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To: All Members of the **PERFORMANCE AND FINANCE SCRUTINY COMMITTEE**

The following papers have been added to the agenda for the above meeting.

They were not available for publication with the rest of the agenda.

Yours sincerely

Damian Roberts

Chief Executive

SUPPLEMENTARY PAPERS

	Pages
8 Budget Setting 2023/24 Update	3 - 78
To receive an update on the development of the Council's budget for the 2023/24 financial year.	

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Surrey Heath Borough Council
Performance and Finance Scrutiny Committee
25 January 2023

Draft Medium Term Financial Strategy

Strategic Director: Bob Watson, Strategic Director Finance and Customer Services

Report Author: Bob Watson, Strategic Director Finance and Customer Services

Portfolio Holder: Robin Perry, Finance and Customer Services

Date Signed off by Portfolio Holder: 20 January 2023

Key Decision: Yes

Wards Affected: All

Summary and purpose

It is considered good practice to provide the Performance and Finance Scrutiny Committee (P&FSC) with a draft version of the Medium Term Financial Strategy and its supporting papers before they are reported to the Executive. The Executive will then recommend the final version to the budget Council meeting on 22 February 2023.

Recommendations

The Performance and Finance Scrutiny Committee is advised to RESOLVE that

- (i) that they note the draft Medium Term Financial Strategy (MTFS) and its supporting papers.
- (ii) that they make any comments or recommendations to the Executive to be discussed at their meeting on 14 February 2023, before Executive recommend the final budget to Council at its meeting on 22 February 2023.

Background and Supporting Information

1. The draft Medium Term Financial strategy sets the annual budget for the next financial year (2023/24) and an indicative budget for the following three years: 2024/25, 2025/26 and 2026/27.
2. The Medium Term Financial Strategy consists of the following papers:

Medium Term Financial Strategy

Revenue Budget	Appendix 1
Revenue Budget Growth	Appendix 1-1
Revenue Budget Efficiencies	Appendix 1-2

Capital Strategy	Appendix 2
Capital Programme	Appendix 2-1
Capital Financing	Appendix 2-2
Capital Receipts	Appendix 2-3
Treasury Strategy	Appendix 3
Reserves (to be confirmed subject to audit)	Appendix 4

3. The MTFS shall still be considered draft until approved by Executive. Some numbers are still subject to confirmation (eg: reserve balances) and the funding from government cannot be confirmed until the provisional settlement is agreed as final by Government in early February 2023.
4. As work is still progressing on the final accounts for 201/22 and the forecast outturn for 2022/23, the reserves appendix is not yet conformed but will be ready for the Executive meeting in February.



MEDIUM TERM FINANCIAL STRATEGY

2023/2024 TO 2026/2027

ANNUAL BUDGET 2023/24



February 2023

Surrey Heath Borough Council
Knoll Road, Camberley GU15 3HD





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EXECUTIVE SUMMARY

- 1.1 This Medium Term Financial Strategy (MTFS) provides a clear approach to delivering a much more sustainable financial position for the Council over the next four years; one that supports the delivery of priority services and the outcomes set out in the Council's Five Year Strategy. It recognises that all Councils are having to operate within a very dynamic environment with changes in the economy, service demand, and legislation that is and will continue to impact significantly on the Council's income and expenditure. The strategy also sets the resource budgets for financial year 2023/24 and provides indicative budgets for the following three years (2024/25, 2025/26 and 2026/27).
- 1.2 Surrey Heath Borough Council (SHBC), along with most local authorities, continues to face significant challenges in providing essential services to meet the needs of residents within the level of resources it has at its disposal. This is exacerbated by a combination of increasing and more complex local demand and uncertainty over future government funding arrangements.
- 1.3 During the past financial year, consumer price inflation has risen from its previous rate in line with the Bank of England target of two percent to level in excess of ten percent. This has resulted in considerable pressures on the Council's budgets in terms of contractual costs, cost of living increases for staff and the rate at which the Council can finance its borrowing.
- 1.4 The Council is still recovering from the impact of the Covid-19 pandemic, which significantly affected a number of major income streams for the Council, including cultural and leisure activities, car parking and property rental income. Whereas there has been an upturn in these income levels, this has been gradual and these have not yet recovered to pre-pandemic levels.
- 1.5 This Medium Term Financial Strategy brings together both the national and local context and their effect on the Council's overall financial position; it provides a forecast covering the four financial years 2023/24 through to 2026/27. It also recognises the scale of the financial challenge that the Council will face over the period. The forecast contains broad assumptions and estimates, to provide an indicative picture to help the Council shape its detailed budget setting activities, supporting it to deliver a sustainable financial position over the medium term. Decisions on the Council Tax level for example, are taken during the annual budget setting process and figures used for modelling purposes in the medium-term financial forecast are simply illustrative for this purpose and should not be taken as policy decisions.



- I.6 Regular budget monitoring reports are presented formerly on a quarterly basis to Performance and Finance (P&F) Scrutiny Committee and Executive throughout the year and to the budget managers and Directors and Service Heads on a more frequent basis. The latest budget monitoring report is available as at the end of December (Period 9/Quarter 3).
- I.7 Each year as part of the Medium Term Financial Strategy, the Council is required to set a realistic, achievable budget for the forthcoming year and indicative budgets for the following three years. With the removal of the Government's core revenue support grant funding, service managers have been required to deliver within expenditure targets, find efficiency savings, achieve additional income and minimise service growth in order to continue to provide effective and efficient value for money services to the public.
- I.8 This document incorporates as appendices the following:
- I.8.1 The revenue budget estimates for 2023/24 and indicative estimates for the period 2024/25 to 2026/27.
 - I.8.2 The Capital Strategy for the Medium Term Financial Strategy (MTFS) period and includes the capital programme of expenditure and the proposed funding of the programme.
 - I.8.3 The Treasury Management Strategy.



2. **Revenue Budget Strategy**

- 2.1 The Medium Term Financial Strategy (MTFS) looks forward, anticipating as far as possible, the spending pressures faced by the Council, the impact of decisions already made and those in the pipeline, to give an indication of the level of future savings/income required to maintain a balanced budget. This will mean that the Council can plan now for future challenges rather than waiting until they happen.
- 2.2 Surrey Heath Borough Council has traditionally set budgets that have been balanced and allowed for a small return of in-year surpluses to the general fund balance. However, since 2018/19 there has been a budgeted drawdown on reserves. The impact of Covid-19 and following significant economic and cost of living challenges has meant that additional larger in-year drawdowns of the general fund balance have been required.
- 2.3 Through the setting of realistic budget estimates for the current financial year (FY) 2022/23 and combined with careful reactive budget monitoring, there is an expectation that the final outturn position will be in line with the original estimates, although there will be a number of small under and overspends, the overall outturn position is expected to be consistent with the headline budget and the quarterly monitoring reports. During the year the Council successfully applied its new “star chamber” process that not only achieved the efficiency levels for savings and additional income mandated in last year’s Medium Term Financial Strategy, but over achieved in the first two years of the four year programme.
- 2.4 There was an estimated pre-budget pressure on the Council of £4.3 million at the start of the 2022/23 financial year when the inescapable growth (growth that is legislative, contractually committed or is required to mitigate larger future costs) was taken into account. During the year it has been necessary to contain in-year inflationary pressures, although the main impact of the double digit inflation in the UK at present will be on the budgets being set for this medium-term period. Managing these pressures means that discretionary new growth has to be kept to a minimum unless additional funding streams can be identified such as external grant, or from future efficiencies or income arising from that growth. Any growth funded by new income must be contained within the level of funding and the duration that the funding is awarded.
- 2.5 Services have reviewed the level of growth needed to maintain service levels to the residents and businesses of the borough and also identified opportunities for service efficiencies and increased income. The outcome of the service work is shown in summary below and in more detail in Appendix I, and Annexes I.1 and I.2.



Summary of revenue budget estimates (£'000)

Forecast budgets	2023/24	2024/25	2025/26	2026/27
(£'000)				
Environment and Community	8,163	8,439	8,492	8,986
Finance and Customer Service	2,240	2,245	2,120	2,125
HR, Performance and Communications	3,808	3,811	3,814	3,818
Investment and development	(929)	(1,466)	(1,437)	(1,408)
Legal and Democratic Services and Strategic Management	1,522	1,442	1,442	1,442
Planning	765	765	765	765
Corporate (to be distributed to services)	1,899	916	1,071	1,127
Total net cost of services	17,468	16,153	16,268	16,855

3. Service outputs

3.1 The Medium Term Financial Strategy (MTFS) is closely aligned to and provides resources in support of the Council's published five-year strategy. The 2023/24 budget will also support the Council's annual service plan, and the key outputs of each service area are detailed in the following paragraphs. This is not intended to replace the annual plans but to provide the reader with a high-level summary of the functions carried out by the Council and what they provide.

3.2 In 2022/23 as part of the rationalisation and consolidation of budgets the Council's strategic management cost centres were moved to being reported under the Legal and Democratic Service to ensure that the reporting aligned with the requirement to report under functional areas of the Council. This reflects how the budgets are reported in our revenue monitoring and outturn reports and in the annual Statement of Accounts.

3.3 Environment and Community

Final budget 2022/23 £7,756,502

Annual budget 2023/24 £8,162,521



Number of employees (fte) 91.4

- Refuse collection and recycling and the Joint Waste Contract
- Street Cleaning and street bins
- Environmental Health and Licencing
- Housing Register, Housing options, and Homelessness
- Family Support
- Corporate Enforcement
 - Community Safety Service
 - Environmental Crime
 - Planning Enforcement
 - Anti-social Behaviour
- Grounds maintenance and verge cutting
- Parks and open space management
- Leisure Centre and recreation services
- Theatre
- Community Services including:
 - meals at home
 - community centre
 - community transport
 - telecare
- Emergency Planning and Health and Safety

3.4 Finance and Customer Services

Final budget 2022/23	£1,903,364
Annual budget 2023/24	£2,240,364
Number of employees (fte)	59.9



Corporate Finance

- statutory financial accounts
- production and maintenance of the Medium Term Financial Strategy
- annual budget setting
- in-year budget management
- transactional finance
- treasury management,
- accounts payable and receivable
- financial reconciliations.

Revenue and Benefits

- collection of Council tax,
- collection of Business rates including the Business Improvement District levy.
- payment of housing benefits and
- providing council tax and business rate reliefs.

Over the past two years and for the foreseeable future this department also administers and pays out the various central government support grants to local residents and businesses

Customer Services

- front-line contact centre for the residents and businesses of the Borough.
- maintains a reception service
- acts as first point of triage support to the Council and the other public sector bodies working out of Surrey Heath House.
- provides the Council's mail processing centre.
- provides an administration hub for other departments.
- oversees the Council's complaints process.

