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To: All Members of the **EXECUTIVE**

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

This supplement contains the fiull suite of budget reports, with the documents that have been updated identified below.

Yours sincerely

Damian Roberts

Chief Executive

SUPPLEMENTARY PAPERS

Pages

The following changes have been made to the budget report, Medium Term Financial Strategy and appendices:

6. Covering Report

ii) h) First line of table previously used old numbers – this has been updated to reflect capital programme as per Capital Programme Appendix 2-1.

ii) h) CFR line 2026/27 and 2027/28: the original version of the report had used old numbers and now matches the figures in the Capital Strategy.

6. MTFS Main Document

7.3 Amended to read “up to a further £10 million more”.

6d. MTFS Appendix 1-2 – Service efficiencies

Typographical error on ‘Heathscene’ efficiency. Now reads correctly as ‘reduced **by** one edition’ and not ‘to one edition’.

6e. Capital Strategy

Paragraph 29: the table is now updated with latest figures, forecast and expected budget.

6g. Treasury management Appendix 3

Pg13 3.0 Authorised amount is corrected to ‘237’ and not ‘235’ as previously stated.

Pg 15 3.0 Investment amount is corrected to £17.4 million and not £23.7 million as previously stated here.

6i. Sensitivity analysis

Minor Interest Rates row, right hand side column now reads ‘£0.750 million’ and not ‘£xxx’ in 2025/26.

Surrey Heath Borough Council

Executive

13 February 2024

Annual Revenue Budget 2024/25
Medium Term Financial Strategy 2024/25 to 2027/28

Strategic Director Bob Watson - Finance & Customer Service
Report Author: As above
Key Decision: yes
Wards Affected: All

Summary and purpose

This report covers the Medium Term Financial Strategy (MTFS) and the revenue budgets estimates for the next financial year (2024/25) and the indicative estimates for the period 2025/26 to 2027/28.

The report also provides the statutory Chief Finance Officer's report under Section 25 of the Local Government Act 2003 on the adequacy of proposed financial reserves and balances and robustness of the budget estimates.

Recommendation

The Executive is advised to RECOMMEND to the Council at its budget meeting on 21 February 2024, the approval of the Medium Term Financial Strategy and associated Revenue Budget Estimates covering the period 2024/25 to 2027/28 which includes:

(i) the Revenue Budget Estimates covering the period 2024/25 to 2027/28 as follows:

a. the 2024/25 budget estimates giving a net cost of services revenue budget for the Council of **£17.347 million** as shown in Appendix 1 to the Medium Term Financial Strategy;

b. to agree the unavoidable service pressures and budget growth of **£4.723 million** shown in Appendix 1 and in more detail in Appendix 1-1 to the Medium Term Financial Strategy;

c. to agree the revenue efficiencies of £4.525 million shown in Appendix 1 and in more detail in Appendix 1-2 to the Medium Term Financial Strategy;

d. to approve the recommendation by the Strategic Director Finance and Customer Services (the Council's Section 151 Officer1) that a sum of up to £2.500 million of the interest equalisation earmarked reserve be drawn to support the revenue budget over the period of the Medium Term Financial Strategy and provide a sustainable budget for the Council;

e. that the Surrey Heath Borough Council element of the annual council tax precept be increased by 2.99% across all Council Tax Bands;

(ii) the Capital Strategy, as set out at Appendix 2 to the Medium Term Financial Strategy and associated Capital Programme (appendix 2-1) covering the period 2024/25 to 2027/28 which includes:

f. the new capital bids for £9.539 million in Appendix 2 to the Medium Term Financial Strategy for 2024/25 be approved, and that they be incorporated into the Capital Programme;

g. that previous budgets are reprofiled into the 2024/25 to 2027/28 as detailed in Appendix 2-1 amounting to £1.118 million in 2024/25 are approved; and

h. the Prudential Indicators summarised below and explained in Appendix 2 for 2024/25 to 2026/27 in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Prudential Code for Capital Finance in Local Authorities 2011 be approved;

Prudential Indicator	2024/25 Proposed £m	2025/26 Estimated £m	2026/27 Estimated £m	2027/28 Estimated £m
Capital Expenditure	10.871	4.292	2.280	2.450
Capital Financing Requirement	209.7	210.2	210.7	211.2
Ratio of net financing costs to net revenue stream	0.57	0.62	0.61	0.62
Financing Costs	8.42	8.50	8.52	8.54
Operational Boundary	230	230	230	230
Authorised Limit	237	237	237	237

(iii) The Treasury Management Strategy for 2024/25 shown at Appendix 3, Annex A to the Medium Term Financial Strategy including;

i. the Treasury Management Indicators for 2024/25 at Appendix 3, Annex C to the Medium Term Financial Strategy;

[1] The officer designated under Section 151 of the Local Government Act 1972 as responsible for the financial affairs of the Council.

j. the Minimum Revenue Provision policy statement and estimated minimum revenue provision payment table at Appendix 3, Annex F to the Medium Term Financial Strategy; and

k. the Treasury Management Policy Statement at Appendix 3, Annex G to the Medium Term Financial Strategy.

(iv) The Executive is also advised to note:

l. the forecast level of reserve balances shown at Appendix 4 to the Medium Term Financial Strategy. It should further be noted that these will be subject to confirmation once the outturn position for the current financial year (2023/24) is known and this will be reported in the revenue outturn report early in the new financial year.

m. the Council Tax base for Surrey Heath Borough Council is 39,749.5 as set at Council on 14 December 2023.

n. the Medium Term Financial Strategy contains a savings target of £0.600 million over the period of the strategy which will be achieved through a combination of further services efficiencies, increases in income and potentially service reductions to be identified through a output-based budget review for all services of the Council and subject to a base budget review that will commence in the summer of 2024.

o. the statement of the Chief Financial Officer (Strategic Director Finance and Customer Services) on the robustness of estimates and sustainability of balances.

p. the finance settlement from central Government was finalised through the House of Commons on 5 February 2024.

1. Background and Supporting Information

1.1 This report and the Medium Term Financial Strategy (MTFS), which this report covers, provide an overview of how the Council's revenue expenditure and income are to be used for the day-to-day activities of the Council and the provision of its local statutory and non-statutory services to residents and businesses of Surrey Heath Borough.

1.2 The Medium Term Financial Strategy consists:

- Revenue budget estimates for 2024/25 and indicative estimates for 2025/26, 2026/27 and 2027/28. (Appendix 1, Appendix 1-1 and Appendix 1-2 to the MTFS).
- Capital Strategy. (Appendix 2 to the MTFS).
- Capital programme for 2024/25 to 2027/28. (Appendices 2-1 to 2-3 to the MTFS).
- Treasury Management Strategy incorporating Annexes A-G. (Appendix 3 to the MTFS).
- Estimated balances on earmarked reserves (Appendix 4 to the MTFS).
- Scenario planning, assumptions and sensitivity analysis (Appendix 5 to the MTFS).
- A glossary of finance and budget terminology. (Appendix 6 to the MTFS).

2. Reasons for Recommendation

2.1 Under Section 31 of the Local Government Finance Act 1992, the Council is required to set a balanced budget each year at Budget Council (normally the February preceding the commencement of the financial year on 1 April).

2.2 At the meeting in 13 February 2024, the Executive recommended the proposed budget to Council.

2.3 It is considered sound financial management for the Council and its Executive to set an annual budget and produce a strategy showing indicative budgets for the following three years.

3. Proposal and Alternative Options

3.1 The Council is requested to approve the Medium Term Financial Strategy and the revenue and capital budget estimates at its budget meeting on 21 February 2024.

3.2 The Council could choose to not adopt the Medium Term Financial Strategy nor recommend the revenue and capital estimates. In which case an alternative budget would have to be proposed and adopted by Council prior to the new financial year (1 April 2024). This could also delay the setting of the annual Council Tax precept (also considered by Council on 21 February 2024, which may result in a delayed precept demand; in this scenario the Council would have to cover the precept demands of the Parishes, Surrey County Council and the Police and Crime Commissioner for Surrey until such time as a precept can be raised.

3.3 If no budget for Surrey Heath Borough Council is agreed, then the previous budget set in February 2023 will be applied, subject to any statutory changes. This will remain until a new budget can be agreed.

4. Contribution to the Council's Strategy

4.1 The budgets are set in support the delivery of the Council's new strategy "Delivering for You and a Fairer Society" and its annual plan.

5. Resource Implications

5.1 The revenue and capital resource implications for 2024/25 are contained within the Medium Term Financial Strategy and the Capital Strategy.

6. Section 151 Officer Comments:

6.1 This element of the report forms the Council's Chief Finance Officer's (Section 151 Officer) statement on the budget estimates and adequacy of reserves; the specific requirements upon the Council's Chief Finance Officer are contained in Section 25 of the Local Government Act 2003:

> "…. the chief finance officer of the authority must report to [a council making budget / council tax decisions] on the following matters:
> (a) The robustness of the estimates made for the purposes of the calculations, and
> (b) The adequacy of the proposed financial reserves."

6.2 The Strategic Director Finance and Customer Services is the Council's statutory Chief Finance Officer (Section 151 Officer), and is confident that the estimates being presented have been based on sound knowledge of the costs and income, which will aim to deliver on the priorities within the Council's new Strategic Plan, "Delivering for You and a Fairer Society". The achievement of this balanced budget, will be through the use of tight controls and the success of delivering on the savings programmes, resulting from a further root and branch review of budgets and outputs in the planned base budget review and building on the strong budget management from last year (2023/24), with robust monitoring and reporting through the financial year.

