENTAL STRATEGY							
Environmental Strategy Delivery	0.236	-	-	-	-	-	**0.236**
PEOPLE SERVICES							
HOUSING							
Grant-Funded Schemes							
Disabled Facilities Grant	-	1.287	1.287	1.287	1.287	1.287	**6.435**
Home Improvement Agency (Part Grant Funded)	-	0.125	0.132	0.132	0.132	0.132	**0.653**
Purchase of Accommodation	3.997	-	-	-	-	-	**3.997**
Purchase of Accommodation (Local Authority Housing Fund)	2.967	-	-	-	-	-	**2.967**
Purchase of Accommodation - Mitchell Court	0.240	-	-	-	-	-	**0.240**
Purchase of Accommodation - Stirling House	0.120	-	-	-	-	-	**0.120**
Housing Delivery Strategy							
Lee Street Bungalows	0.020	-	-	-	-	-	**0.020**
Cromwell Road Development	0.100	-	-	-	-	-	**0.100**
Total	**7.444**	**1.412**	**1.419**	**1.419**	**1.419**	**1.419**	**14.532**
LEISURE & CULTURE							
Harlequin - Service Development	0.064	0.100	0.100	0.100	0.100	0.100	**0.564**

CAPITAL PROGRAMME - DETAILS							
	2022/23 BFWD £m	2023/24 Projected £m	2024/25 Projected £m	2025/26 Projected £m	2026/27 Projected £m	2027/28 Projected £m	Total £m
COMMUNITY PARTNERSHIPS							
CCTV	0.105	-	-	-	-	-	**0.105**
UKSPF - Digital Connectivity for Local Community Facilities	0.003	-	-	-	-	-	**0.003**
Total	**0.108**	**-**	**-**	**-**	**-**	**-**	**0.108**
PLACE SERVICES							
NEIGHBOURHOOD OPERATIONS							
Rolling Maintenance Programmes							
Vehicle Wash Bay Replacement	0.350	-	-	-	-	-	**0.350**
Vehicles & Plant	1.022	0.582	0.681	0.837	0.562	3.668	**7.352**
Play Areas Improvement	-	0.230	0.230	0.230	0.230	0.100	**1.020**
Air Quality Monitoring Equipment	-	0.040	0.040	0.065	0.065	0.040	**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**
Total	**1.659**	**0.897**	**0.996**	**1.177**	**0.902**	**3.853**	**9.484**
PLACE DELIVERY							
Marketfield Way Redevelopment	5.575	-	-	-	-	-	**5.575**
Horley Public Realm Improvements - Phase 4	0.565	-	-	-	-	-	**0.565**

ANNEX 2

CAPITAL PROGRAMME - DETAILS							
	2022/23 BFWD £m	2023/24 Projected £m	2024/25 Projected £m	2025/26 Projected £m	2026/27 Projected £m	2027/28 Projected £m	Total £m
Merstham Recreation Ground	1.465	-	-	-	-	-	**1.465**
Redhill Public Realm Improvements	0.030	-	-	-	-	-	**0.030**
Pay-on-Exit Car Parking, Horley	0.046	-	-	-	-	-	**0.046**
Preston - Parking Improvements	0.542	-	-	-	-	-	**0.542**
Total	**8.222**	**-**	**-**	**-**	**-**	**-**	**8.222**
TOTAL APPROVED CAPITAL PROGRAMME	**24.116**	**4.338**	**4.322**	**3.805**	**4.218**	**5.661**	**46.460**

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 & Organisation
Cllr Lewanski</td></tr>
<tr><td>Officers</td><td colspan="2">Chief Finance Officer
Pat Main</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. The 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 without drawing on reserves. Key to this will be looking at delivering services differently to realise savings, as well as embedding lasting cultural change across the organisation.

Accordingly, the programme is premised on the following:

1. Projects – new ideas and opportunities for generating income and/or making savings.</td></tr>
</table>

		2. **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. SR2 Financial sustainability RED 3. **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 forecast was reported to the Overview and Scrutiny Committee and Executive in January 2023 along with the Revenue Budget 2023/24 and Capital Programme 2023-2028. This 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. Energy costs have also escalated following the most recent contract renewals and the extent of Government financial support to offset the impacts remains uncertain. This risk will transfer over to the 2023/24 strategic risk register as SR1 'Financial Sustainability'.			
Score	Likelihood	More than likely	Direction of Travel	-	
	Impact	Significant			
Status		Treat			
Last Update		May 2023			

APPENDIX 5

FINANCIAL SUSTAINABILITY PROGRAMME
Overview at November 2023

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 2022 and January 2023.

Financial Pressures and the Forecast Funding Gap
In July 2023, the Council's Medium Term Financial Programme forecast indicated a budget gap of £2.059 million in 2024/25, increasing to £4.937million by 2028/29. The key factors that influence the forecast gap are summarised in the budget report, and include:

- Service expenditure pressures
- Central budget increases
- Changes in forecast council tax and business rates;
- Changes in Government funding; and
- Updated forecasts for use of reserves

More details about the likely scale of impact of the above is set out in the 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.

Commercial Activity
The Council has also for several years now been pursuing a commercial approach, with the publication of its Commercial Strategy. However, the 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.