Procurement services

- support to services in contract tendering



- support and guidance on contract management
- maintain the contracts register
- manages the procurement pipeline

3.5 Human Resources, Performance and Communications

Final budget 2022/23	£3,665,139
Annual budget 2023/24	£3,808,139
Number of employees (fte)	32.9

Human Resources

- Payroll
- employee relations matters
- performance management
- recruitment.
- provides an automated, self-service portal for staff to
 - view and book annual leave,
 - flexitime,
 - submit timesheets for overtime
 - claim expenses
 - record sickness absence
- Publish and review and keeps HR Policies current and up to date with legislation changes.

Performance – Organisational Development

- corporate strategy and performance
- project management across the Council, for example the creation and monitoring of the Council's Five Year Strategy and Annual Plan. The team are also
- responsible for staff learning and development
- talent management



- culture change projects.

Communications and Engagement

- communication content
- enhancement of brand reputation for the Council and Camberley Theatre
- organise and promote a range of events and physical activity/wellbeing initiatives to improve community cohesion and encourage behaviour change for healthier lifestyles.
- engagement with residents, partners and local businesses on key Council issues
- close collaboration with Corporate Property and Legal to manage leases for leisure and community facilities across the Borough.

Community Development

- Community Development
 - 8 operational grant schemes
 - community support to those who are in need,
 - Household Support Fund
 - Community Support WG
 - Member Equality Working Group
 - Surrey Heath Lottery
 - food parcels and signposting as a welfare legacy from the pandemic

Information Technology (IT)

- Delivery of the Council's digital strategy
- support to all end-users including Surrey Heath Borough Council staff and Councillors and the Joint Waste Solutions service.
- ensuring that the technology provides a good customer experience for Surrey Heath residents and businesses.
- ensuring the Council remains compliant with the Public Sector Network



- reprographics
- door access controls (including tenants)
- training

3.6 Investment and Development

Final budget 2022/23	(£1,360,743)
Annual budget 2022/23	(£929,182)
Number of employees (fte)	19.1

Investment

- Management of the Council's property portfolio
- Undertaking contractual lease events (eg: rent reviews, lease renewals)
- Letting vacant space to derive income
- Rents collection
- Acquisitions and disposals of Council property

Development

- Strategy for the borough's regeneration objectives
- Instigation and management of the Council's property development projects
- Specialist procurement management to support development activities

Facilities Management

- Compliance, engineering and maintenance of specific Council properties
- Facilities management of specific Council properties eg Surrey Heath House

Economic Development

- Economic development strategy and support within the borough
- Business stakeholder engagement and management
- Administration of business grants
- Development and management of economic functions in the community eg Youth Hub



3.7 Legal and Democratic Services and Strategic Management

Final budget 2022/23

Annual budget 2023/24

Number of employees (fte)

Strategic Management

- The Council's strategic management team
- Statutory Officers

Legal services

- Transactional work for the Council's commercial property
- Disposal and acquisitions of property
- Debt recovering work for rent arrears
- Planning agreements and advice
- Enforcement notices for enforcement activity.
- Enforcement proceedings being either prosecutions or injunctions.
- Drafting contracts for services that the Council procures
- Lead solicitors for Joint Waste Solutions; providing all legal support.

Democratic services

- Has conduct of general and local elections.
- Manages the annual canvass
- Organises the Council's Committee meetings and agendas
- Clerks Committee meetings and Working Group Meetings
- Maintains the Electoral Register

Freedom of Information (FOI)

- Process Freedom of Information (FOI) and Environmental Information Regulations (EIR) requests



- Information management

Audit

- Administration and completion of internal audits.
- Reporting audit and standards on relevant matters
- Internal reviews and investigations

Mayoral and Support Services

- Civic and ceremonial events
- Administrative support to the Mayor

3.8 Planning

Final budget 2022/23 £1,249,920

Annual budget 2023/24 £764,920

Number of employees (fte) 35.1

- development management for the Council
- planning policy development of the Local Plan
- statutory and discretionary building control services for the residents and businesses of the Borough
- flood mitigation
- Community Infrastructure Levy (CIL)
- tree protection

3.9 Corporate inflation. To be added to the above 2023/24 service budgets is an element of unavoidable pressures that are identified corporately and will be directly attributed to service budgets when these are finalised. These are:

- The annual in-year impact in 2023/24 of the Council five-year strategy that was agreed in 2021.



- The staff and members pay award that was agreed in November 2022 that was set at eight percent across all grades.
- The Council's minimum revenue provision (mrp) for repayment of long term debt.

3.10 **Corporate savings target.** As mentioned above, during 2022/23 in order to address the ongoing budgetary pressures the Council made use of a 'zero-based budgeting' approach as part of a new 'Star Chamber' process. This included all Council services and took place in the opening two quarters of the financial year and included a full 'root and branch' base budget review delivery service efficiencies and additional income with no reductions in services to residents; these findings were then subjected to a challenge process in 'star chamber' format. The results of the process were reported to Executive and applied to service budgets in September 2022. A high level summary is are shown below:

£'000	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>
Target efficiencies	(475)	(425)	(300)	(150)
Actual efficiencies	(647.5)	(482.5)	(34)	(5)

3.11 The figures for both the Corporate inflation target and the Corporate Savings Targets are shown separately in the budget summary but will in practice be incorporated into the individual service areas as they become identified and required.

3.12 Although the 'star chamber' process in 2022/23 achieved its efficiencies target in that year and also for 2023/24, due to the pressures on the annual budget arising from the current cost of living crisis and the impact of the high rates of inflation in the economy, it is planned that another 'star chamber' process will be undertaken during the summer of 2023; the provisional efficiencies targets are:

£'000	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>
Target efficiencies	(500)	(350)	(200)	(150)

4. **Revenue funding and financing**

4.1 The Council will fund its net expenditure (expenditure less income from fees and charges) from the following sources:



- Council tax
- Business Rates
- Other Government grants (non-service specific)
- Service specific government grants
- Balances on the collection fund and special precepts.
- Use of available reserves

4.2 **Council tax.** The central Government makes an assessment of the core spending power (CSP) of all local authorities, and uses this to base its assumptions around relative need and funding support. In making this assessment, the Department for Levelling up, Housing and Communities (DLUHC) assumes that councils will increase Council Tax demands by the maximum amount allowed without having to hold a local referendum. Accordingly, Surrey Heath Borough Council has assumed that it will continue to increase the Council Tax level over the medium term by the maximum allowed by central government. It is also assuming an annual growth in the tax base of one per cent each year. The forecast receipt from Council Tax for the next four years is shown in the table below:

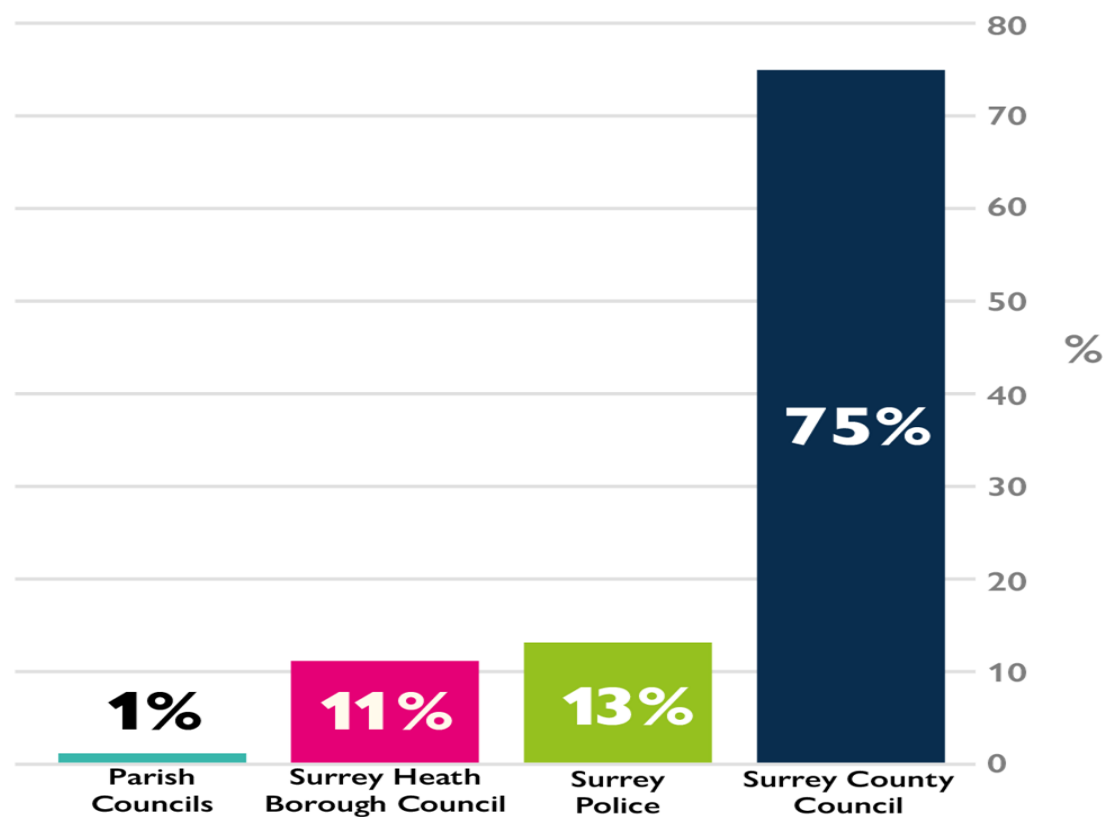
<u>2022/23</u>		<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>
38,976.2	Council tax base	39,613.4	40,009.5	40,409.6	40,813.7
£233.66	Charge per Band D	£240.65	£247.84	£252.77	£257.80
£9,107,172	Council tax income	£9,532,823	£9,916,033	£10,214,496	£10,521,942

4.3 Surrey Heath Borough Council is classed as a collection authority; this means that it will also collect and disburse council tax revenues on behalf of other precepting authorities. These are

- Surrey County Council
- Surrey Police and Crime Commissioner
- Local parishes within Surrey Heath



Distribution of Council Tax collected



4.4 Business Rates (formerly Non Domestic Rates) are set centrally by government, but collected locally by collection authorities. These are then distributed to central government (50%), County council (10%) and the District Council (40%). District Councils are then subjected to a top-up amount or a tariff amount from central government based on an assessment of deprivation and relative need. Surrey Heath BC is deemed to be a tariff authority which means that it will pay an element of its share of the collected business rates to central government for re-distribution. The tariff for 2023/24 is £14.148 million leaving the Council with a baseline funding level of £1.627 million. Collection authorities are allowed to retain any growth since the Business Rate baseline was last reset (2013). The anticipated baseline rest in 2023/24 has now been deferred for at least two years and therefore the forecast of retained business rate income over the four-year MTFS is shown below:



Retained Business Rates

<u>2022/23</u>	(£ million)	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>
1.953	Business rates	2.644	3.247	1.249	1.274

4.5 The drop in 2025/26 is the value anticipated if the reset goes ahead from April 2025; this is a possible worst case scenario as there could be a possibility of transitional relief to mitigate the impact on councils.

