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To: All Members of the **EXECUTIVE**

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

Yours sincerely

Damian Roberts

Chief Executive

SUPPLEMENTARY INFORMATION

	Pages
6. Revenue Budget and Medium Term Financial Strategy	3 - 40

The attached documents supersede the versions published as part of the original agenda.

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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.



- 1.6 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).
- 1.7 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.
- 1.8 This document incorporates as appendices the following:
- 1.8.1 The revenue budget estimates for 2023/24 and indicative estimates for the period 2024/25 to 2026/27.
 - 1.8.2 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.
 - 1.8.3 The Treasury Management Strategy.
 - 1.8.4 An estimate of earmarked reserves and general fund balances at the end of 2022/23.



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 2023/24	(£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	£1,391,875
Annual budget 2023/24	£1,521,875
Number of employees (fte)	17.5

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 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	2023/24	2024/25	2025/26	2026/27
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:

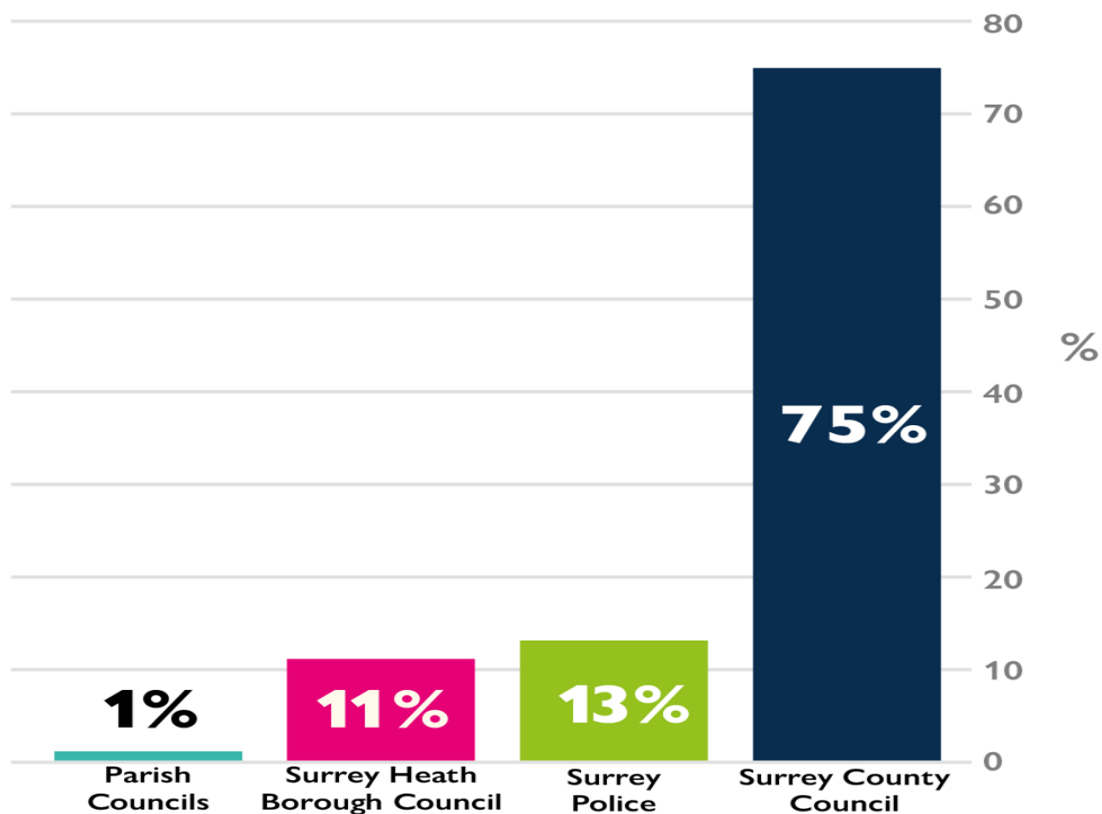
<u>2022/23</u>		<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>
38,976.2	Council tax base	39,613.4	40,009.5	40,409.6	40,813.7
£233.66	Charge per Band D	£240.65	£247.84	£252.77	£257.80
£9,107,172	Council tax income	£9,532,823	£9,916,033	£10,214,496	£10,521,942

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:

<u>Retained Business Rates</u>		<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>
<u>2022/23</u>	(£ million)				
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 finance 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 £2.000 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 Suitable Alternative Natural Green Space (SANGS).
- 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 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 £44.1 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 at the current year end of just over £9.2 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.

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



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 4.0% (January 2023) and most market forecasters predict that this will peak about 25 to 50 basis points (0.25% - 0.50%) 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.