6.3 The risks associated with the deliverability of this budget are detailed in Section 12 of Medium Term Financial Strategy (Appendix 1), and close monitoring of the issues outlined are a necessary factor in ensuring balances are maintained, at the agreed limit set by Council.

6.4 Over the past few years the Council has applied some of its reserve balances to support regeneration and delivery of services to the local residents and businesses; however, this is not sustainable in perpetuity and as such the

Medium Term Financial Strategy contains a savings and efficiencies target to balance the budget by keeping within the financing resources available.

6.5 These targets will be met from a combination of further service efficiencies, looking at ways of increasing income and potential non-statutory service reductions are spread over the first two years of the strategy as follows:

£'000	2024/25	2025/26	2026/27	2027/28
Budget review	(400)	(200)		

6.6 In addition, over the period of the Medium Term Financial Strategy, all services are expected to remain within departmental expenditure limits and any growth is off-set by service efficiencies, unless funded by 'new burdens' financing.

6.7 All Strategic Directors and Heads of Service have a responsibility to ensure that the budgets under their areas of responsibility are delivered to plan. The Strategic Director Finance and Customer Service is responsible for the overall delivery of budgets across the Council and proper management thereof.

6.8 In the opinion of the Section 151 Officer this report and budget complies with the Local Government Finance Act 1992 and the Local Government Act 2003. The Council is forecast to have sufficient reserves to facilitate the delivery of its financial plans for 2024/25.

6.9 The past two years have seen a marked increase in the underlying rate of inflation and corresponding changes in interest rate as the Bank of England addresses the inflationary pressures within the national economy. These have created pressures on the Council's budgets through inflationary increases in our contracts and service costs which the Council is managing through cost recovery and service efficiencies, and pressures on our debt financing, which the Council has chosen to cover in the short-term by use of its reserve balances, rather than seek to raise taxes excessively or reduce services to residents.

6.10 This planned use of general fund balances will leave the Council's reserves above what is considered a safe minimum level of £1.6 million for the next three financial years and will allow the Council time to realise the full impact of the budgetary review and any transformational processes. The final year of the Medium Term Financial strategy shows (at present) the general fund balance of the Council dropping below a level deemed to sufficient to cover unknown risks and contingencies.

6.11 Whilst the Council has adequate balances and earmarked reserves to manage cost pressures over the first three years of the Medium Term Financial Strategy, it will need to return to a position where it can manage annual budgets without further depletion of the reserve levels. In order to do this, it is now considered that a transformation programme should be initiated designed to deliver some bigger reductions in the Council's net cost of services. Pump priming funding may be required if the business case is made.

6.12 The Department for Levelling Up, Housing and Communities (DLUHC) makes an assumption of all Local Authorities Core Spending Power. In doing this, it assumes that council's will always uplift their Council Tax requirements by the maximum allowable without triggering the requirement for a local referendum. Therefore the Medium Term Financial Strategy includes the assumption that the recommended increase in the Surrey Heath Borough Council element of the Council Tax precept demand will be 2.99% across all property bands for 2024/25. Uplifts for subsequent years have been assumed to be in line with the DLUHC assessment of core spending power over the following three years of the Medium Term Financial Strategy. Even at 2.99% the Surrey Heath Borough Council increase (in both cash and percentage terms) will be significantly less than both the Surrey County Council and the Surrey Police precept increases, and significantly below the prevailing annual increase in consumer price inflation (CPI).

6.13 Of all the income streams the Council has, Council Tax is least volatile and most reliable, therefore is the only one that can provide a stable funding base for services. For that reason, the Section 151 officer's recommendation is that Council Tax uplifts are in line with the central Government assessment of Core Spending Power over the period of the Medium Term Financial Strategy.

6.14 The Council's capital strategy and programme (Appendix 2, Appendices 2-1 to 2-3 of the Medium Term Financial Strategy indicate an ambitious programme of nearly £20 million over the period of the strategy. This will put strain on the Council's debt burden and therefore the maximum use of 'invest to save' projects (where the project generates income to offset the cost of debt financing), and available external and grant funding is paramount. Proper and full business cases should be developed and inclusion of gateways in the project plan are essential for ensuring the capital programme is delivered in a timely and economic manner.

6.15 In developing the capital strategy, the Council has taken this opportunity to reduce the amount of budgets that are being reprofiled to a minimal amount to ensure that they are still current with the Council's new strategy and are deliverable within the profile put forward.

6.16 In summary, with due regard to the budgets and strategic aims contained within the Medium Term Financial Strategy, the Council's Chief Finance Officer (section 151 Officer) is confident that the estimates of expenditure and income are robust and the adequacy of reserves is sufficient, provided the items in the Medium Term Financial Strategy are approved at Budget Council. If these are not agreed then this statement would need to be reviewed in the light of any alternative budget and cannot be relied upon as sign-off from the Chief Finance Officer until such a review has taken place.

6.17 Following approval by Budget Council, these budgets will be loaded on the Council's general ledger system and a more detailed set of individual budgets for services – the 'budget book' – will be published.

7. Legal and Governance Issues

7.1 There is a legal requirement that the Council can only approve a balanced budget. A balanced budget means that expenditure must equal income. If the budget is not balanced then the Council cannot approve it and therefore Council Tax cannot be set and revenue collected. The Council is also permitted to use balances to smooth the one-off impact of budgetary pressures on the local tax paying populace.

7.2 On 7 February 2024, the Government confirmed the provisional Local Government Finance Settlement for 2024/25 that was previously announced on 18 December 2023. It also confirmed that authorities would need to hold a referendum if their planned increase in Council Tax is not below 3.00% or is over £5.00 for a Band D property (whichever is the greater). This budget has been prepared on the assumption that the maximum Council Tax increase (2.99%) within these limits will be approved when the council tax precept is set by Council at its meeting on 21 February 2024.

8. Monitoring Officer Comments:

8.1 Approval of the annual Budget is a full Council function under Article 4.2 (b) of the Council's Constitution.

9. Other Considerations and Impacts

Environment and Climate Change

9.1 The annual budgets provide funding for services, which will allow them to deliver the environmental and climate change objectives of their services.

Equalities and Human Rights

9.2 The annual budgets provide funding for services. Individual services will have their own equalities impact assessments when delivering services within these budgets.

Risk Management

9.3 Section 12 of the Medium Term Financial Strategy highlights the risks around these budgets. Services will have their own service risk registers which contribution to the Council's corporate risk register.

Community Engagement

9.4 The annual budget and Medium Term Financial Strategy are both aligned to the delivery of the Council's new Strategy, "Delivering for You and a Fairer Society" agreed in the summer of 2023 and following the borough elections held in May 2023.

9.5 Council Officers have held an business engagement budget briefing with local businesses on Tuesday 30 January 2024, which was attended by local business owners.

Attachments:

Medium Term Financial Strategy 2024/25 to 2027/28 including the annual budget for 2024/25.

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SURREY HEATH BOROUGH COUNCIL

MEDIUM TERM FINANCIAL STRATEGY

2024/2025 TO 2027/2028

ANNUAL BUDGET 2024/25

February 2024

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 priority services and the outcomes set out in the new Council Strategy, "Delivering for You and a Fairer Society". It recognises that all Councils are having to operate within a very dynamic and challenging environment with changes and uncertainty in the economy, service demand, government funding framework and legislation which impacts significantly on the Council's income and expenditure. This strategy sets the resource budgets for financial year 2024/25 and provides indicative budgets for the following three years (2025/26, 2026/27 and 2027/28).

1.2 During the past two financial years, consumer price inflation (CPI) has risen from its previous rate in line with the Bank of England target of two percent (2%), peaking at over ten percent (10%), before starting to fall back in the latter part of the year. This has also seen corresponding increases in the Bank of England (BoE) base rate as the central bank seeks to control inflationary pressures through its interest rate levers. Both of these factors have resulted in considerable pressures on the Council's budgets in terms of key contractual costs, cost of living increases for staff, cost of routine goods and services, and the debt cost to finance Council borrowing.

1.3 Recent economic conditions have led to higher inflation and interest rates experienced by all residents and businesses, which coming on the back of the recovery from the Covid-19 pandemic of 2020 and 2021, has driven extra service demands from residents, and significantly affected major cost drivers and income streams for the Council, many of which have not returned to pre-pandemic levels.

1.4 This Medium Term Financial Strategy brings together both the national and local contexts and their effect on the Council's overall financial position and recognises the scale of the financial challenge that the Council will face over the next four years. The forecast contains some 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 (years 2 – 4) are simply illustrative for this purpose and should not be taken as policy decisions.

1.5 Regular budget monitoring reports are presented formerly on a quarterly basis to Performance and Finance (P&F) Scrutiny Committee and the Council's Executive throughout the year and to the budget managers and Directors and Service Heads on a more frequent monthly basis. The latest budget monitoring report will be in March and shows the position as at the end of December (Period 9/Quarter 3).

1.6 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 sustainable budgets for the following three years. With the progressive reduction and then removal of the Government's core revenue support grant funding in 2020, 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.

1.7 This document incorporates as appendices the following:

1.7.1 The revenue budget estimates for 2024/25 and indicative estimates for the period 2025/26 to 2027/28.

1.7.2 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.