4.6 In addition to retaining business rate growth until the anticipated reset in 2025/26, Surrey Heath Borough Council is also a member of the Surrey and Sutton Business Rate pool, which provides a benefit to the level of rates retained and is included in the figures in the table above

4.7 The Council receives a small amount of grants for non-specific purposes to support services to the residents and businesses of the borough. They are usually associated with the service pressures arising from new legislation although are seldom sufficient to cover these types of costs and often are one-off or time-limited although the cost burden remains. Service specific grants are shown in the net cost of services.

4.8 The Council collects revenues on behalf of itself and the other preceptors. This is known as the collection fund. This fund will normally make a surplus or a deficit over the financial year and this is shared amongst the major preceptors the following year. As it is difficult to estimate long term the amount shown in the Medium Term Financial Strategy (MTFS) is only for the next financial year (2023/24). The share for Surrey Heath Borough Council is budgeted at £114,225 in 2023/24.

5. **Property income**

5.1 The Council holds a significant portfolio of property, mostly within the borough. This is held to provide civic amenity and to support the Council's economic and social outcomes including the attraction and retention of local businesses, provision of community services, protection of local employment, the development of housing and to support wider regeneration. These properties also generate income which is used to offset the costs of acquiring and managing these assets.

5.2 As well as those properties held for operational use (civic offices), the Council has property holdings in the industrial, office and retail sectors. The Industrial sector has held up well in the current economic climate, with the properties mostly let and income producing. Office properties have been more heavily impacted as the move to home-working has reduced



demand. The Council owns two large office buildings within the borough, one of which has now been successfully let and the focus now is on achieving this for the other.

- 5.3 The recession has more heavily impacted the retail sector. The Council has done well in maintaining a high level of occupancy, but has been exposed to a reduction in the overall level of rents to facilitate this occupancy level. This trend has impacted on the 2021/22 and 2022/23 accounts and will continue to have an adverse effect in the earlier period of the Medium Term Financial Strategy (MTFS), until the structural change in town centres settles down. For this reason, the Council prudently reset its income targets in 2022/23. Whilst some areas have seen improvement there is still considered a pressure on the service budgets and this is shown in the growth and service efficiencies appendices to this Strategy. Indications are that a few significant 'voids' will be let during the year and future year income forecasts have been uplifted accordingly. All rents and lettings will be reviewed annually and budget and service managers are working hard to ensure these properties continue to support the town centre and maximise the benefit to the local taxpayer. Whilst these properties are not held primarily for investment it is expected that they will make sufficient return to cover their costs of capital and also make a contribution to support the continuation of the Council's services to residents in the current financial climate of reducing central government support.
- 5.4 The Council also holds a number of properties, principally within Camberley town centre, which have been acquired for a programme of regeneration and economic development. In the main, these are not income producing and so the focus must be on bringing these to a stage of early redevelopment to reduce the Council's long term exposure to holding costs. For this, the Council's role will be to undertake site assembly, engage with the development market, pump prime the development schemes up to the stage where it has established what it would like to achieve from the developments and to open up options for delivery, in partnership with third party developers. Where the latter, the Council will be able to decide if it wishes to take out land value as capital proceeds or retain ownership of the assets to secure a longer term income stream.
- 5.5 The Council will continue to review its portfolio and would seek to divest from or add to at the most financially opportune point in time consistent with the delivery of its wider priorities; there is provisional budget allocation identified in the capital strategy and programme at Appendix 2 to this Strategy.



6 Capital

- 6.1 The Capital Strategy at Appendix 2 to this Strategy sets the framework for the Council's investment in its capital assets and this is supported by the detailed capital programme each year. Capital is treated differently from the annual revenue budget and as such projects and programmes could span more than one financial year. The Council therefore maintains a long-term capital outlook and this is covered in the four-year medium term financial strategy.
- 6.2 The Council has very limited capital receipts and most significant capital funding is now either from developer contributions, grants or through internal and external borrowing.
- 6.3 The Council has reviewed its capital programme going forward with a significant drop in capital expenditure. This is to primarily reduce the cost to the local taxpayer and reduce the level of debt the Council holds. All new expenditure in the programme over the period of this Medium Term Financial Strategy (MTFS) is sustainable, affordable and prudent and can be funded from retained capital receipts and balances. This will also allow the Council to complete many of the projects that are still ongoing from the previous capital programme set in 2022/23 and subsequently reprofiled to later years. This reprofiling amounts to £5.000 million.
- 6.4 The Council has also identified a programme of regeneration projects that have been included as a provisional capital programme; these will be funded primarily from prudential borrowing. These will only be added into the programme following a report to Executive/Council and on demonstration of viability to cover any cost of borrowing, from future capital receipts and revenue income returns.
- 6.5 There is an expectation of the Council being able to achieve a number of capital receipts from the proceeds of its regeneration work and land disposals. These are due outside of the current MTFS period, but when received, current plans are to reduce the level of debt the Council holds thus reducing the burden on the revenue account of debt financing.

7 Treasury Management

- 7.1 The Council's annual Treasury Management Strategy is attached at Appendix 3 to this strategy. The Council manages its cashflow and balances in accordance with this strategy.
- 7.2 The Council will invest its short-term surplus balances with a regard for the security of the investment and the planned cashflow need for funds (liquidity); these investments will make



a limited return on investment (yield), but this is always considered after the need for security and liquidity.

- 7.3 In order to refund its ambitious regeneration programme (see Section 5), the Council has also taken out a significant amount of external borrowing, which currently stands at £165.1 million – of which £65.5 million is short-term borrowing.
- 7.4 During 2022 the Council entered into two longer term fixed-interest loan deals of £25 million each. These were forward agreed loans to reduce the exposure to interest rate risk.
- 7.5 The past few months have seen the economic climate change dramatically due mainly to increased inflation and rising interest rates driven by the energy crisis and the impact of the conflict in Ukraine. The Council has responded to this by agreeing forward deals wherever it can, but maintains a policy that will see a series of short-term loans being taken, rather than locking in longer term debt. The Office of Budget Responsibility is predicting that inflation will reduce significantly by 2025/26 and should fall below the Bank of England target of 2%. This should see a corresponding drop in central bank interest rates, allowing the Council to continue to target an average interest for debt between 2.0% and 2.5% once rates start to fall.

8 Debt Financing and Minimum Revenue Provision (MRP)

- 8.1 The Council is allowed to borrow to financial its capital expenditure under the provision of the CIPFA Prudential Code. All borrowing should be sustainable, affordable and prudent. The Code also states that a local authority should not borrow in advance of need and borrowing should be for the benefit of the local community (residents and businesses). This effectively precludes borrowing to invest – thus the Council capital acquisition policy focuses on acquiring land and buildings primarily solely or for a combination of regeneration, sustainability of employment and amenity and economic development.
- 8.2 The Council is required to finance this debt and to make a provision for repayment of the principal sum (minimum revenue provision) over the life of the loan. The Council's debt portfolio is a mixture of longer term loans in the form of annuities and maturity repayments and short-term debt financing. The short term loans were to take advantage of the ultra-low rates available over the past six years, rather than lock in longer term debt at a significantly higher rate; the Council has no problems with re-financing these short term loans. Short term loans will also allow the Council to repay debt earlier than anticipated should capital receipts become available.



8.3 Details of the Council's Minimum Revenue Provision (MRP) policy are contained in the Treasury Management Strategy at Appendix 3.

8.4 For 2023/24 the estimates for debt interest and repayment provisions are as follows:

Type of loan	Loan Amount £'000	Repayment/MRP £'000	Interest £'000
Annuity	77,596	1,807	2,146
Maturity	22,000	299	562
Short term	65,500	575	1,505
Total	165,096	2,681	4,213

8.5 To finance this debt, the Council has rental income streams from its property assets as follows:

Asset type	Budgeted rental income (net of operating costs) £'000
Retail	2,900
Commercial	3,623
Office	63
Total	6,586

8.6 As can be seen from above, for next year the Council has a deficit of income over financing costs of £308,000. However, in previous years the Council has made surpluses of income above that required to finance its prudential debt and repayments. This surplus has been used to support Council services, but has also allowed the Council to build a balance in an Interest Equalisation Reserve, which has an estimated balance of £7.318 million at the end of the current financial year (31 March 2023). Therefore the temporary impact on the revenue budgets of the higher interest rates can be 'smoothed' through this equalisation reserve allowing the Council to maintain its repayments and debt financing.

8.7 As the Council uses some of its income from the property portfolio to support service delivery to residents and businesses, during 2023/24 the Council has budgeted to drawdown £2.0 million from this reserve leaving a balance of £5.318 million rather than reduce the level of service



9 Level of Reserves and General Fund

9.1 Local authorities are required, when considering their budget setting, to “have regard to the level of reserves needed for meeting estimated future expenditure” and to ensure that the Council has a sustainable financial position and is able to meet its ongoing and future requirements. It is the responsibility of the Council, together with its Section 151 Officer, to ensure a prudent approach is taken in the administration of financial affairs and that there are sufficient reserves to meet the anticipated demands and requirements of the authority.

9.2 The Council holds reserves for four overriding reasons:

- As a working balance to help cushion the impact of uneven cash flows, which avoids unnecessary fluctuations in the Council tax demand – this forms part of the general fund balance.
- A contingency to cushion the impact of unexpected events or emergencies, which is also in the general fund balance.
- A means of building up specific funds often referred to as ‘earmarked reserves’, to meet known or anticipated requirements. An example is the ongoing maintenance of a SANG.
- To provide resources to temporarily fund the revenue costs of capital projects due to timings of cash flows (equalisation reserves) such an example would be the Camberley Leisure centre.

9.3 The Council has had to drawdown on its reserves and balances over the past four years. Given the current level of the gap between planned expenditure and forecast financing streams, there is anticipated to be a further drawdown on reserves in financial year 2023/24. Longer term (and over the period of this strategy) the Council expects to reduce this deficit gap and will by financial year 2028/29 be in a position where the budgets are balanced and the Council will start again to replenish its reserve balances.

9.4 There is no mandated amount for a general fund balance and is the responsibility of the Council’s Chief Finance Officer (‘Section 151 Officer’¹) to ensure a suitable and prudent level of general fund balance is held to act as a contingency for unexpected events and having

¹ The officer appointed under Section 151 of the Local Government Act 1972 to administer the financial affairs of the Council.



regard to the risks the authority faces in the foreseeable future. In practice, this is normally considered to be between 5% and 10% of the net annual revenue budget.