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 will not provide the 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 has agreed 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 in 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; and
- 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.

Programme Governance
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 the Budget Scrutiny process.

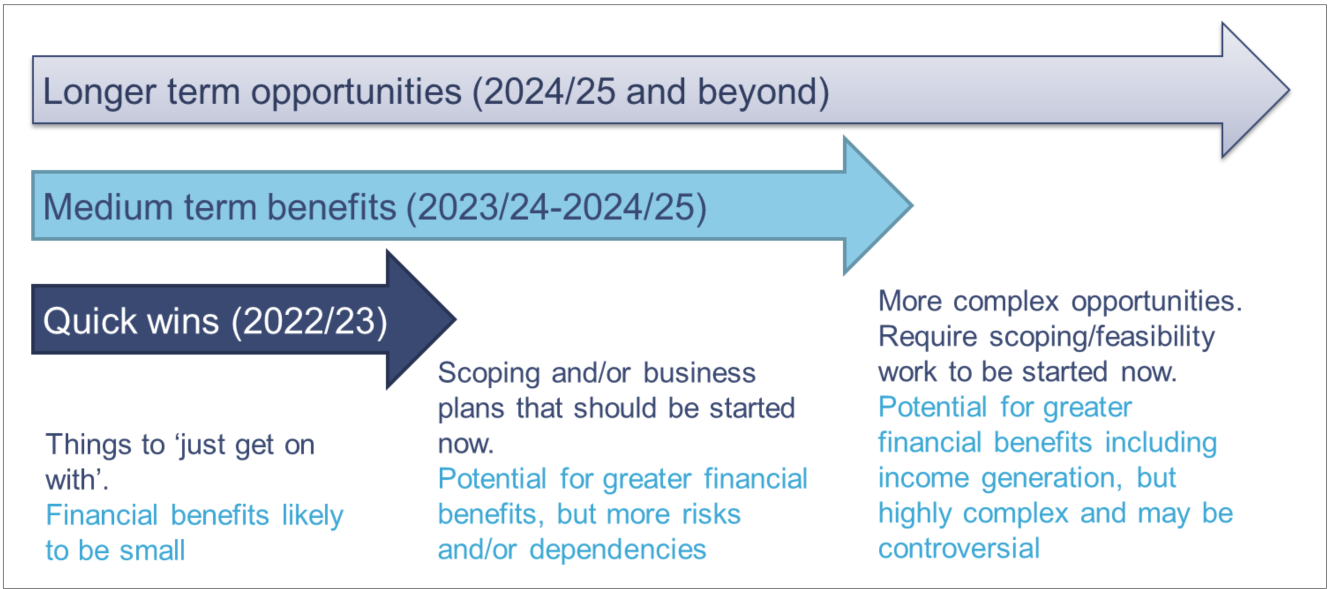
- Standalone projects and activities are being managed within their respective service areas. In the case of projects, these will be managed and reported in the usual way, using the Council's Project Management Framework, reporting to its officer Governance Boards, and with dashboards provided to Members.

- 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, the outcomes from the review will once again be included within the draft budget report in November.

It should be recognised that delivering the Financial Sustainability Programme is not straightforward or easy. It requires considerable input from senior and middle managers across the organisation and this represents a key risk for the programme. The Corporate Governance Group regularly reviews 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:



Programme Set Up

✓ The Programme is now fully operational having been initiated during 2022/23

Service & Financial Planning Stages

✓ Initial review of budgets and services undertaken by Heads of Service (April/May)

- ✓ Peer challenge at Management Team Awayday (May/June/July)
- ✓ Discussion of budget and service options and prioritisation at Executive Awayday (June/July)

The key milestone for this element is the November draft budget report to Executive.

Standalone Projects and Activities

- ✓ Identification and prioritisation of opportunities by Management Team (ongoing)
- ✓ Project and activity scoping and development of (outline) business cases (ongoing)

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

Fees & Charges

- ✓ Updating the fees and charges register and identification of higher value areas for priority review (May/June)
- ✓ Budget holders progressing annual review (July to August)

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

Vacancy Control Mechanisms

A vacancy control mechanism is in place 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.

Sharing Opportunities

Services across the Council will continue to pursue opportunities to share services with other councils where these can enhance this Council's capacity and resilience and deliver efficiency savings.

Reporting Progress

To ensure transparency and allow for appropriate scrutiny, Programme reporting arrangements are set out below:

- Programme progress is reported to the Corporate Governance Group on a monthly basis.
- Monthly updates are also provided to Executive Members via portfolio holder briefings and the informal Leader's Meeting.
- Quarterly reports are provided to the Overview & Scrutiny Committee and Executive as part of the usual budget and performance monitoring arrangements.
- Updates on constituent projects are 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 each November, following which public

consultation and consultation with the Overview & Scrutiny Committee (via its Budget Scrutiny Panel) will take place.
- Significant changes may be subject to a stand-alone report to Executive.
- A Communications Plan has been developed which will inform other strands of communications activity, including with staff, councillors and the public.

November 2023

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%.

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.

Minimum Funding Guarantee Grant
Introduced in the local government finance settlement 2023/24 to help fund the commitment to increase district and borough authorities' Core Spending Power by at least 5%,

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. Subsequent spending reviews have been for one or two years 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.