1.7.3 The Treasury Management Strategy.

1.7.4 An estimate of earmarked reserves and general fund balances at the end of 2023/24.

1.7.5 Scenario planning around some of the main assumptions used in compiling this MTFS.

1.7.6 A glossary of accounting and budget terminology.

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 historically set budgets that have been balanced and allowed for a small return of in-year surpluses to the general fund balance. However, since 2019/20, there has been a budgeted drawdown on reserves totalling £11.73 million over the past five years, which is forecast to continue in this MTFS, albeit at a lower level than in 2023/24. This is not the actual drawdown as in those years, factors such as government support during the Covid-19 pandemic and the impact of that on service delivery meant that the actual drawdown was not as budgeted. However, continued drawdown of reserves is not sustainable in the long term, though acceptable in the medium term as the Council transforms itself.

2.3 Through the setting of realistic budget estimates for the current financial year (FY) 2023/24, combined with careful reactive budget monitoring, there is an expectation that the final outturn position will be in line with the original estimates, and 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 "base budget review" process that not only achieved the efficiency levels for savings and additional income mandated in the previous (February 2023) Medium Term Financial Strategy, but slightly over-achieved in the first year of the programme.

2.4 In the 2023/24 budget, there was an estimated shortfall of funding versus net cost of services of £3.8 million; when considering the inescapable growth (growth that is legislative and/or contractually committed or is required to mitigate larger future costs) was taken into account there was a pre-mitigation pressure of £4.8 million. During the year it has also been necessary to contain in-year inflationary pressures. Managing these pressures means that discretionary new growth in spending must 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 in the budget funded by new income must be contained within the level of funding and the duration that the funding is available.

2.5 In the context of the significant budget pressures, services have reviewed the level of budget growth needed in 2024/25 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 this work is shown in summary below and in more detail in Appendix 1, and Annexes 1.1 and 1.2.

Summary of net cost of service provision revenue budget estimates (£'000)

Forecast budgets (£'000)	2024/25	2025/26	2026/27	2027/28
Environment and Community	7,632	7,388	7,462	7,896
Finance and Customer Service	2,890	2,890	2,890	2,890
HR, Performance and Communications	3,820	3,820	3,820	3,820
Legal and Democratic Services and Strategic Management	1,502	1,508	1,515	1,522
Planning	329	129	29	(71)
Property and Economic Development	(520)	(1,714)	(1,911)	(2,109)
Corporate (to be distributed to services)	1,693	1,821	2,133	2,484
Total net cost of services	**17,347**	**15,844**	**15,938**	**16,432**

2.6 The main drivers for the growth in service budgets are as follows:

Growth driver	Amount of growth £000
Inflationary pressures on services	655
Contractual growth/inflation	1,321
Service demand pressures	1,191
Reduction in income	1,249
Property and equipment maintenance	307

2.7 Principles followed in this Medium Term Financial strategy and the Annual Budget:

2.7.1 Demonstrates the Council is committed to setting a balanced budget whilst maintaining prudent levels of General Fund Balances.

2.7.2 Signals the Council is seeking to reduce its annual budget deficit, through generating income and realising cost efficiencies in service delivery, whilst continuing to press the Government for a fairer funding deal for Councils.

2.7.3 Notes it is intended to limit increases in Council Tax levels in line with Government core spending power assumptions.

2.7.4 Ensures prudent revenue budget provision for repayment of capital debt, also known as Minimum Revenue Provision (MRP), in line with best practice.

2.7.5 Recognises expected future financial pressures in the medium-term financial strategy to allow risk based forward planning.

2.7.6 Allows use of Earmarked Reserves to support one-off expenditure, particularly where allocated historically for specific reasons, or cover temporary budget pressures only. This includes use of the 'interest equalisation reserve' to mitigate short-term demands on the tax account from the extensive property portfolio.

2.7.7 Supports future significant capital expenditure plans dependent on sign off of robust business cases that link the economic and social benefits of the asset incurring the expenditure.

2.7.8 Ensures the Council is making provision for the proper repair and maintenance of its assets, to ensure regulatory commitments are met and service levels protected. Planned prudent preventative maintenance is shown to reduce asset lifecycle costs overall.

2.7.9 Targets all discretionary services becoming increasingly self-funding where at all possible, taking the position the "user pays for the service", to minimise the level of subsidy from the general tax account.

2.7.10 Commits the Council to an accelerated pathway of wider "step change" transformation of how the Council provides services, particularly those which are discretionary, with the intention of making the Council as independent of government support for its financing and spending plans as possible.

3. Service outputs

3.1 The Medium Term Financial Strategy (MTFS) is closely aligned to and provides resources in support of the new Council Strategy. The 2024/25 budget supports 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 2023/24	£8,240,100
Annual budget 2024/25	**£7,631,840**
Number of employees (fte) 2024/25	90.3
Number of employees (fte) 2023/24	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
- Camberley Theatre
- Community Services including:
    - Meals at Home
    - Community Centre
    - Community Transport
    - Telecare
    - Handy person service
- Emergency Planning and Health and Safety

3.4 **Finance and Customer Services**

Final budget 2023/24	£2,665,240
Annual budget 2024/25	**£2,890,340**
Number of employees 2024/25 (fte)	57.9
Number of employees 2023/24 (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 (exchequer)
- Treasury Management
- Accounts payable and receivable, supplier management and debtor control
- Financial systems accountancy and management

- 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 four 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 front-of-house 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 compliments and complaints process

Procurement services

- Support to services in contract tendering
- Support and guidance on contract management
- Maintain the contracts register
- Manages the procurement pipeline
- Insurances

3.5 **Human Resources, Performance and Communications**

Final budget 2023/24	£3,684,830
Annual budget 2024/25	**£3,820,330**

Number of employees 2024/25 (fte)	34.8
Number of employees 2023/24 (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
- Publishes and reviews 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 new Council Strategy and Annual Plan.
- The team are also responsible for
  - Staff training, learning and development
  - Talent management
  - Culture change projects

Communications and Engagement

- Communication strategy and content including planned campaigns
- Reputation Management of the Council

- Reactive communications particularly during unplanned or unforeseen events
- Managing media relationships
- Close collaboration with all services of the Council and Councillors to manage effective relationships

Community Development

- Manages the distribution of external funding through the operation of grant schemes including Household Support Fund, Ward Councillor Grants, Community Grants, Revenue Grants etc.
- Promotes health and wellbeing through the delivery of events, projects and schemes
- Facilitates the voluntary sector through the distribution and management of grant schemes
- Community support to those who are in need
- Owns the Achieving Equity Strategy with a focus on residents and supports inclusion across the Council
- Surrey Heath Lottery

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
- Cyber Security

3.6 **Legal and Democratic Services and Strategic Management**

Final budget 2023/24	£1,560,860
Annual budget 2024/25	**£1,502,090**
Number of employees 2024/25 (fte)	16.0
Number of employees 2023/24 (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 recovery 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

- Oversees 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 to Audit, Standards and Risk Committee on relevant matters
- Internal reviews and investigations

Mayoral and Support Services

- Civic support related activities and events
- Administrative support to the Mayor

3.7 **Planning**

Final budget 2023/24	£642,780
Annual budget 2024/25	**£329,480**
Number of employees 2024/25 (fte)	35.6
Number of employees 2023/24 (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 and arboriculture

3.8 **Property and Economic Development**

Final budget 2023/24	(£1,082,100)
Annual budget 2024/25	**(£520,030)**
Number of employees 2024/25 (fte)	16.0

Number of employees 2023/24 (fte) 19.1

Management

- Oversight of the Council's property portfolio
- Undertaking contractual lease events (eg: rent reviews, lease renewals)
- Letting vacant space to drive income
- Rent collection

Development

- Strategy for the borough's regeneration objectives
- Instigation and management of the Council's property development projects
- Acquisitions and disposals of Council property

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
- Liaison with regional and local economic development partners
- Business stakeholder engagement and management
- Administration of business grants
- Development and management of economic functions in the community

3.9 **Corporate inflation**. To be added to the above 2024/25 service budgets is an element of unavoidable pressures that are identified corporately and will be directly attributed to service budgets later in the process. These are:

- The staff pay award that was agreed with staff representatives in December 2023 was set at four per cent across all grades of officers. The budget for all Members' Allowances was increased by two per cent, however the allocation of this budget will be subject to the recommendations of the Independent Remuneration Panel and voted on by full Council later in the year.

- The Council's minimum revenue provision (MRP) for meeting the Council's capital financing requirement (CFR). This is calculated on the annuity method in accordance with Chartered Institute of Public Finance and Accountancy (CIPFA) best practice and has been increased this year to ensure prudent provision has been made that covers the amount of internal borrowing the Council had previously not included in the calcuation through human error, due to turnover of staff in Finance team.