9.5 The Section 151 Officer is required to report at budget setting time on the adequacy of the reserves and whether they are sufficient for the operation of the Council. The reserve balances of the Council are still subject to audit as part of the annual statement of accounts but a conservative estimate of our earmarked reserves is approximately £38.6 million in earmarked reserves.

9.6 During the past financial year the Council has worked hard to on its annual statement of accounts; although not audited yet, the work carried out on the accounts for 2019/20, 2020/21 and 2021/22 there is a provisional estimate on the balance on the general revenue fund of just over £7.5 million. This figure is still subject to final audit, but provides some comfort on the sustainability of the Council

9.7 A summary of the Council's reserves and balances is attached at Appendix 4 to this strategy.

10 Assumptions

10.1 In compiling this strategy, it has been necessary to make some assumptions around future costs and funding streams. Some of these are within the Council's control through its decision making process and as such should be considered as indicative and not firm policy until approved at the annual budget Council for that financial year. The key assumptions are:

- 10.1.1 The borough element of Council Tax will increase in line with the Government assessment of core spending power, and will be capped at the referendum limits set by Government.
- 10.1.2 The tax base for the Borough is anticipated to increase by one per cent each year; this is also in line with the Government's assessment on core spending power.
- 10.1.3 An annual pay award for Council staff and Councillors has been included in the corporate inflation figures for 2024/25 onwards based on a two percent annual increase. This is subject to annual review and agreement, but it is prudent to include an inflationary uplift in the budget estimates.
- 10.1.4 Government grants are based on known amounts and flatlined where it is anticipated that the grant will continue. Otherwise grant funding is assumed to be paid only in the year it is awarded.
- 10.1.5 Business rates are assumed not to be reset before 2026/27; any accrued growth by the Council will be forfeited and the amount the Council is allowed to retain will be the



baseline funding amount from whenever the reset is applied. The amounts will then be uplifted annually in line with assumed increases in the Business Rates multiplier.

11 Risks

11.1 Over the four year period of the Medium Term Financial Strategy there a number of potential risks that could cause budgetary pressures. Some of the key ones relate to the assumptions in paragraph 10 and these and other key risks are articulated below:

- 11.1.1 **Government ‘fairer funding’ review.** The Department for Levelling Up, Housing and Communities (DLUHC) has indicated that the fairer funding review originally planned for 2017 is still planned albeit in a revised format to take account of the Levelling Up agenda. This may see the inclusion of an additional tariff (aka negative Support Grant) on the amount of business rates the Council is allowed to retain to fund its services. There is no amount for this included in the Budget Estimates, but if this were to materialise, based on previous numbers, it could be a cost to the local taxpayer of £0.6 million each year.
- 11.1.2 **Interest rate increases.** Interest rates have been held at unprecedented low levels since 2012, but during 2022/23 the Bank of England (BoE) in response to the inflationary pressures in the economy has increased its base rate to 3.5% (December 2022) and most market forecasters predict that this will peak about 75 basis points (0.75%) higher during 2023 after which it start to reduce. The Council limits its exposure to interest rate increases by acquiring a mixture of longer-term debt at fixed rates, which gives certainty over the cost of debt financing and use of short-term loans to allow flexibility on repayment and liquidity to target lower rates when they start to fall.
- 11.1.3 **Longer term impact of the Covid-19 pandemic and economic downturn.** The Council still seeks to gradually return to a ‘business as usual’ model that has adapted to the longer term legacy of the pandemic and the economic climate. There is a risk that there will be an annual cycle of winter outbreaks of viral infections (Covid and/or Influenza) and as such the Council will need to react to support its residents and businesses as it has done previously. It is anticipated that there will be government support for any future outbreaks, but the Council also holds a sufficient amount of balances to temporarily cover the costs of any additional out breaks.



11.1.4 **Inflationary pressures.** The impact of the current high rates of inflation is expected to continue over the next two years but will continue to reduce. However, the costs of the current inflation will remain in the base budgets as prices are not expected to fall.

12 **Summary**

12.1 This strategy along with the supporting appendices form part of the annual budget presented to Budget Council in February each year. Although it contains a four-year medium term outlook, it is refreshed each year as the revenue estimates only cover a twelve month budget cycle and the latter three years are shown as indicative.

12.2 The capital strategy and programme are reviewed each year to ensure they are still aligned with the Council's published Five Year Strategy.

12.3 The Treasury Strategy is required to be set each year by Council.

12.4 The Medium Term Financial Strategy shows a use of the Council's reserve balances. This is permissible in order to smooth the impact of budget pressures on the local tax payer, and whilst it is prudent to hold a sustainable level of reserves, the Council holding large levels of balances are not always in the best interest of the local residents and businesses.

12.5 If the budget is approved then the longer-term outlook for the contributions to reserve balances is more sustainable with a clear indication that the direction of travel will see a return to the Council starting to replenish the general fund balance and deliver more services to residents and businesses by 2028/29.



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Appendix 3	Treasury Management Strategy
Appendix 4	General Fund Balance and Earmarked Reserve Summary To follow



Revenue Budget Estimates		(all values in £'000)				
Net cost of services		2023/24	2024/25	2025/26	2026/27	Notes
Opening budgets		14,606	17,468	16,153	16,268	1
	Environment and Community	7,757	8,163	8,439	8,492	
	Finance and Customer Service	1,903	2,240	2,245	2,120	
	HR, Performance and Communications	3,665	3,808	3,811	3,814	
	Investment and development	(1,361)	(929)	(1,466)	(1,437)	
	Legal and Democratic Services	1,392	1,522	1,442	1,442	
	Planning	1,250	765	765	765	
	Corporate Inflation		1,899	916	1,071	2 & 3
Growth	(see Appendix 1-1)	5,210	1,655	2,213	2,388	4
Efficiencies	(see Appendix 1-2)	(2,348)	(1,071)	(1,182)	(729)	5
Restated budgets						
	Environment and Community	8,163	8,439	8,492	8,986	
	Finance and Customer Service	2,240	2,245	2,120	2,125	
	HR, Performance and Communications	3,808	3,811	3,814	3,818	
	Investment and development	(929)	(1,466)	(1,437)	(1,408)	
	Legal and Democratic Services	1,522	1,442	1,442	1,442	
	Planning	765	765	765	765	
	Corporate	1,899	916	1,071	1,127	
Total Net Cost of the Provision of Services		17,468	16,153	16,268	16,855	6
Funded by						
	Council Tax	9,533	9,916	10,214	10,522	7
	Business rates	2,644	3,247	1,249	1,274	8 & 9
	Collection fund surplus/(deficit)	114				10
	<u>Non-specific government grants</u>					
	New Homes Bonus	715				11
	Support Grant (rolled in)	78	78	78	78	12
	Service Grant	61	61	61	61	13
	Rough Sleeping initiative					14
	Homelessness Prevention	326	330			15
	Special expenses	190	192	194	196	16
		13,661	13,823	11,796	12,130	17
Summary						
	Net cost of services	17,468	16,153	16,268	16,855	
	Funding	(13,661)	(13,823)	(11,796)	(12,130)	
	<u>Use of earmarked reserves</u>					
	Interest equalisation reserve	(2,000)	(1,000)	(500)		18
	Capital reserve (MRP)					19
	Contribution (from)/to reserves and balances	(1,807)	(1,329)	(3,972)	(4,724)	20
Reserves and balances						
	<u>Opening balances</u>					
	General fund	7,615	5,808	4,479	507	
	Earmarked reserves	38,582	36,582	35,582	35,082	
	<u>Closing balances</u>					

General fund	5,808	4,479	507	(4,217)	21
Earmarked reserves	36,582	35,582	35,082	35,082	22

Notes

Figures shown in £'000 - all budgets will be loaded as exact numbers

- 1 These represent the base budget after adjusting for one-off growth and savings
- 2 Annual inflationary pressures across the Council
- 3 These will be allocated to services when budgets are loaded
- 4 Service budget growth required to maintain services to residents and businesses
- 5 Service efficiencies identified that result in no decrease in the level of services to residents
- 6 Includes all service expenditure and income netted off
- 7 Uplift in line with Government assessment of core spending power
- 8 Central government business rate reset not anticipated before 2025/26
- 9 No additional tariff ('Negative RSG') built into the model following financial settlement
- 10 Fluctuates year on year based on collection rates. Only confirmed figure is for 2023/24.
- 11 As per the Local Government finance settlement for 2023/24
- 12 As per the Local Government finance settlement for 2023/24 and forecast based on current projections
- 13 As per the Local Government finance settlement for 2023/24 and forecast based on current projections
- 14 No grant figures announced yet
- 15 As per the Local Government finance settlement for 2023/24
- 16 Assumed growth of 2% per annum based on tax base and precept rises
- 17 Total funding to support the revenue budget
- 18 Budgeted drawdown of earmarked reserve to support service expenditure
- 19 Budgeted drawdown of earmarked reserve to support service expenditure
- 20 Represents the annual draw on or contribution to balances
- 21 Estimate of balance on general fund based on budget projections
- 22 Estimate of balance on earmarked reserves based on budget projections

(all figures in £'000 - exact budgets will be loaded)

<u>Service and Bid name</u>	<u>Amount in year</u>			
	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>
Environment and Community				
Runnymede Borough Council Service Level Agreement	252			
Community Services Gas inflation	2	2	2	2
Community Services Electricity inflation	2	2	2	2
Runnymede Borough Council recharge	11			
Emergency Planning SCC SLRF	2			
JWS CMO : Wage Inflation	31	32	32	33
JWS financial mechanism	1	1	1	1
JWS Core contract inflation	488	508	528	549
JWS variable contract inflation	328	341	355	369
Pest control demand reduced	3			
Dog Control contract increase	1	1	1	1
Licences reduction in demand	3			
Funded by UKRS	5			
Car Parks electricity inflation	14	15	15	15
Parks electricity inflation	4	4	4	4
Parks electricity inflation	2	2	2	2
Parks Gas inflation	2	2	2	2
Parks grounds maintenance inflation	15	16	16	16
Trees additional safety works	15			
Roundabouts cutting contract removed	7			
Grass cutting contract removed	93			
Public Conveniences utilities inflation	1	1	1	1
Lightwater Country Park utilities inflation	2	2	2	2
Lightwater Country Park increased tree surgery	3	3	3	3
Frimley Lodge Park utilities inflation	12	12	12	12
Frimley Lodge Park increased tree surgery	3	3	3	3
Bike Hub business failure	5			
Taxi Licensing - reduced licences	15			
Theatre - timesheet hours increased living wage	6	6	6	7
Ian Goodchild Centre utilities inflation	42	43	43	44
Theatre utilities inflation	5	5	5	5
Total Environment and Community Growth	1,373	998	1,035	1,073
Finance and Customer Services				
Increase in SCC LGPS contribution	202			
Council tax increase in properties		5		5
Additional Financial Accounting staff	125		(125)	
Customer feedback/improvement	20			
Total Finance and Customer Services Growth	347	5	(125)	5