List of Appendices

Appendix 1	Revenue Budget Estimates
Appendix 1-1	Revenue budget growth items
Appendix 1-2	Revenue budget efficiencies
Appendix 2	Capital Strategy
Appendix 2-1	Capital Programme 2023/24 – 2026/27
Appendix 2-2	Capital Funding 2023/24 – 2026/27
Appendix 2-3	Capital Receipts 2023/24 – 2026/27
Appendix 3	Treasury Management Strategy
Appendix 4	General Fund Balance and Earmarked Reserve Summary



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		2,657	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		63	63	63	63	13
Rough Sleeping initiative						14
Homelessness Prevention		326	330			15
Special expenses		190	192	194	196	16
		13,676	13,826	11,798	12,133	17
Summary						
Net cost of services		17,468	16,153	16,268	16,855	
Funding		(13,676)	(13,826)	(11,798)	(12,133)	
<u>Use of earmarked reserves</u>						
Interest equalisation reserve		(2,000)	(1,000)	(500)		18
Other earmarked reserves				(1,000)	(2,000)	19
Contribution (from)/to reserves and balances		(1,791)	(1,327)	(2,969)	(2,722)	20
Reserves and balances						
<u>Opening balances</u>						
General fund		9,215	7,424	6,097	3,128	
Earmarked reserves		44,102	42,102	41,102	39,602	
<u>Closing balances</u>						
General fund		7,424	6,097	3,128	406	21
Earmarked reserves		42,102	41,102	39,602	37,602	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>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>
Environment and Community				
Runnymede Borough Council Service Level Agreement	252			Correction of previous budget
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

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

<u>Service and Bid name</u>	<u>Amount in year</u>			
	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>
Finance and Customer Services				
Increase in SCC LGPS contribution	202			Change in SCC LGPS policy
Council tax increase in properties		5		5 Cost of administration due to Taxbase growth
Additional Financial Accounting staff	125		(125)	Shortfall in staff to deliver final accounts
Customer feedback/improvement	20			To monitoring the Council's service to customers
Total Finance and Customer Services Growth	347	5	(125)	5
HR, Performance and Communications				
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>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</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)			Reversal of prior year one-off growth
Local Plan - Legal and Counsel fees - reversal of one-year growth	(100)			Reversal of prior year one-off growth
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>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	
Corporate inflation					
Annual pay award - staff/increments and establishment reset	1,500	267	272	278	8% 23/24 then 2% annual increases - subject to approval
MRP	874	874	874	874	See Treasury strategy
Debt financing	In base budgets				
Impact of annual plan and Five-year strategy	125	125	125	125	Allowance for annual plan growth - drawdown as required
Total Corporate inflation growth	2,499	1,266	1,271	1,277	To be allocated to budgets once agreed and loaded
	5,210	1,655	2,213	2,388	

Service Efficiencies 2023/24 Medium Term Financial Strategy

Appendix 1 -2

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

Service and Bid name	Amount in year				Further detail
	2023/24	2024/25	2025/26	2026/27	
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)				
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>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	
HR, Performance and Communications					
Internship programme - reversal of one-saving in 2022/23	25				Single year saving in 2023/24 reversed and programme reinstated
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)				
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>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</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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<u>31 March 2022</u>	<u>Reserve</u>	<u>Forecast</u>
<u>£,000</u>		<u>31 March 2023</u>
		<u>£,000</u>
	Earmarked Revenue Purposes	
9,214	Revenue reserve for capital funding	9,214
1,032	Affordable Housing	1,032
66	Armed Forces Reserve	66
320	Atrium S106 agreement	320
54	Blackwater Valley developers contributions	54
12,079	Business Rates Equalisation fund	12,079
5	Chobham & Town Team Partnership	3
151	Community Fund 2002	151
653	CIL Admin and Monitoring	653
260	Commutated Sums	260
574	Contain Outbreak Management Fund	467
1,096	Covid19	-
35	Crime and Disorder/Community Safety Partnership	35
72	Custom Build	72
286	Deepcut Village Centre : Alma Dettingen	286
27	Developers Contributions	27
151	Frimley Lodge 3G Pitch	151
7	Heatherside: multi-use games area	7
170	Industrial Rent arrears - equalisation	170
194	Insurance Reserve fund	194
7,318	Interest Equalisation Fund	7,318
2,275	JPUT balance (pending reallocation to GF)	-
384	Land Drainage	384
182	New Burdens Fund	182
185	Nottcutts (Bagshot Project)	185
17	Old Dean toddlers playground	17
427	One Public Estate	427
142	Planning S106 agreements	142
1,557	Property Maintainance	1,557
45	Remediation fund	45
107	Rental Equalisation	107
400	Retail Rent Arrears - equalisation	400
73	SAMM	73
7,341	SANGS	7,341
147	Southampton/London Pipeline	147
-	Surrey Family Support Programme	-
211	Homelessness	211
239	Swift Lane	239
-	Syrian Refugees	-
40	EH - covid	40
46	Home Improvement Agency	46
47,582	Total Earmarked Revenue Reserves	44,102
6,906	General Fund Balance	9,215
54,488	Total available reserves	53,317
		[Estimated]

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