3.10 **Corporate savings target.** As mentioned above, during 2023/24 in order to address the ongoing budgetary pressures the Council held a 'base budget review' 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 delivering service efficiencies and additional income with no reductions in services to residents; these findings were then subjected to a challenge process by councillors and officers of the Council. The results of the process were reported to Executive in July and then applied to service budgets as part of the in-year budget management process. A high level summary is are shown below:

£'000	**2023/24**	**2024/25**	**2025/26**	**2026/27**
Target efficiencies	(500)	(350)	(200)	(150)
Actual efficiencies	(529.8)	(286.5)	(58.0)	(77.0)

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

3.12 Due to the pressures on service budgets, and the rigorous detailed budgeting process completed this year, the scope for further improvements will be limited, however it seen as good practice to repeat the 'base budget review' process in the summer of 2024/25 to capture any opportunities and therefore the provisional targets are:

£'000	**2024/25**	**2025/26**	**2026/27**
Target efficiencies	(400)	(200)	0

4. Revenue funding and financing

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

- Council tax (finances 58% of net cost of services)
- Business Rates (finances 17% of net cost of services)
- Other Government grants (non-service specific) (finances 7% of net cost of services)
- Service specific government grants (eg: Homelessness) (finances 2% of net cost of services)
- Balances on the collection fund. (finances 1% of net cost of services)
- Use of available reserves (finances 15% of net cost of services)

4.1 **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 also assumes an annual growth in the tax base of one per cent each year, which is linked to an expected uptick in the completion and occupation of new homes in the borough relative to 2023/24, which was 0.34%. The forecast receipt from Council Tax for the next four years is shown in the table below:

2023/24		**2024/25**	2025/26	2026/27	2027/28
39,613.4	Council tax base	**39,749.5**	40,147.0	40,548.5	40,953.9
£240.65	Charge per Band D	**£247.85**	£252.78	£257.81	£262.94
£9,532,823	Council tax income	**£9,851,730**	£10,148,257	£10,453,709	£10,768,355

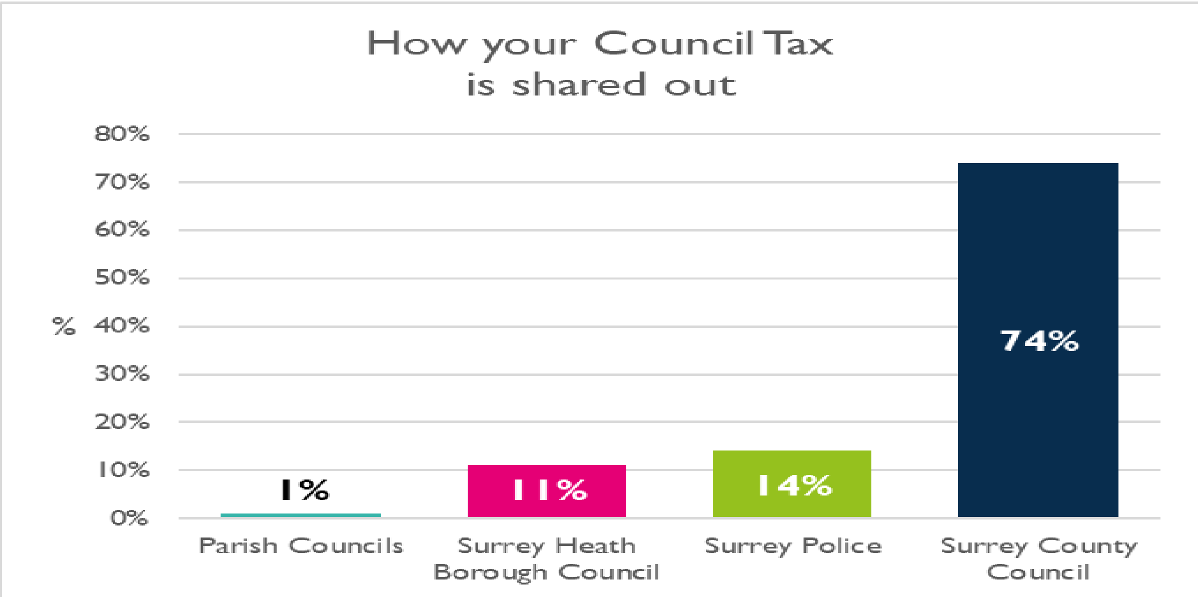
4.2 Although the council tax is rising by the maximum amount permitted, this still represents a cut in real terms, as these increases are below the prevailing rate of inflation, which means the Council has had to find service efficiencies to maintain services to the residents and businesses of the borough.

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: Bisley, Chobham, West End, Windlesham.

It is notable that both in percentage terms and absolute pounds, the Surrey Heath Borough Council increase is lower than the 3 other precepting authorities (taking the Parish Councils collectively)

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 2024/25 is £14.776 million leaving the Council with a baseline funding level of £1.702 million. The Council will also receive compensation from the government for the under-indexation caused by freezing the multiplier on the rateable value and section 31 grant for business rate reliefs mandated centrally by the government. Collection authorities are allowed to retain any growth since the Business Rate baseline was last reset (2013). Including these corrections, the Council will retain £3.005 million or 8.3% of total business rates collected. The anticipated baseline reset in 2024/25 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

2023/24	(£ million)	2024/25	2025/26	2026/27	2027/28
2.882	Business rates	3.005	3.005	3.005	2.533

4.5 The drop in 2027/28 is the value anticipated if the reset goes ahead from April 2027; this is a worst-case scenario as there could be a possibility of transitional relief being granted to mitigate the impact on councils.

4.6 In addition to retaining business rate growth until the anticipated reset in 2027/28, 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 Funding guarantee grant will ensure that all councils will see at least a 4% increase in their core spending power before any decisions about organisational efficiencies, use of reserves or council tax levels. This was announced in the provisional settlement as 3% meaning SHBC receives just over £0.9 million, and in January 2024, a further 1% guarantee was announced bring the expected level of grant to £1.03 million.

4.8 New Homes Bonus is a grant paid to all English authorities in recognition of net additions to effective housing stock in their area. The bonus is intended to be a permanent incentive paid in respect of new build, conversions, and long-term empty properties bought back into effective use. The government assumes a baseline increase of 0.4% annually; the Council's growth in 2024/25 based on the estimate of increases in the tax base was only 0.34%, which means the element of New Homes Bonus received is the amount based on the delivery of affordable housing. It is expected that in the next three years more growth in the tax base will occur, although the future of New Homes Bonus in its current format is uncertain.

4.9 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.

4.10 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 (2024/25) although an estimate has been made for future years. The share for Surrey Heath Borough Council is budgeted at £190,220 in 2024/25.

5. **Property income**

5.1 The Council holds a significant portfolio of property, mostly within the borough, following historic decisions made by the previous Councils, focused on retail, commercial, industrial, community and council uses. These properties generate income which is used to offset the costs of acquiring these assets and servicing the associated debt, as well as operating and maintaining them through their lifecycle.

5.2 The industrial sector has held up well in the current economic climate, with the properties mostly let and income producing. Commercial, or office, properties have been more heavily negatively 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, which is currently at ~75% occupancy.

5.3 The prevailing economic conditions and changing retail behaviours nationally have more deeply impacted the retail sector. The Council has done well in maintaining a high level of occupancy, currently 96%, 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 the forecast for 2023/24 outturn is similar. This will continue to have an adverse effect in the earlier period of the Medium-Term Financial Strategy (MTFS), until the economy improves and any structural changes in uses of town centres settles down. For this reason, the Council prudently reset its income targets in 2022/23 and again in 2023/24, 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 service managers are working hard to ensure these properties continue to support the town centre experience for residents and visitors, whilst maximising the benefit to the local taxpayer. Whilst taking this positive stance on the future years projections is evidence based, there is a significant risk for the Council's financial position should demand not recover to pre-pandemic levels.

5.4 The Council also holds a number of properties, principally within Camberley town centre, related to previous Councils' actions, that 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 and pump prime any development schemes, up to the stage where it has established options for delivery, in partnership with third party developers. At some point 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, with the associated lifecycle liabilities.

5.5 The Council will continue to review its total land and property portfolio, independent of sector or current use, and will seek as a matter of priority to divest from, or add to, at the most financially opportune point in time consistent with the delivery of its wider objectives to deliver the best holistic outcome for residents. There is budget allocation identified in the capital strategy and programme for related actions in Appendix 2 .

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, setting out expenditure plans for the next five years. 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 why the programme is set over a slightly longer period than 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. Wherever possible any borrowing would be covered from expected revenue receipts or annual revenue cost reductions (so called "invest to save" projects) and the expected 'payback' on any project is a key consideration on whether or not it is included in the capital programme.

6.3 The Council has comprehensively reviewed its capital programme going forward with a number of significant projects that have rolled forward year on year multiple times, now being removed from the programme. Instead, these have now been replaced by projects that are more relevant, and pertinent to the Council's priorities all of which have a more realistic expectation of delivery in the time scales laid out in the programme.

6.4 All new capital 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, balances and mainly additional borrowing.

6.5 The Council has also identified an accelerated programme of climate change "invest to save" projects that have been included as a provisional note to the 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.

6.6 There is an external stakeholder expectation of the Council being able to achieve a number of capital receipts from the proceeds of its regeneration work and land disposals, as it aims to reduce its overall property and land portfolio. As current market conditions are not particularly favourable for disposal of property and land assets, these are deemed to be due outside of the current MTFS period. If the opportunity arises for sensible disposal of assets with a viable receipt, 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 fund the previous Council's property acquisition actions (see Section 5), the Council has taken out a significant amount of external borrowing, which currently stands at £165.1 million – of which £65.5 million is short-term borrowing. It is anticipated that before 31 March 2024, the Council need to access up to a further £10 million of short-term debt to cover the change from use of internal resources to external borrowing.

7.4 In February 2021 and February 2022, the Council entered into two longer term (40 year) fixed-interest loan deals of £25 million each. These were forward agreed loans to reduce the exposure to interest rate risk and are being repaid as annuities, thus reducing the balance year on year.