HR, Performance and Communications

(all figures in £'000 - exact budgets will be loaded)

<u>Service and Bid name</u>	<u>Amount in year</u>			
	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>
Reduction in Community Safety income	9			
Increase in ICT licences costs	100			
Corporate Training budget correction	6			
Apprenticeship Levy pay increase linked to Payroll	3	3	3	3
Total HR, Performance and Communications Growth	118	3	3	3

(all figures in £'000 - exact budgets will be loaded)

<u>Service and Bid name</u>	<u>Amount in year</u>			
	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>
Investment and Development				
Economic Development - 10% inflation on supplies	2	2	2	2
Increase in Business Rates following revaluation	164			
Activity linked inflation (supplies and services)	5			
Reduction in property income (estates)	67			
St Georges utilities inflation	1	1	1	1
St Georges reduced property income	13			
Ashwood reduced property income	194	(160)		
Theta Inflation adjustment	1	1	1	1
Theta reduced property income	207	(150)		
Albany reduced property income	8			
Public Offices 30% Utilities Inflation (electricity)	23	24	24	25
Regeneration of Park Street (HoF) - civic amenity centre	255	(255)		
Total Investment and Development Growth	939	(537)	29	29
Legal and Democratic				
Election equalisation funding		30		
One-off election cost in 2023/24	110	(110)		
Increase in Members allowances in line with staff award	23			
Total Legal & Democratic Growth	133	(80)		
Planning				
Planning Deepcut PPA Engagement of Contractors - reversal	(100)			
Local Plan - Legal and Counsel fees - reversal of one-year growth	(100)			
Total Planning Growth	(200)			

(all figures in £'000 - exact budgets will be loaded)

<u>Service and Bid name</u>	<u>Amount in year</u>			
	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>
Corporate inflation				
Annual pay award - staff/increments and establishment reset	1,500	267	272	278
MRP	874	874	874	874
Debt financing	In base budgets			
Impact of annual plan and Five-year strategy	125	125	125	125
Total Corporate inflation growth	2,499	1,266	1,271	1,277
	5,210	1,655	2,213	2,388

Service Efficiencies 2022/23 Medium Term Financial Strategy

Appendix 1 -2

(all figures in £'000 - exact budgets will be loaded)

<u>Service and Bid name</u>	<u>Amount in year</u>				<u>Further detail</u>
	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	
Environment and Community					
Windle Valley cleaning in line with 22/23	(0)				Actual figure for 2023/24 is £300
Reduction in costs JWS financial mechanism - recycling	(2)				
Reduction in costs JWS financial mechanism - recycling	(32)				
Increased income JWS Textiles recycling	(5)	(5)	(5)	(5)	
Increased income JWS financial mechanism - recycling	(6)	(6)	(6)	(7)	
Increased income JWS Bulk items	(16)	(16)	(17)	(17)	
JWS KPI income from Amey	(7)	(7)	(7)	(7)	
Increased income JWS Container	(9)	(9)	(9)	(9)	
Increased income Garden Waste	(164)	(167)	(170)	(174)	
Reversal of one-year suspension of charges Garden Waste	(300)				
Increase fees and charges - Contract with SDK	(3)	(3)	(3)	(3)	
Dog control - Increase in fees	(0)	(0)	(0)	(0)	Actual figure for 2023/24 is £188
Clean Neighbourhood - increase in fees	(0)	(0)	(0)	(0)	Actual figure for 2023/24 is £228
Food safety - increase in fees	(2)	(3)	(3)	(3)	
Standby services - costs aligned to 2022/23	(3)				
British Armed Forces - funded by ARAP	(62)				
Car parks increased income	(115)	(117)	(119)	(122)	
Car parks increased income for season tickets	(34)	(35)	(36)	(36)	
Parks increased income	(2)	(2)	(2)	(2)	
Lightwater Country Park increased income	(0)	(0)	(0)	(0)	Actual figure for 2023/24 is £100
Frimley Lodge Park increased income	(16)	(17)	(17)	(17)	
Places Leisure - management fee contract costs ending June 23	(25)				
Places Leisure management fee to Council	(28)	(320)	(573)	(162)	
Museum additional income	(0)	(0)	(0)	(0)	Actual figure for 2023/24 is £250
Taxi licensing reduction in costs due to less licences	(2)				
Theatre increased income	(14)	(14)	(15)	(15)	
Star Chamber efficiencies - theatre	(16)				
Star Chamber efficiencies - licensing	(5)				
Star Chamber efficiencies - Homelessness	(10)				
Star Chamber efficiencies - pest control	(1)				Actual figure for 2023/24 is £500
Star Chamber efficiencies - dog control	(0)				Actual figure for 2023/24 is £100
Star Chamber efficiencies - clean neighbourhoods	(4)				
Star Chamber efficiencies - Community Services	(39)				

(all figures in £'000 - exact budgets will be loaded)

<u>Service and Bid name</u>	<u>Amount in year</u>				<u>Further detail</u>
	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	
Star Chamber efficiencies - recycling	(45)				
Total Environment and Community service efficiencies	(967)	(721)	(982)	(579)	
Finance and Customer Services					
Postage franking cost reduction	(10)				
Total Finance and Customer Services service efficiencies	(10)				

(all figures in £'000 - exact budgets will be loaded)

<u>Service and Bid name</u>	<u>Amount in year</u>				<u>Further detail</u>
	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	
HR, Performance and Communications					
Internship programme - reversal of one-saving in 2022/23		25			Single year saving in 2023/24 reversed
Total HR, Performance and Communications service efficiencies		25			
Investment and Development					
Economic Development budget aligned with actual expenditure		(13)			
Asset manager - budget aligned to activity		(22)			
Asset manager - budget aligned to activity		(16)			
Asset manager - increased income from properties		(55)			
Asset manager - increased income from properties		(10)			
Vulcan Way - budget aligned to activity		(4)			
Vulcan Way - budget aligned to activity		(4)			
Vulcan Way increased income		(5)			
Trade City increased income		(40)			
St Georges budget aligned to activity		(3)			
St Georges increased income		(49)			
Ashwood - budget aligned to activity		(3)			
Albany - budget aligned to activity		(4)			
Albany - budget aligned to activity		(19)			
Albany - budget aligned to activity		(3)			
Albany - budget aligned to activity		(14)			
Albany - budget aligned to activity		(5)			
Albany - budget aligned to activity		(19)			
Albany increased income		(144)			
Public Offices increased income		(63)			
London Road - budget aligned to activity		(6)			
London Road increased income		(7)			
Total Investment and Development service efficiencies		(508)			
Legal and Democratic Services					
Star Chamber electoral registration		(3)			
Total Legal and Democratic Services service efficiencies		(3)			
Planning					
Star Chamber increase in Building Control Services fee income		(50)			
Star Chamber increase in Development Management fee income		(235)			

(all figures in £'000 - exact budgets will be loaded)

<u>Service and Bid name</u>	<u>Amount in year</u>				<u>Further detail</u>
	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	
Total Planning service efficiencies	(285)				

(all figures in £'000 - exact budgets will be loaded)

<u>Service and Bid name</u>	<u>Amount in year</u>				<u>Further detail</u>
	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	
Corporate Savings					
New Star chamber during 2023/24	(500)	(350)	(200)	(150)	
Additional managed vacancy factor from pay award	(100)				
Total Corporate savings	(600)	(350)	(200)	(150)	
Total Service Efficiencies including corporate savings	(2,348)	(1,071)	(1,182)	(729)	

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Capital Strategy 2023/24 – 2026/27

Introduction

1. This Capital Strategy report gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability. It has been written with the intention of enhancing members' understanding of these sometimes technical areas.
2. Decisions made in the year on capital and treasury management can have financial consequences for the Council for many years in to the future. They are therefore subject to both a national regulatory framework and to a local policy framework summarised in this report.
3. The capital strategy and the supporting capital programme form part of the Medium Term Financial Strategy (MTFS) of the Council.

Capital Expenditure and Financing

4. Capital expenditure is where the Council spends money on assets, such as property or vehicles that will deliver an economic benefit for more than one year. In local government this could include expenditure on assets owned by other bodies, and loans and grants to other bodies enabling them to buy assets. The Council has some limited discretion on what counts as capital expenditure, for example assets costing below £10,000 are not capitalised and are charged to revenue in year.
5. In 2023/24, the Council is planning capital expenditure of **£ 2.539 million** as summarised below:

Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2021/22 Actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Capital Projects	2.558	2.500	2.539	1.490	0.990	0.990
Capital investments	1.932	0.00	0.00	0.00	0.00	0.00
TOTAL	4.490	2.500	2.539	1.490	0.990	0.990

6. The full capital programme is attached at Appendices 2-1 to 2-3 to this strategy and includes:
 - Disabled facilities grants – grants for improvements to enable residents to stay in their own home;
 - Members IT Equipment
 - Upgrade of Adelante Cash Receipting System

- Esso Pipeline Environmental Projects
 - Albert Road Playground Replacement
 - Freemantle Playground Replacement (Match Funding)
 - Goalpost Replacement
 - Theatre Access Ladders and Wheelchair Access Lift
 - Replacement Flooring at Frimley Lodge Park Café
 - Replacement of Theatre Website and AV Equipment
 - Health and safety works on paths in London Road Recreation Park
 - Ashwood House Public Realm
 - Vacant units in the Square
 - London Road Block Works
 - Provision of budget for Gypsy, Traveller and Travelling Show people sites as mandated in the new Local Plan
7. The figures do not include the implications of any schemes which may be carried forward from one year to the next. These will be considered by members on the basis of the Capital Outturn report to be presented later in the year.

Capital Contingency

8. A key recommendation from the Public Realm Task and Finish Group was that adequate contingency be provided in the capital programme. Rather than allocate a general contingency to every project, it is proposed that centralised contingency controlled by the Strategic Director Finance and Customer Services be created and drawdown if required.
9. Approval for drawdown of this contingency will be from the Strategic Director Finance and Customer Services in consultation with the Portfolio Holder for Finance and Customer Services. Any drawdowns will be reported to the Performance and Finance Scrutiny Committee and the Executive in the next quarterly capital budget monitoring report.
10. Certain major projects will still hold their own specific contingency based on project management principles.

Governance

11. Service officers will bid annually in October to include projects in the Council's capital programme. Bids, which include business cases, are collated by finance who calculate the capital financing cost (which can be nil if the project is fully externally financed). These bids are appraised by senior managers and the relevant portfolio holder to ensure all bids are based on their contribution to the Five Year Plan as well as a comparison of service priorities against available financing resources. The budget papers are presented to Executive who in turn will make a recommendation to Council as part of the annual budget setting process.
12. Further details of the Council's capital programme can be found in the Capital Programme which is at Appendix 2-1 to this report.

13. All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (prudential borrowing, leasing and/or Private Finance Initiatives). The planned financing of the above expenditure is as follows:

Capital financing in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
External sources	0.871	1.450	0.960	0.780	0.780	0.780
Own resources	1.687	1.050	1.579	0.710	0.210	0.210
Debt finance	1.932	0	0	0	0	0
TOTAL	4.490	2.500	2.539	1.490	0.990	0.990

14. Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as "minimum revenue provision (MRP)". Councils are required by statute to make revenue provision transfers over the life of a loan to ensure that they have sufficient resources to repay debt. Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance, but councils are not allowed to offset provisions against future or anticipated receipts. Planned repayments, MRP transfers and use of capital receipts to repay debt are as follows:

Replacement of debt finance in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Annuity principal repayment	1.4	1.5	1.8	1.8	1.8	1.8
MRP Payment	0.8	0.8	0.9	0.9	0.9	0.9
Use of Capital Receipts	0.0	0.0	0.0	0.0	0.0	0.0

15. The Council's full MRP statement is included within the Treasury Strategy report for 2023/24 which can be found on the February 2023 Executive agenda. The increase in the Annuity principal repayment is due to the two Phoenix loans taken out in the year.

16. The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR) – its underlying need to borrow. This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The CFR is expected to fall by £3m during 2022/23. Based on the above figures for expenditure and financing, the Council's estimated CFR is as follows:

Prudential Indicator: Estimates of Capital Financing Requirement in £ millions

	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
General Fund services	7	7	7	8	8
Capital investments	167	164	160	156	153
TOTAL CFR	174	171	167	164	161

17. **Asset disposals:** When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt. Repayments of capital grants, loans and investments also generate capital receipts. The Council does not plan to receive any capital receipts from asset sales in the four year period.

Capital receipts in £ millions

	2021/22 actual	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Asset sales	0	0	0	0	0	0
TOTAL	0	0	0	0	0	0

Treasury Management

18. Treasury management is concerned with keeping sufficient but not excessive cash balances available to meet the Council's short-term spending needs, whilst managing the risks involved. Surplus cash balances are invested until required, while a temporary shortage of cash will be met by short-term borrowing, to avoid excessive credit balances or overdrafts in the bank current account. The Council is typically cash solvent in the short-term as revenue income streams are generally received before they are required to be expended, but generally cash poor in the longer-term as capital expenditure is often incurred before being financed. The revenue cash surpluses are offset against capital cash shortfalls to reduce overall external borrowing.

19. **Borrowing strategy:** The Council's main objectives when borrowing are to achieve a low but certain cost of finance while retaining flexibility should plans change in future. These objectives are often conflicting, and the Council therefore seeks to strike a balance between cheap short-term loans (currently available at around 4.25%) and long-term fixed rate loans where the future cost is known but higher (currently 4.71%).

20. Following advice from the Council's Treasury advisors the Council has retained the bulk of its borrowing in short term loan so as to take advantage of low interest rates.
21. Projected levels of the Council's total outstanding debt (which comprises borrowing, leases are shown below, compared with the capital financing requirement (see above).

Prudential Indicator: Gross Debt and the Capital Financing Requirement in £ millions

	31.3.203 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Gross External Debt	164	165	158	155	152
Capital Financing Requirement	174	176	167	164	161

22. Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. As can be seen from table above, the Council expects to comply with this in the medium term. If the Council decides to acquire more regeneration properties, then these will be funded by debt and the CFR will be rise accordingly.

23. **Affordable borrowing limit:** The Council is statutorily obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit.

Prudential Indicators: Authorised limit and operational boundary for external debt in £ millions

	2022/23 limit	2023/24 limit	2024/25 limit	2025/26 limit	2026/27 limit
Authorised limit – total external debt	235	235	235	235	235
Operational boundary – total external debt	230	230	230	230	230

24. The authorised and operational boundaries have not been increased in 2023/24 to reflect the changes due to the change in the accounting treatment for leases as the amount is not material.

25. Further details on borrowing are included in the treasury management strategy which can be found within the February Executive agenda

26. Investment strategy: Treasury investments arise from receiving cash before it is paid out again. Investments made for service reasons or for pure financial gain are not generally considered to be part of treasury management.

27. The Council's policy on treasury investments is to prioritise security and liquidity over yield which focuses on minimising risk rather than maximising returns. Cash that is likely to be spent in the near term is invested securely, for example with the government, other local authorities or selected high-quality banks, to minimise the risk of loss. Money that will be held for longer terms is invested more widely, including in bonds, shares and property, to balance the risk of loss against the risk of receiving returns below inflation. Both near-term and longer-term investments may be held in pooled funds, where an external fund manager makes decisions on which particular investments to buy and the Council may request its money back at short notice.

Treasury management investments in £millions

	31.3.2022 actual	31.3.2023 forecast	31.3.2024 budget	31.3.2025 budget	31.3.2026 budget
Near-term investments	36.8	11.00	11.00	11.00	11.00
Longer-term investments	2.1	2.2	2.2	2.2	2.2
TOTAL	38.9	13.2	13.2	13.2	13.2

28. Further details on treasury investments are included within the treasury management strategy which is included within the February executive agenda

29. **Governance:** Decisions on treasury management investment and borrowing are made daily and are therefore delegated to the Strategic Director Finance and Customer Services who ensures that staff act in line with the treasury management strategy approved by Executive and Council. Half yearly reports on treasury management activity are presented to Executive and the Performance and Finance Scrutiny Committee which is responsible for scrutinising treasury management decisions.

Commercial Activities

30. With Government financial support for local public services declining, the Council will use its capital balances to save on ongoing revenue costs ('invest to save' or 'invest to spend less'). The Council will not however borrow to invest in commercial property for purely investment reasons.

31. The Council has limited commercial activities such as the Theatre, community services etc. which are primarily operated for community benefit, however they will expose the Council to some commercial risk. This risk could be significant for 2022/23 depending on the ongoing impact of the Covid-19 pandemic.

Liabilities

32. In addition to debt of £165 million detailed above, the Council is committed to making future payments to cover its pension fund deficit (valued at £6.3m). The Council also set aside last year £0.5m to cover risks of business rates appeals and revaluations and £1.4m for bad debts. These provisions will be reviewed as part of the accounts closure process for 2022/23.
33. **Governance:** The risk of liabilities crystallising and requiring payment is monitored by finance and reported within the annual financial statements.

Revenue Budget Implications

34. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

Prudential Indicator: Proportion of financing costs to net revenue stream

	2022/23 forecast	2023/24 budget	2024/25 budget	2025/26 budget	2026/27 budget
Financing costs (£m)	6.7	6.8	6.8	6.8	6.8
Proportion of net revenue stream	0.56	0.50	0.49	0.58	0.56

35. **Sustainability:** Due to the very long-term nature of capital expenditure and financing, the revenue budget implications of expenditure incurred in the next few years will extend for up to 50 years into the future. The Strategic Director Finance and Customer Service is satisfied that the proposed capital programme is prudent, affordable and sustainable because it is either funded by external grant or there is sufficient capital reserves to cover the costs of the current programme.

Knowledge and Skills

36. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Strategic Director Finance and Customer Service is an experienced and qualified accountant, the property department has a qualified surveyor with investment experience and the legal department has lawyers experienced in property matters.
37. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Link Group as treasury management advisers, Praxis Retail as property consultants and management and Addleshaw Goddard as external lawyers. This approach is more cost

effective than employing such staff directly, and ensures that the Council has access to appropriate knowledge and skills commensurate with its risk appetite.

Investment and Development

38. The Council has a dedicated Investment and Development team responsible for:

- Property lettings,
- Major regeneration and development projects.
- Maintaining the Council's property estate.
- Acquisition of new assets.
- Economic Development team

39. This team is developing an proposed programme of capital works to be implemented over the next few years, some of which may stretch beyond the current Medium Term Financial Strategy. Each individual project will be the subject of a full report to Executive and Council (if required) and will contain as a minimum:

- Full business case
- Option(s) appraisal
- Benefits identification and realisation plan
- Risk management register
- Summary of whole life costs
- Summary of annual revenue costs/incomes (annual cost of ownership)
- Funding summary including debt financing and repayment.

Property acquisition

40. Any property acquisition must be within the Borough boundary and fulfil at least one of the below criteria:

- Supports regeneration within the Borough
- Supports economic development within the Borough
- Supports the protection of employment within the Borough
- Provides civic amenity within the Borough
- Supports the Council's social and affordable housing objectives.

41. In addition to the criteria above, the acquisition should be at least cost-neutral to the local tax account in that it must pass the hurdle rate below in terms of income generated versus the total cost of the acquisition. The net income should equal or exceed the sum of the following:

- Current PWLB certainty rate for a maturity loan whose duration is based the life of the asset at the time of approval to acquire.
- An assessment of a repayment provision based on the life/holding of the asset.
- A contingency of 50 basis points (bps) [0.5%] rate
- A 100 bps [1%] overage. *NB: the overage can be foregone if the social benefit case is made for the acquisition*

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Capital Programme Schemes

NEW CAPITAL SCHEMES FROM 2023/24 to 2026/27

4 YEAR CAPITAL PROGRAMME	2023/24	2024/25	2025/26	2026/27	Four year funding requirement	Details of the capital scheme
	£m	£m	£m	£m	£m	
Disabled Facilities Grants	0.780	0.780	0.780	0.780	3.12	Central Government Grant to the Better Care Fund includes an element for Disabled Facilities Grant (DFG) allocated to Surrey Heath Borough Council. Whilst Government's expectation is that this money is passported to the local housing authority it is not ring-fenced. In 2017/18 the full amount was passed to the Council but it is expected that each year will involve negotiation with NHS and County Council Partners, and the Council will have to demonstrate how delivery of the service meets health and social care priorities. The level of expenditure will flex to match the level of funding provided.
Members IT Equipment	0.032	0.00	0.00	0.00	0.032	Purchase of essential IT Equipment for Members following the Council Elections in 2023
Upgrade of the Adelante Cash Receipting System	0.060	0.00	0.00	0.00	0.060	Essential upgrade of the Adelante Cash Receipting System enabling the Council to continue to handle cash payments.