7.5 The past year saw the economic climate change dramatically, due mainly to increased inflation and rising interest rates. The Council has responded to this by agreeing forward deals wherever it could, but maintains a policy that will see a series of short-term loans being taken, rather than locking into longer term debt. The Office of Budget Responsibility is still predicting that inflation will reduce significantly by the end of 2025/26 and should fall below the Bank of England target of 2% for the Consumer Price Index (CPI) target for inflation, though the impact of Middle East region conflict and instability has still to be seen. The predicted drop in central bank interest rates has not occurred as rapidly as anticipated in the last MTFS and as such the demand on the Council's Interest Equalisation Reserve is expected to be substantially higher than initially predicted at this time last year. Longer term it is expected that rates will fall allowing the Council to continue to target an average interest for debt between 2.0% and 2.5% towards the latter part of the MTFS.

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 any borrowing should be for the benefit of the local community (residents and businesses). This effectively precludes borrowing to invest – thus the Council's selective acquisition policy focuses on acquiring land and buildings primarily solely, or in combination, for regeneration, sustainability of employment, civic 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 (where there is no repayment of capital within the term e.g. in an annuity 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 2024/25 the estimates for debt interest and repayment provisions are as follows:

Type of loan	Loan Amount £'000	Repayment/MRP £'000	Interest £'000
Annuity	75,789	1,807	2,148
Maturity	22,000	299	564
Short term	79,500	575	2,732
Internal borrowing	32,378	293	0
Total (CFR)	**209,667**	**2,974**	**5,444**

8.5 To help finance this debt, the Council has budgeted in 2024/25 for rental income streams from its property assets (net of operating cost) of £6.166 million.

Property Portfolio	Net operating income
Commercial	2,882
Office	894
Retail	2,391
Total	**6,166**

8.6 As can be seen from above, for next year the Council has a deficit of income over financing costs of £2.252 million, meaning the revenue tax account is subsiding the property portfolio and capital investments. However, in previous years, the Council has made surpluses of income above that required to finance its prudential debt and repayments. This surplus has allowed the Council to build a balance in an Interest Equalisation Reserve, which has an estimated balance of £5.318 million at the end of the current financial year (31 March 2024), which will be used to "smooth" the impact of higher interest rates foreseen for the next two years above the ~2.25% base assumption. During 2024/25 the Council has therefore budgeted to drawdown £1.750 million from this reserve leaving a balance of £3.568 million.

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 statutory Chief Finance Officer (the '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 three 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, such as Covid-19 pandemic or Climate Change related events, 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) and locality improvements from developers contributions through the Community Infrastructure Levy.

9.3 The Council has had to drawdown on its reserves 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 2024/25 and all years covered by this MTFS. Longer term (and as signalled over the period of this strategy) the Council expects to reduce this deficit gap through a continued programme of efficiencies and a step change transformation programme, to achieve its stated ambition of a balanced budget.. Clearly, as experienced in the last year, many external factors are not in the Council's control, which may require smoothing via reserves to avoid impacting residents services, however this needs to become the exception in Surrey Heath.

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, which this MTFS complies with.

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 for multiple prior years, as part of the annual statement of accounts, which leaves the Council exposed to financial risk, however a prudent estimate of our earmarked reserves is approximately £38.3 million as of the end of the financial year on 31st March 2024.

9.6 During the past financial year, the Council has worked hard on its annual statement of accounts; although not audited yet, the work carried out on the accounts for 2019/20, 2020/21, 2021/22 and 2022/23 show that there is a provisional estimate on the balance on the general revenue fund at the current year end of just over £7.4 million. This figure is still subject to final audit, with some risk carried as highlighted above.

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 in years 2 – 4 of the strategy; this is also in line with the Government's assessment on core spending power. Note this was not achieved in 2023/24.

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

10.1.3 An annual pay award for Council staff and Councillors has been included in the corporate inflation figures for 2025/26 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 2027/28; 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 <u>Horizon Scanning and 'known unknowns'</u>

11.1 The Council has made some assumptions around items of expenditure and income which it predicts will occur, although the actual amounts will be unknown at this point in time.

11.1.1 **New key contracts**. Two of the Council's main contracts, waste management and grounds maintenance are due for renewal/retendering during the medium term financial strategy. The former is expected to cost more due to changes in legislation and underlying cost drivers over the period of the existing contract and base budgetary provision has been made for this in year 3 of the strategy. There is also the requirement for one-off costs on re-tendering the contract, where specialist advice will be required. The second contract will also be subject to a cost increase, but it is anticipated that this can be negated through a change in the contract requirements.

11.1.2 **Extended provider responsibility**. This is a scheme that requires waste producers to pay a tariff for waste produced. It is assumed that some of this money will be passported to the waste collection authorities, of which Surrey Heath Borough Council is one, but there is also an expectation of new burdens costing the Council more.

11.1.3 **Longer term capital works**. Some of the capital works already in the capital programme relate to allowing investigative works on some of our properties (eg: asbestos in the old House of Fraser building). Whilst no costs have been built into the programme for development beyond these enabling works as yet, it is expected that subject to the appropriate business case, later versions of the programme will include substantial costs for these projects to move forward.

11.1.4 **Local Government Pension Scheme (LGPS)**. The Council contributes into the Surrey LGPS on behalf of its employees. Recent discussions with the providers of the schemes actuarial services have indicated that whilst the current investment market has seen better returns than the previous few years, an increase in liabilities has meant that there is no opportunity to realise a lower contribution rate at this point in time. It is likely that the next triennial review that will occur during this medium term strategy will not result in any increase or decrease in the historic liabilities to the scheme.

11.1.5 **Climate change and move to net zero**. The Council has declared its intention to move towards 'net zero' in terms of climate change. There will be a number of ambitious and accelerated projects over the next few years and again these have not been included in the programme, but will come forward based on their own merits and detailed business cases.

11.1.6 **Relocation of the Council offices**. The Council has plans for the site of its current offices to be redeveloped as part of its emerging Local Plan. This will involve the need to relocate its office function, although firm plans have not yet been identified.

11.1.7 **Enhancement to greenspace car parks**. Two of the Council's car parks at Lightwater Country Park and Frimley Lodge Park, both much loved and holders of green flags, are in need of major urgent investment to remain open and suitable for residents and visitors ongoing use. A business case around these enhancements will be produced over the period of this strategy for review and decisions.

11.1.8 **Camberley Theatre infrastructure improvements**. There is an amount of investigative work on the Theatre to establish the scope of any works required to the building and internal systems, to maintain the asset and decrease it's carbon footprint. It is known that the boiler's end of life in 2023; RAAC was identified within the structure which will require mitigation going forward. It is anticipated that on completion of this review an investment decision will be required.

11.1.9 **Transformation programme**. Although the Council has been successful in this budget and previous budget reviews in making service efficiencies and increasing income, without the need for major cuts to council discretionary services, it is acknowledged that each year the task of absorbing the unavoidable growth pressure that the Council faces, from costs increasing to greater demand for its services, is becoming more and more difficult. Therefore over the period of this Medium Term Financial Strategy the

Council is going to have to make some large transformation changes; the detail of which will be developed during the course of 2024/25 to address at least £2 million of Council expenditure in order to reduce the deficit to zero in the longer term.

12 Risks

12.1 Over the four year period of the Medium Term Financial Strategy there are a number of potential risks that could cause budgetary pressures. Some of the key risks relate to the assumptions in sections 10 and 11; these and other key risks are articulated below:

12.1.1 **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 intended to take place, albeit in a revised format to embrace 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 experience, it could have a negative impact to the local taxpayer of ~£0.6 million each year. Beyond lobbying directly, and through organisations like the Local Government Association, there is limited likelihood of possible mitigation.

12.1.2 **Interest rate increases**. Interest rates had previously been held at unprecedented low levels since 2012, but during 2022/23 and 2023/24, the Bank of England (BoE) in response to the inflationary pressures in the economy has increased its base rate to its current rate of 5.25% (January 2024). Most market forecasters predict that this may stabilise at current levels or possibly peak about 25 basis points (0.25%) higher during 2024 after which it start to reduce. As described earlier, the Council still holds some reducing reserves to mitigate further any higher than planned interest rate impacts.

12.1.3 **Longer term impact of the cost of living crisis 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 cost of living crisis over the past two years, which has impacted on demand for the discretionary services the Council provides and the returns on the retail portfolio of properties.

12.1.4 **Future pandemics**. 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 pandemic outbreaks, but the Council also holds a sufficient amount of balances to temporarily cover the costs of any additional outbreaks.

12.1.5 **Inflationary pressures**. The impacts of the current high rates of inflation are expected to continue over the next year, and maybe longer, but are forecast to reduce. However, the costs of the current inflation will remain 'hard-wired' in the base budgets as prices that have risen are not expected to fall, just that the rate at which they increase will slow down. Only by addressing the structural cost base of the Council through the transformation programme proposed can these pressures be mitigated.

13 Summary

13.1 This strategy along with the supporting appendices form part of the annual budget presented to 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 an indicative indication of where cost pressures and benefits might materialise.

13.2 The capital strategy and programme are reviewed each year to ensure they are still aligned with the newly published Council Strategy.

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

13.4 The Medium Term Financial Strategy makes use of the Council's reserve balances but ensures that they remain at prudent levels. This is permissible in order to smooth the impact of budget pressures on the local tax payer and holding large levels of balances are not always in the best interest of the local residents and businesses.

13.5 If the budget is approved then the longer-term outlook is more sustainable with a clear indication that the direction of travel will see a reduction in the budget deficit and a return over time to a more sustainable financial position while continuing to deliver key services to residents and businesses.