4 YEAR CAPITAL PROGRAMME	2023/24	2024/25	2025/26	2026/27	Four year funding requirement	Details of the capital scheme
	£m	£m	£m	£m	£m	
Esso Pipeline Environmental Projects	0.080	0.00	0.00	0.00	0.080	Funding provided by Esso to cover a number of Environmental projects over a two year period.
Capital Maintenance Budget	0.110	0.110	0.110	0.110	0.440	Creation of a rolling maintenance of capital works (previously funded from revenue)
Albert Road Playground Replacement	0.040	0.00	0.00	0.00	0.040	Replacement of Playground Equipment
Health and Safety works to foot paths at London Road Recreation Ground	0.095	0.00	0.00	0.00	0.095	Paths within London Road Recreation Ground are failing in places due to their age, root disturbance and wear and tear. It has come to the position that there is such bad deterioration in the pathways that essential Health and Safety repairs are now required to allow for their continued use.
Freemantle Playground Replacement (Match Funding)	0.013	0.00	0.00	0.00	0.013	Replacement of Playground Equipment (Match Funding)
Goalpost Replacements	0.010	0.00	0.00	0.00	0.010	The Goalposts for the 3G pitch are aging and need to be replaced.
Water Bowser	0.010	0.00	0.00	0.00	0.010	We do not own a bowser so had to hire one to allow for this to happen. The cost for just the summer months was in excess of £1.5k. To have a

4 YEAR CAPITAL PROGRAMME	2023/24	2024/25	2025/26	2026/27	Four year funding requirement	Details of the capital scheme
	£m	£m	£m	£m	£m	
						bowser all year round allows for additional watering when planting trees/plants on sites when they are planted so not only extends the potential planting season but gets them off to a better start and reduces the risk of them perishing in more extreme spring and summer weather.
Frimley Lodge Park Café: Replacement Flooring.	0.015	0.00	0.00	0.00	0.015	To replace the flooring of the Café prior to the commencement of a new rental contract.
Theatre Access Ladders	0.010	0.00	0.00	0.00	0.010	One of the essential ladders at the theatre on inspection has been condemned as it no longer meets necessary standards. This is an essential access ladder from Stage right to the stage roof and is needed for the technicians to access areas to attach and moved equipment for performances etc
Wheelchair Access Lift	0.040	0.00	0.00	0.00	0.040	The lift allows access to all areas of the theatre for a person in a wheelchair. We have had to turn shows away or make temporary ramps through the loading bay to enable access in the past. The theatre should be a fully accessible building.

4 YEAR CAPITAL PROGRAMME	2023/24	2024/25	2025/26	2026/27	Four year funding requirement	Details of the capital scheme
	£m	£m	£m	£m	£m	
Theatre Website Replacement	0.034	0.00	0.00	0.00	0.034	The current operating system is being de-supported in November 2023 and will require migration to a more up to date system.
Replacement of Theatre AV Equipment.	0.010	0.00	0.00	0.00	0.010	Improved equipment at the Theatre that will allow live streaming of events and enhanced quality of audio visual equipment for hirers and other users of the facilities;
Ashwood House Public Realm	0.400	0.00	0.00	0.00	0.400	Public realm works in Pembroke Broadway and relocation of bus stops following the completion of the Lumina development.
The Square – vacant units	0.100	0.100	0.100	0.100	0.400	Works to vacant units to enable letting where required.
London Road Block	0.200	0.00	0.00	0.00	0.200	Initial stages of project for the redevelopment of the site
Local Plan provision for gypsy, traveller and travelling show people sites	0.500	0.500	0.00	0.00	1.000	The new Local Plan requires the Council to identify and acquire sufficient sites for the gypsy, traveller and travelling show people communities. This is bid provides an indication of potential costs to the capital programme.
GRAND TOTAL OF ALL SCHEMES	2.539	1.490	0.990	0.990	6.009	

Centralised Capital Contingency

4 YEAR CAPITAL PROGRAMME Central Contingency	2023/24	2024/25	2025/26	2026/27	Four year funding requirement	Details of the capital scheme
	£m	£m	£m	£m	£m	
<p>Centralised capital contingency set at 10% of annual programme</p> <p><i>(funding will be as per the project(s) it is used for)</i></p>	0.254	Balance to be reduced or topped-up to 10% of the capital programme dependent on prior year use	Balance to be reduced or topped-up to 10% of the capital programme dependent on prior year use	Balance to be reduced or topped-up to 10% of the capital programme dependent on prior year use	1.000	<p>A key recommendation from the Public Realm Task and Finish Group was that adequate contingency be provided in the capital programme. Rather than allocate a general contingency to every project, it is proposed that centralised contingency be created.</p> <p>Approval for drawdown of contingency is from Strategic Director Finance and Customer Services in consultation with the Portfolio Holder for Finance and Customer Services.</p> <p>Any drawdown will be reported in the next quarterly monitoring report.</p> <p>Certain projects will still hold their own specific contingency based on project management principles.</p>

Investment and Development

Two projects with existing budgets are being reprofiled into the programme. Budget approval for these projects has already been granted by Council in prior years.

4 YEAR CAPITAL PROGRAMME (reprofiled)	2023/24	2024/25	2025/26	2026/27	2027/28	Five year funding £m	Details of the capital scheme
	£m	£m	£m	£m	£m		
London Road site assembly	3.600					3.600	To complete the site assembly of the London Road block to allow development and regeneration
Cambridge Square improvement works	1.400					1.400	As per the previously agreed report to Council

FUNDING OF THE 2023/24 – 2026/27 CAPITAL PROGRAMME

FUNDING FOR 2023/24 – 2026/27 CAPITAL PROGRAMME	Scheme Total	Grant and contributions	Use of capital balances	Prudential borrowing
	£m	£m	£m	
Disabled Facilities Grants	3.120	3.120	0.000	0.00
Members IT Equipment	0.032	0.000	0.032	0.00
Replacement of Adelante Cash Receipting System	0.060	0.000	0.060	0.00
Esso Pipeline Environmental Projects	0.080	0.080	0.000	0.00
Replacement of Albert Road Playground Equipment	0.040	0.000	0.040	0.00
Health and Safety work to paths at London Road Rec	0.095	0.000	0.000	0.000
Replacement of Freemantle Playground Equipment	0.013	0.000	0.013	0.00
Replacement of Goalposts	0.010	0.000	0.010	0.00
Provision of G&T and TS site	1.000	0.000	1.000	0.00
Water Bowser	0.010	0.000	0.010	0.00
Replacement Flooring at Frimley Lodge Park Café	0.015	0.000	0.015	0.00
Theatre Access Ladders	0.010	0.000	0.010	0.00
Wheel Chair Access Lift	0.040	0.000	0.040	0.00
Replacement of Theatre AV Equipment	0.010	0.000	0.010	0.00
Theatre Website Replacement	0.034	0.005	0.034	0.00
Ashwood House Public Realm	0.400	0.000	0.400	0.00
The Square Vacant Units	0.400	0.000	0.400	0.00
London Road Block	0.200	0.000	0.200	0.00
Capital Maintenance Budget	0.440	0.000	0.440	0.00
GRAND TOTAL OF ALL SCHEMES	6.009	3.300	2.714	0.00

Movement in Available Capital Receipts

	2023/24 Estimate £m	2024/25 Estimate £m	2025/25 Estimate £m	2026/27 Estimate £m
Forecast Capital Receipts 1st April	2.000	0.421	0.000	0.000
Capital Receipts during year	0.000	0.000	0.000	0.000
TOTAL AVAILABLE FUNDS	2.000	0.421	0.00	0.00
Proposed Capital Programme	(2.539)	(1.490)	(0.990)	(0.990)
Grant funding	0.960	0.780	0.780	0.780
Capital reserve funding	1.579	0.710	0.210	0.210
Balance of capital receipts	0.421	0.00	0.00	0.00

Treasury Management Strategy
2023/24

Part 1 Treasury Investment Strategy

- 1.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. This is expected to remain at an average of about £17 million over 2023/24.

Objectives:

- 1.2 The CIPFA Code requires the Council to invest its treasury funds prudently, and with regard to the security and liquidity of its investments before seeking the highest return of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

Strategy:

- 1.3 The majority of the Council's surplus cash is currently invested in money market funds and the UK Government. On the advice of our retained advisors, the public sector treasury arm of Link Group, no changes are proposed to the 2023/24 investment strategy from that adopted and approved in 2022/23.

Business Models:

- 1.4 Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's "business model" for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

Approved Counterparties:

- 1.5 The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the limits shown:

<u>Sector</u>	<u>Time limit</u>	<u>Counterparty limit</u>	<u>Sector limit</u>
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£3m	Unlimited
Secured investments *	25 years	£3m	Unlimited
Banks (unsecured) *	13 months	£2m	Unlimited
Building societies (unsecured) *	13 months	£2m	£5m
Registered providers (unsecured) *	5 years	£2m	£5m
Money market funds *	n/a	£3m	Unlimited
Strategic pooled funds	n/a	£3m	£5m
Real estate investment trusts	n/a	£3m	£3m

This table must be read in conjunction with the notes below.

* Minimum Credit Rating:

- 1.6 Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
- 1.7 For entities without published credit ratings, investments may be made either (a) where external advice indicates the entity to be of similar credit quality; or (b) to a maximum of £2 million per counterparty as part of a diversified pool e.g. via a peer-to-peer platform.

Banks and Building Societies (unsecured):

- 1.8 Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

Secured Investments:

- 1.9 Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is

secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Government:

- 1.10 Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

Registered Providers (unsecured):

- 1.11 Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money Market Funds:

- 1.12 Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times. Due to the diversity of the fund elements, the low volatility and the ringfencing of assets to the fund subscribers, money market funds are normally granted a AAA rating.

Strategic Pooled Funds:

- 1.13 Bond, equity and property funds that offer enhanced returns over the longer term, but are more volatile in the short term. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives will be monitored regularly.

Real Estate Investment Trusts (REITs):

- 1.14 Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Operational/Transactional Bank Accounts:

- 1.15 The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments, but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £3 million per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity. Deposits with the Council's current account are restricted to overnight deposits.

Risk Assessment and Credit Ratings:

- 1.16 Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.
- 1.17 Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other Information on the Security of Investments:

- 1.18 The Council understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Council's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.
- 1.19 When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Council will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Council's cash balances, then the surplus will be deposited with the UK Government or with

other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Investment Limits:

1.20 The maximum that will be lent to any one organisation (other than the UK Government) will be £3 million. A group of entities under the same ownership will be treated as a single organisation for limit purposes.

1.21 Credit risk exposures arising from non-treasury investments, financial derivatives and balances greater than £3 million in operational bank accounts count against the relevant investment limits.