List of Appendices

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Revenue Budget Estimates

(all values in £'000)

Net cost of services	2024/25	2025/26	2026/27	2027/28	Notes
Opening budgets	**17,148**	**17,347**	**15,844**	**15,938**	1
Environment and Community	8,240	7,632	7,388	7,462	
Finance and Customer Service	2,665	2,890	2,890	2,890	
HR, Performance and Communications	3,685	3,820	3,820	3,820	
Legal and Democratic Services	1,561	1,502	1,508	1,515	
Planning	643	329	129	29	
Property and Economic Development	(1,082)	(520)	(1,714)	(1,911)	
Corporate Inflation	1,437	1,693	1,821	2,133	2 & 3
Growth (see Appendix 1-1)	**4,723**	**(134)**	**664**	**912**	4
Efficiencies (see Appendix 1-2)	**(4,525)**	**(1,369)**	**(570)**	**(418)**	5
Restated budgets					
Environment and Community	7,632	7,388	7,462	7,896	
Finance and Customer Service	2,890	2,890	2,890	2,890	
HR, Performance and Communications	3,820	3,820	3,820	3,820	
Legal and Democratic Services	1,502	1,508	1,515	1,522	
Planning	329	129	29	(71)	
Property and Economic Development	(520)	(1,714)	(1,911)	(2,109)	
Corporate	1,693	1,821	2,133	2,484	
Total Net Cost of the Provision of Services	**17,347**	**15,844**	**15,938**	**16,432**	6
Funded by					
Council Tax	9,852	10,148	10,454	10,768	7
Business rates	1,703	1,703	1,703	1,233	8 & 9
Collection fund surplus/(deficit)	190	50	50	50	10
Non-specific government grants					
New Homes Bonus	10				11
Support Grant	83	83	83	83	12
Under indexation of BR multiplier	324	300	300	300	13
Funding Guarantee	908				14
Additional Funding Guarantee	125				
Homelessness Prevention	330	160	160	160	15
s.31 compensation for reliefs	979	1,003	1,003	1,000	16
Special expenses	193	199	205	211	17
	14,695	**13,646**	**13,957**	**13,805**	18
Summary					
Net cost of services	17,347	15,844	15,938	16,432	
Funding	(14,695)	(13,646)	(13,957)	(13,805)	
Use of earmarked reserves					
Interest equalisation reserve	(1,750)	(750)			19
Other earmarked reserves					20
Contribution (from)/to reserves and balances	**(902)**	**(1,448)**	**(1,981)**	**(2,627)**	21
Reserves and balances					
Opening balances					
General fund	7,424	6,522	5,074	3,093	

Earmarked reserves	38,302	36,552	35,802	35,802	
Closing balances					
General fund	6,522	5,074	3,093	466	22
Earmarked reserves	36,552	35,802	35,802	35,802	23

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 2027/28
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 2024/25.
11 Local Government finance settlement for 2024/25
12 Local Government finance settlement for 2024/25 and forecast based on current projections
13 Local Government finance settlement for 2024/25 and forecast based on current projections
14 Local Government finance settlement for 2024/25 and forecast based on current projections
15 Local Government finance settlement for 2024/25 and forecast based on current projections
16 Section 31 grant is paid to compensate for government business rate reliefs provided by the Council
17 Assumed growth of 1.99% per annum based precept rises and 1% growth in tax-base
18 Total funding to support the revenue budget
19 Budgeted drawdown of earmarked reserve to support service expenditure
20 Budgeted drawdown of earmarked reserve to support service expenditure
21 Represents the annual draw on or contribution to balances
22 Estimate of balance on general fund based on budget projections
23 Estimate of balance on earmarked reserves based on budget projections

Service Growth 2023/24 Medium Term Financial Strategy <u>Appendix 1 -1</u>

(all figures in £'000 - exact budgets will be loaded)	Amount in year			
Service and Bid name	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Environment and Community				
Increasing costs in Places Leisure budget - BID levy, NNDR costs and energy benchmarking	38			
Maintenance of leisure buildings	47			
Closed churchyard - statutory liability at St Michaels (part year and full year impact)	34	18		
Reduction in income target to allow the theatre room-hire prices to remain at a market-competitive level	9			
Theatre/Pantomime budget - impact of national minimum wage	13			
Contractual inflation on our car parking services	39			
One-off budget requirement for a deepclean (as specified within the 'stripe' report)	17	(17)		
Maintaining safe walking routes, hatched lines and parking bay line painting - one cost plus ongoing base cost	12	(6)		
Radio Communication - the replacement of current radio system (repeater) which is inoperable	3			
Increase in costs for card processing due to the impact of increased parking chargings with fee increase	26			
Cost pressure for vehicle maintenance costs	1			
Insurance increase for 14 Doman Rd (Depot) - separate insurance risk	6			
Increase cost of leasing vehicle programme following change to use electric vehicles to provide meals at home service.	10			
Waste contract JWS contractual inflation uplift (gross)	965	482		
Retender of waste services contract - consultancy support			200	(200)
Retender of waste services contract - anticpated increase in costs of new contract from 2027/28				650

(all figures in £'000 - exact budgets will be loaded)	Amount in year			
Service and Bid name	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Environmental Protection budget pressure for Land Registry searches (contras with a sdaving- shown for completeness)	3			
Contractual uplift on the stray dog contract (6% max allowed in contract) – statutory service requirement.	1			
Correcting overstatement of income in EH budget – relating to target for likely income from Legal Prosecutions which is considered unachievable and supprted with historic evidence.	11			
Reduction in scrap metal licences income - 3 year licences were issued and licensed in 2023/24; therefore no income expected 2024/25, 2025/26, but will receive income in 2026/27 from renewals (and again three licences issued.	4		(4)	4
Air Quality Monitoring – maintenance of monitoring stations, lab analysis, data processing – annual increase costs from suppliers.	1			
Family Support expected spend match funded by grant income	307			
Increase in Hostel and B&B charges to reflect increases in demand for accommodation.	20			
Grounds maintenance costs – 3% contractual increase, additional work	10			
Increase in costs of Museum and Heritage Services	28			
Environment and Community - Total	**1,604**	**478**	**196**	**454**
Finance and Customer Services				
Audit fees have gone up by on top of the existing current fees. This growth includes HB audit fee cost as well. This is a statutory service and not optional. Fees set out by PSAA	130			
Cost impact Finance Stabilisation review agreed in October 2023	125			
Finance and Customer Services - Total	**255**			
HR, Performance and Communications				

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

Service and Bid name	**Amount in year** 2024/25	2025/26	2026/27	2027/28
Funding for revenue grants for voluntary organisations	180			
Community Development Events as set out in the annual plan, including cost of living, remembrance parade, and community engagement events	10			
To continue to offer 'Join in' Scheme grants for yourng people to access team sport	5			
Increase of budget for Westfield Health_7572	15			
Inflationary increase for professional fee reimbursement	1			
Granicus (govDelivery) software costs	9			
Inflationary pressure for Software Licenses budget.	52			
HR, Performance and Communications - Total	**272**			

(all figures in £'000 - exact budgets will be loaded)	Amount in year			
Service and Bid name	2024/25	2025/26	2026/27	2027/28
Legal and Democratic Services				
2% Increase in members' allowance in line with any accepted recommendations from the independent renumeration panel	6	6	6	7
Provision for borough election costs £30,000	30			
Additional litigation lawyer post (JWS) (full cost to be shared with partner Councils (see service efficencies)	60			
Legal and Democratic Services - Total	**96**	**6**	**6**	**7**
Planning				
To rebase the local land charges budget	30			
Government Regulations for Local Plan production require the independent examination of Local Plans. Costs of inspection.	100	(100)		
Planning - Total	**130**	**(100)**		
Property and Economic Development				
Rent reductions, voids, and rent free periods on commercial, officer and light indudtrial portfolio	76			
Tenant to be refunded 83k inform of rent free periods which relates 2017- 2019 duplicate rent received.	83	(83)		
UK Shared Prosperity Fund (UKSPF) administration costs increase in service costs (funded from topslice)	25			
Service charge cap	11			
Community Safety CCTV - Increase to accommodate inflationary increases in monitoring contract and equipment costs	3			
Public Offices				
Increase to accommodate inflationary increases in servicing and maintenance costs plus a more realistic allowance for general repairs	35			
Energy Performance Certificate (EPC) assessments	2			

(all figures in £'000 - exact budgets will be loaded)	Amount in year			
Service and Bid name	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Retail Portfolio - impact of rent-free periods, voids, service charge and business rates	921	(838)		
Increase in vacant property checks for insurance compliance (London Road) costs per annum	12			
Asbestos Surveys – London Road	9			
Fire Risk assessment/H&S surveys – London Road	10			
Fire Risk assessment/H&S surveys – vacant properties – The Square	8			
134/4020 - High Street repairs	40			
Void costs on House of Fraser building - Council liability	145			
Enabling budget for condition surveys to be undertaken of a range of property assets.	15			
To support EPC assessments and likely remedial works to comply with the requirements of the MEES.	50			
To support statutory assessments associated with asbestos, fire and Legionella management, and any potentail remedial works that are likely to be identified by those assessments.	75	(75)		
Property and Economic Development - Total	**1,520**	**(996)**		

(all figures in £'000 - exact budgets will be loaded)	Amount in year			
Service and Bid name	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Corporate inflation				
Increase in 2024-25 renewal premium for the Council's main insurance charge	20			
Staffing cost growth from the agreed pay award and increments for service.	592	296	300	305
Increase in Minimum Revenue Provision	234	182	162	146
Corporate inflation - Total	**846**	**478**	**462**	**451**
Growth - Total	**4,723**	**(134)**	**664**	**912**

Service Efficiencies 2023/24 Medium Term Financial Strategy

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

Service and Bid name	2024/25	2025/26	2026/27	2027/28	Further detail
	Amount in year				
Environment and Community					
Leisure Centre Management Fee	(525)	(500)	(10)	(10)	
Work on behalf of others – Windlesham and Earlswood SANG	(3)				
Leisure Centre Management Fee- removal of payment for contract Mgt Fee	(8)				
Theatre – Marketing – move to online marketing cost reduction in printing and distribution	(11)				
Theatre Panto - Increase in sales/pricing	(10)	(10)	(10)	(10)	
JWS- Income and recharge to partner Councils	(816)	(211)			
Realignment of budget for abandoned vehicles (growth contra)	(3)				
Out of hours service for unauthorised encampments	(24)				
Staffing review of Windle Valley	(75)				
Grant income for Homes for Ukraine	(307)				
Additional income for premises licences above current target.	(5)				
Impact of Parking Strategy	(410)		(103)		
Predict additional income for taxi licences above current target due to an increase in demand	(5)				
Impact of Invest to Save - PV on Places Lesiure sports centre	(10)				
Environment and Community - Total	**(2,212)**	**(721)**	**(123)**	**(20)**	
Finance and Customer Services					
Post room - reduction in outgoing mail has left a budget surplus.	(3)				
Reversal of 2023/24 growth bid for customer feedback/improvement.	(20)				
Revenues service - reversing 2023/24 one-off growth bid for increase in properties.	(5)				
Stop issuing payment cards for council tax payments	(2)				
Finance and Customer Services - Total	**(30)**				

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

Service and Bid name	2024/25	2025/26	2026/27	2027/28	Further detail
	Amount in year				
HR, Performance and Communications					
Reducing the number of issues of Heathscene by one issue a year. The remaining issues will bring together all major updates from the Council. This will mean that one printed and posted version is replaced with a digital version which has a digital delivery strategy.	(9)				
Reduction in Councillor Ward grants scheme (reduce to £35,000 from £52,500 - ie: by £500 per Councillor)	(18)				
Reduction in ICT licence costs from more effective purchasing - may reduce some functionality	(110)				
HR, Performance and Communications - Total	**(137)**				
Legal and Democratic Services					
Reversal of previous year one-off growth for borough election costs	(110)				
Additional litigation lawyer post (JWS), recharge to partner Councils (75%)	(45)				
Legal and Democratic Services - Total	**(155)**				
Planning					
Local Land Charges - savings based on the analysis of previous five years history of searches	(3)				
Increase in fee income following a bottom up budget calculation from Uniform data planning applications	(68)				
Increase in fee income following a bottom up budget calculation from Uniform data development advice	(18)				
Increase in statutory and discretionary planning fees (25-35%). Statutory fees in line with government uplift	(275)	(100)	(100)	(100)	
New pre-planning agreement fees	(80)				
Planning - Total	**(443)**	**(100)**	**(100)**	**(100)**	

(all figures in £'000 - exact budgets will be loaded)	Amount in year				
Service and Bid name	**2024/25**	**2025/26**	**2026/27**	**2027/28**	**Further detail**
Property and Economic Development					
Commercial portfolio - income and cost savings	(313)	(148)	(148)	(148)	
UK Shared Prosperity Fund (UKSPF) administration costs - permitted topslice	(65)				
Office services stationery - budget reduction	(4)				
Management of Surrey Heath House - budget reduction	(18)				
Community Safety: removal of town centre CCTV managed by Woking BC	(67)				
Retail portfolio - cost efficiencies and income	(239)				
Increasing Atrium rental income (head lease and overage)	(200)	(50)	(50)	(50)	
Feasibility and development budget not needed.	(52)				
Property and Economic Development - Total	**(958)**	**(198)**	**(198)**	**(198)**	
Corporate inflation					
Unauthorised encampment budget not needed. This is an annual budget currently held in corporate finance that has not incurred expenditure against it in the last couple of years. UE costs have been absorbed by the relevant service	(40)				
Increase in treasury income - base rate held for longer	(50)				
Impact of base interest rates falling	(100)	(150)	(150)	(100)	
Base budget review (summer 2024)	(400)	(200)			
Corporate inflation - Total	**(590)**	**(350)**	**(150)**	**(100)**	
Total for service efficiencies and increased income	**(4,525)**	**(1,369)**	**(570)**	**(418)**	

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SURREY HEATH BOROUGH COUNCIL

APPENDIX 2

CAPITAL STRATEGY 2024/25 – 2027/28

(APPENDIX 2 TO THE MEDIUM TERM FINANCIAL STRATEGY 2024/25 TO 2027/28)

February 2024

Surrey Heath Borough Council
Knoll Road, Camberley GU15 3HD

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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 technical financial issues.

2. Decisions made on capital and treasury management can have financial consequences for the Council for many years into 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 the same financial year.

5. In 2024/25, the Council is planning capital expenditure of **£ 10.871 million** inclusive of slippage of **£1.118 million** as summarised below:

Prudential Indicator: Estimates of Capital Expenditure in £ millions

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
Capital Projects	1.952	5.440	10.871	4.291	2.280	2.450
Capital investments	0.000	0.000	0.000	0.000	0.000	0.000
TOTAL	**1.952**	**5.440**	**10.871**	**4.291**	**2.280**	**2.450**

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;
    - Major refurbishment and improvements to the Council's car parks
    - Esso Pipeline Environmental Projects
    - Climate change initiatives (Solar photo-voltaic on Places Leisure)
    - Public Realm improvements within Camberley town centre
    - Works around the provision of Suitable Alternative Natural Greenspace (SANG)
    - Works in our country parks and recreation areas.
    - Works to remove asbestos contamination, surveying and roof replacement for the old House of Fraser building
    - Roof maintenance and repairs to the Square shopping centre
    - London Road Block (LRB) continued site assembly and preparation
    - 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

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8. A key recommendation from the Public Realm Task and Finish Group was that adequate contingency be provided in the capital programme. Subsequently in the previous programme a centralised contingency controlled by the Strategic Director Finance and Customer Services was created and drawn down if required. This will be the same for the current programme, and totals £0.200 million.

9. Approval for draw-down of this contingency will be from the Strategic Director Finance and Customer Services in consultation with the Portfolio Holder for Performance and Finance. 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 have their own element of specific contingency based on project management principles and this is managed in accordance with the terms of reference for that project.

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 officers 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 new Council Strategy,as well as a comparison of service priorities against available financing resources. The budget papers are presented to the 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 is shown 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

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
External sources	1.286	2.503	2.853	1.023	0.961	0.961
Own resources	0.578	0.000	0.032	0.000	0.000	0.000
Debt finance	0.088	2.937	7.986	3.259	1.319	1.489
TOTAL	**1.952**	**5.440**	**10.871**	**4.292**	**2.280**	**2.450**

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 that have taken on debt 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 revenue 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

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
Annuity principal repayment	1.800	1.800	1.800	1.800	1.800	1.800
MRP Payment	0.879	0.940	1.174	1.356	1.518	1.644
Use of Capital Receipts	0.000	0.000	0.000	0.000	0.000	0.000

15. The Council's full MRP statement is included within the Treasury Strategy report for 2024/25 which is on the February 2024 Executive agenda.

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 increase during 2024/25 and in later years. 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

	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Gross External Debt	174.000	178.690	182.408	186.177	190.141
Capital Financing Requirement	207.951	209.667	210.229	210.680	211.200

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

	2022/23 actual	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
Asset sales	0.000	0.000	0.000	0.000	0.000	0.000
TOTAL	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**0.000**

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 5.0%, but bearing no cost of carry) and long-term fixed rate loans where the future cost is known but higher (currently 5.25%).

20. The advice from the Council's Treasury advisors has been for the Council to retain the bulk of its borrowing in short term loan so as to take advantage of low interest rates. However, this approach is being reviewed, with the intention of locking into longer loans when rates available come back down. The rates are expected to fall in Autumn 2024.

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

	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget	31.3.2028 budget
Gross External Debt	**174.000**	**178.690**	**182.408**	**186.177**	**190.141**
Capital Financing Requirement	**207.951**	**209.667**	**210.229**	**210.680**	**211.200**

22. External debt will increase over the period of the Medium Term Financial Strategy as more internal borrowing is converted into external debt as the Council requires funds for liquidity and expends more of its reserves, which is the primary source of internal debt financing.

23. 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 invest in regeneration or other major capital expenditure, then these will be funded by debt and the CFR will be rise accordingly.

24. **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

	2023/24 limit	2024/25 limit	2025/26 limit	2026/27 limit	2027/28 limit
Authorised limit – total external debt	235.000	237.000	237.000	237.000	237.000
Provision for IFRS 16 Leases Changes	0.000	2.000	2.000	2.000	2.000
Operational boundary – total external debt	230.000	230.000	230.000	230.000	230.000

25. 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. These are reflected in the numbers for 2024/25 and beyond.

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

27. 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.

28. 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

	31.3.2023 actual	31.3.2024 forecast	31.3.2025 budget	31.3.2026 budget	31.3.2027 budget
Near-term investments	9.344	13.800	11.000	11.000	11.000
Longer-term investments	2.053	2.000	2.200	2.200	2.200
TOTAL	11.397	15.800	13.200	13.200	13.200

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

30. **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

31. 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.

32. 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 risk based on service demand reducing due to the cost of living crisis and also increased demand for support from the Council in other areas. This risk could remain significant for 2024/25 depending on the ongoing impact of the international and the national economic position.