1.22 Limits are also be placed on fund managers, investments in brokers' nominee accounts and foreign countries as below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Please refer to the table below:

	Cash limit
Any single organisation, except the UK Central Government	£3m each
UK Central Government	Unlimited
Any group of organisations under the same ownership	£3m per group
Any group of pooled funds under the same management	£5m per manager
Negotiable instruments held in a broker's nominee account	£10m per broker
Foreign countries	£2m per country
Registered Providers	£5m in total
Unsecured investments with Building Societies	£5m in total
Loans to unrated corporates	£2m in total
Money Market Funds	Unlimited

Part 2 Borrowing Strategy

2.1 The Council currently holds £165.5 million of loans, which it is using to fund its property acquisitions. The Council may borrow in advance to pre-fund future years' requirements in order to access better rates, providing this does not exceed the authorised limit for borrowing of £235 million; however the Council will incur a net cost of carry until the funds are utilised and must not borrow purely for investment purposes.

Objectives

2.2 The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate or repay loans should the Council's long-term plans change is also an objective.

Strategy

2.3 Given the significant cuts to public expenditure and in particular to local government funding, the Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to continue to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

2.4 By doing so, the Council is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Link Group will assist the Council with this 'cost of carry' and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2023/24 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

2.5 The Council has previously raised the majority of its long-term borrowing from the PWLB but will consider long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council intends to avoid this activity in order to retain its access to PWLB loans.

2.6 Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

2.7 In addition, the Council may borrow further short-term loans to cover unplanned cash flow shortages.

Sources of borrowing:

2.8 The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- Any institution approved for investments (see below)
- Any other bank or building society authorised to operate in the UK
- UK public and private sector pension funds (except Surrey County Council Pension Fund)
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local Council bond issues
- Local Enterprise Partnerships
- Any other UK public sector body

2.9 In addition, capital finance may be raised by the following methods that are not borrowing, but may still be classed as other debt liabilities:

- Leasing
- Hire Purchase
- Private Finance Initiative
- Sale and Leaseback

Annual Minimum Revenue Provision (MRP) statement:

2.10 When a Council borrows, it is required to indicate how it intends to fulfil its duty to make prudent provision for the repayment of the capital borrowed from revenue. This provision is called the Minimum Revenue Provision or MRP. Best practice guidance recommends that Authorities prepare a statement of policy on making MRP in respect of the forthcoming financial year. The Council's MRP statement will be recommended to Council by the Executive on 22nd February 2023 as part of the Capital budget for 2023/24.

2.11 The recommended policy is attached in Annex F and the forecast MRP in £million is shown in the table below:

£ million	2021/22 actual	2022/23 actual	2023/24 Forecast	2024/25 budget	2025/25 budget
MRP Payment	0.8	0.8	0.9	0.9	0.9

2.12 On 31st December 2022, the Council held £164 million of borrowing and £23.7 million of treasury investments.

2.13 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the

underlying resources available for investment. The Council's current strategy is to maintain borrowing below their underlying levels, sometimes known as internal borrowing subject to holding a minimum of £5 million.

Treasury Management Strategy – other items
2023/24

Other Items

There are a number of additional items that the Council is obliged by CIPFA or DLUHC to include in its Treasury Management Strategy.

1. Financial Derivatives

Local authorities have previously made use of financial derivatives embedded into loans and investments both to reduce interest rate risk (e.g. interest rate collars and forward deals) and to reduce costs or increase income at the expense of greater risk (e.g. LOBO loans and callable deposits). The general power of competence in Section 1 of the Localism Act 2011 removes much of the uncertainty over local authorities' use of standalone financial derivatives (i.e. those that are not embedded into a loan or investment).

The Council will only use standalone financial derivatives (such as swaps, forwards, futures and options) where they can be clearly demonstrated to reduce the overall level of the financial risks that the Council is exposed to. Additional risks presented, such as credit exposure to derivative counterparties, will be taken into account when determining the overall level of risk. Embedded derivatives, including those present in pooled funds and forward starting transactions, will not be subject to this policy, although the risks they present will be managed in line with the overall treasury risk management strategy.

Financial derivative transactions may be arranged with any organisation that meets the approved investment criteria, assessed using the appropriate credit rating for derivative exposures. An allowance for credit risk calculated using the methodology in the Treasury Management Practices document will count against the counterparty credit limit and the relevant foreign country limit.

In line with the CIPFA Code, the Council will seek external advice and will consider that advice before entering into financial derivatives to ensure that it fully understands the implications.

At the moment the Council does not hold any Financial Derivatives.

2. Investment Advisers

The Council has appointed Link Group as treasury management advisers and receives specific advice on investment, debt and capital finance issues. This is monitored by holding regular meetings with the advisers to ensure that they continue to meet the Council's treasury management objectives. In addition, the Council's tender process for treasury management advice ensures value for money.

3. Investment of Money Borrowed in Advance of Need

The total amount borrowed will not exceed the authorised borrowing limit of £235 million. The maximum period between borrowing and expenditure is not expected to exceed two years, although the Council is not required to link particular loans with particular items of expenditure. At the moment there are no plans to borrow in advance.

4. Other Options Considered

The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Strategic Director Finance and Customer Services, having consulted the Portfolio Holder, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

Markets in Financial Instruments Directive (MIFID II)

The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, The Strategic Director Finance and Customer Services (Chief Finance Officer) believes this to be the most appropriate status.

Treasury Management Indicators 2023/24

The Council measures its exposure to treasury management risks using the following indicators. The Council is asked to approve these indicators:

1. Security – Average Credit Rating

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio.

Credit Risk Indicator	Target
Portfolio average credit rating	A

This is calculated by applying a score to each investment (AAA = 1, AA+=2, etc.) and taking the arithmetic average weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

2. Liquidity: cash available within three months

The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

Liquidity Risk Indicator	Target
Total cash available within 3 months	£5m

3. Interest Rate Exposures:

This indicator is set to control the Council's exposure to interest rate risk. The Council holds investments of £23.7 million and variable rate borrowing of £164 million which equates to net borrowing of £ 140 million. The limit on one-year revenue impact of a 1% rise in interest rates has been set at £1 million. The Council has sufficient reserves in an Interest Equalisation Reserve to mitigate the impact of an interest rate rise for 2023/24.

4. Maturity Structure of Borrowing:

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Refinancing rate risk indicator	Upper	Lower
Not over 1 year	100%	0%
Over 1 but not over 2 years	100%	0%
Over 2 but not over 5 years	100%	0%
Over 5 but not over 10 years	100%	0%
Over 10 but not over 15 years	100%	0%
Over 15 but not over 20 years	100%	0%
Over 20 but not over 30 years	100%	0%
Over 25 but not over 30 years	100%	0%
Over 30 but not over 40 years	100%	0%
Over 40 years	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. This table means there is total flexibility on borrowing periods to achieve the most cost-effective option.

5. Principal Sums Invested for Periods Longer than a year:

The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Price Risk Indicator	2023/24	2024/25	2025/26
Limit on principal invested beyond year end	£2.5m	£2.5m	£2.5m

INVESTMENTS as of 31st December 2022

	£
Debt Management Office	8,500,000
Other Local Authorities Short Term	<u>0</u>
Total Government	<u>8,500,000</u>
Aberdeen Standard	3,000,000
CCLA Public Sector Deposit Fund	3,000,000
Federated	3,000,000
Legal and General	<u>3,000,000</u>
Total Money Market Funds	<u>12,000,000</u>
CCLA Property Fund	<u>2,172,000</u>
Total Longer-Term Investments	<u>2,172,000</u>
Total Invested (excluding the NatWest Business Reserve)	<u>22,672,000</u>
NatWest Business Reserve	1,065,076
Total Invested (including NatWest Business Reserve)	<u><u>£23,737,076</u></u>

Existing Investment & Debt Portfolio

	31 Dec 22 Actual Portfolio £m
External Borrowing:	
Public Works Loan Board - Long Term	51.100
Phoenix Loan	49.317
Local authorities - Short Term	63.50
Total Gross External Debt	163.917
Investments:	
Banks & Building societies	1.065
Government – DMO	8.500
Government - Other Local Authorities	0
Money Market Funds	12.00
Other Pooled Funds	2.172
Total Treasury Investments	23.737
Net Debt	140.18

Minimum Revenue Policy (MRP) Statement

- Under Regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003, where the local Authority has financed Capital expenditure by borrowing it is required to make a provision each year through a revenue charge (MRP).
- The Authority is required to calculate a prudent provision of MRP which ensures that the outstanding debt liability is repaid over a period that is reasonably commensurate with that over which the capital expenditure provides benefits. The MRP Guidance (2018) gives four ready-made options for calculating MRP, but the Authority can use any other reasonable basis that it can justify as prudent
- For capital expenditure incurred and funded through borrowing the Council will calculate MRP using the asset life method as summarised in the table below. MRP will be based on the estimated life of the assets purchased by unsupported borrowing.

Estimated economic lives of assets	Estimated economic life
Asset Class	
Land and heritage assets	50 years
Buildings and services	50 years
Vehicles and Plant	10 years
IT equipment and software	5 years
Investment property	50 years
Assets for regeneration and/or under construction	0% until development complete

- The Council will aim to minimise the impact of MRP on the General Fund by only acquiring assets with a longer rather than shorter economic life through borrowing.
- In accordance with provisions in the guidance MRP will be charged starting in the year following the date an asset becomes operational.
- The forecast MRP in £million is shown in the table below:

£ million	2021/2022 actual	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget
MRP Payment	2.2	2.3	2.4	2.4	2.4

Treasury Management Policy Statement

The Council's financial regulations require it to create and maintain a treasury management policy statement, stating the policies, objectives and approach to risk management of its treasury activities, as a cornerstone for effective treasury management.

Definition

1. The Council defines its treasury management activities as: The management of the Council'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.

Risk management

2. This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

Value for money

3. This organisation acknowledges that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Borrowing policy

4. The Council greatly values revenue budget stability. Short-term and variable rate loans will only be borrowed to the extent that they either offset short-term and variable rate investments or can be shown to produce revenue savings.
5. The Council will set an affordable borrowing limit each year in compliance with the Local Government Act 2003, and will have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities when setting that limit. It will also set limits on its exposure to changes in interest rates and limits on the maturity structure of its borrowing in the treasury management strategy report each year.

Investment policy

6. The Council's primary objectives for the investment of its surplus funds are to protect the principal sums invested from loss, and to ensure adequate liquidity so that funds are available for expenditure when needed. The generation of investment income to support the provision of local Council services is an important, but secondary, objective.

7. The Council will have regard to the Communities and Local Government Guidance on Local Government Investments and will approve an investment strategy each year as part of the treasury management strategy. The strategy will set criteria to determine suitable organisations with which cash may be invested, limits on the maximum duration of such investments and limits on the amount of cash that may be invested with any one organisation.