Liabilities

33. In addition to debt of £165 million (31 December 2023) 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 £0.5 million to cover risks of business rates appeals and revaluations and £0.1 million for business rate bad debts. These provisions will be reviewed as part of the accounts closure process for 2022/23 and 2023/24.

34. **Governance**: The risk of liabilities crystallising and requiring payment is monitored by the finance department and reported within the annual financial statements.

Revenue Budget Implications

35. 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

	2023/24 forecast	2024/25 budget	2025/26 budget	2026/27 budget	2027/28 budget
Financing costs (£m)	7.37	8.42	8.50	8.52	8.54
Net revenue stream (£m)	13.68	14.70	13.65	13.96	13.81
Proportion of net revenue stream	0.54	0.57	0.62	0.61	0.62

36. **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 although ambitious for a Council of the size of Surrey Heath 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.

37. **Knowledge and Skills**: 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 and the senior officers in the Finance team are experienced and qualified accountants, the property department has qualified surveyors with investment experience and the legal department has lawyers experienced in property matters.

38. 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 Real Estate Management as property consultants and management and Addleshaw Goddard as external lawyers for its property matters. This approach is more cost effective than employing such staff directly and permanently, and ensures that the Council has access to appropriate knowledge and skills commensurate with any potential risks involved

Investment and Development

39. The Council has a dedicated Property and Economic Development team responsible for:

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

40. This team is developing a 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

41. 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.

42. 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 2024/25 to 2027/28

4 YEAR CAPITAL PROGRAMME	2024/25	2025/26	2026/27	2027/28	Four year funding requirement	Details of the capital scheme
	£m	£m	£m	£m	£m	
Disabled Facilities Grants	0.961	0.961	0.961	0.961	3.844	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 2023/24 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.
Camberley Town Centre Public Realm Enhancements	0.230	0	0	0	0.023	Public realm works and improvement around the town. This element is funded from the UK Shared Prosperity Fund (UKSPF) allocation for 2024/25.

4 YEAR CAPITAL PROGRAMME	2024/25	2025/26	2026/27	2027/28	Four year funding requirement	Details of the capital scheme
	£m	£m	£m	£m	£m	
Arnold Walk public realm improvement	0.150				0.150	Public realm works and improvement around the town. This element is funded from the UK Shared Prosperity Fund (UKSPF) allocation for 2024/25.
Refurbishment of units to facilitate new lettings	0.250	0	0	0	0.250	2/4 Cambridge Walk, 125 London Road, 6-10 Princess Way and sub-divide Theta vacant space.
Litter Bin Replacement Programme	0.157	0	0	0	0.157	Programmed roll-out of replacement litter bins around the Borough
House of Fraser - refurbishment and maintenance	2.500	1.000	0	0	3.500	Removal of asbestos, condition survey and potential roof repair. See Executive report - Feb 2024
The Square Unit refurbishment - General – Year 1 (24/25)	0.050	0.050	0.050	0.050	0.200	Annual amount for refurbishment of the Square complex
Roof Maintenance Project Phase 2	1.889	1.173	0.223	0.413	3.698	Second phase of roof repairs to the Square – partial funding through service charges to tenants.
Capital Maintenance Budget	0.110	0.110	0.110	0.110	0.440	Annual maintenance(capital) for long term repairs and works to the Council's operational property portfolio.
Ashwood House Public Realm	0.650	0.00	0.00	0.00	0.650	Public realm works in Pembroke Broadway and relocation of bus stops following the completion of the Lumina development.

4 YEAR CAPITAL PROGRAMME	2024/25	2025/26	2026/27	2027/28	Four year funding requirement	Details of the capital scheme
	£m	£m	£m	£m	£m	
Installation of solar PV on Places Leisure Camberley	0.080	0	0	0	0.080	Climate change programme and 'invest to save' from energy income generated.
Astro turf tee-off areas for the Frimley Lodge Park pitch and putt course	0.015	0	0	0	0.015	Replacement of tee-off areas astro-turf. Prolongs life and reduces maintenance
Parks Refurbishment Programme	0.280	0	0	0	0.280	Planned refurbishment programme for parks within the Borough
Main Square MSCP- Identified Works	0.041	0	0	0	0.041	Car parks maintenance programme and investment in car park assets.
Old Dean Bowls Club - replacement of sprinkler heads and repairs to irrigation system	0.010	0	0	0	0.010	Improvement works at Old Dean bowls club
Main Square MSCP CCTV	0.045	0	0	0	0.045	Installation of CCTV at Main Square car park – increased security and safety and part of the car parks maintenance programme and investment in car park assets.
Car Park Refurb Projects	0.193	0	0	0	0.193	Part of the car parks maintenance programme and investment in car park assets.
New Pay on Foot	0.110	0	0	0	0.110	Part of the car parks maintenance programme and investment in car park assets.

4 YEAR CAPITAL PROGRAMME	2024/25	2025/26	2026/27	2027/28	Four year funding requirement	Details of the capital scheme
	£m	£m	£m	£m	£m	
Planned Maintenance of Leisure Buildings	0.075	0	0	0	0.075	Proactive and reactive maintenance programme for the Council's leisure and community buildings.
Local Plan provision for gypsy, traveller and travelling show people sites	0.500	0.00	0.00	0.00	0.500	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 and is the second year of a two year bid – see reprofiled bids below also.
Loman Road Fencing and gate improvements	0.030	0	0	0	0.030	
Set up costs for the New SANG on Lake Road/St Catherines Road	0.200	0	0	0	0.200	Funded from SANG reserve from planning gain.
Replacement of 5 a-side and 7 a-side goals for the 3G at Frimley Lodge Park	0.010	0	0	0	0.010	
Shower replacement at Heatherside changing rooms	0.012	0	0	0	0.012	Health and safety works

4 YEAR CAPITAL PROGRAMME	2024/25	2025/26	2026/27	2027/28	Four year funding requirement	Details of the capital scheme
	£m	£m	£m	£m	£m	
Capital maintenance to Heatherside Community Centre	0.014					Planned maintenance to the community centre at Heatherside
Set up of St Catherines Road SANG including road surfacing contribution	0.250	0.062	0	0	0.312	Road access works for new SANG
CCTV at Frimley Lodge Park. Lightwater Country Park and Frimley Green Recreation Ground	0.060	0	0	0	0.060	Security CCTV at council parks
Lightwater Park Trim Trail (carry forward) - need for £25,000 additional to UKSPF as other grant is not available	0.025				0.025	Additional funding not available – Council funding required to complete project
JWS Replacement Sweepers and waste freighters	0.382				0.382	The Council is contractually obliged to make reprovision for end-of-life vehicles within the waste collection contract.
ANPR at Main Square and Knoll Road MSCP	0.275				0.275	Part of the car parks maintenance programme and investment in car park assets.
TOTAL OF ALL SCHEMES	**9.553**	**3.356**	**1.344**	**1.534**	**15.787**	

Centralised Capital Contingency

4 YEAR CAPITAL PROGRAMME Central Contingency	2024/25	2025/26	2026/27	2027/28	Four year funding requirement	Details of the capital scheme
	£m	£m	£m	£m	£m	
Centralised capital contingency *(funding will be as per the project(s) it is used for)*	0.200	Balance to be calculated annually based on the capital programme	Balance to be calculated annually based on the capital programme	Balance to be calculated annually based on the capital programme	c.0.800	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. Approval for drawdown of contingency is from Strategic Director Finance and Customer Services in consultation with the Portfolio Holder for Performance and Finance. Any drawdown will be reported in the next quarterly monitoring report. Certain projects will still hold their own specific contingency based on project management principles.

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)	2024/25	2025/26	2026/27	2027/28	Four-year funding	Details of the capital scheme
	£m	£m	£m	£m	£m	
London Road Block - site acquisition and development	0.476	0.936	0.936	0.915	3.262	To complete the site assembly of the London Road block to allow development and regeneration
Local Plan Provision for gypsy and travelling show people site provision	0.500				0.500	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 and is the first year of a two year bid that is reprofiled – see new bids above also.
CIVICA Cash Management upgrade	0.005					
Camberley Theatre Upgrades - Restoration Fund	0.032					
Parks & Open Spaces - Whitmoor Road play area	0.025					
Community Bus	0.040					

4 YEAR CAPITAL PROGRAMME (reprofiled)	2024/25	2025/26	2026/27	2027/28	Four-year funding	Details of the capital scheme
	£m	£m	£m	£m	£m	
ESSO Pipeline Project - Turf Hill	0.020					Funding provided by Esso to cover a number of Environmental projects over a two year period.
ESSO Pipeline Project - Balmoral Dr, St Catherines Rd SANG	0.020					Funding provided by Esso to cover a number of Environmental projects over a two year period.
TOTAL OF REPROFILED SCHEMES	**1.118**	**0.936**	**0.936**	**0.916**	**3.905**	

FUNDING OF THE 2024/25 – 2027/28 CAPITAL PROGRAMME

FUNDING FOR 2024/25 – 2027/28 CAPITAL PROGAMME	Scheme Total	Grant and contributions	Use of council balances	Prudential borrowing
	£m	£m	£m	£m
Programme for 2024/25 (including reprofiled budgets and contingency)	**10.871**	2.853	0.032	7.986
Programme for 2025/26 (including reprofiled budgets)	**4.292**	1.023	0.000	3.259
Programme for 2026/27 (including reprofiled budgets)	**2.280**	0.961	0.000	1.319
Programme for 2027/28 (including reprofiled budgets)	**2.450**	0.961	0.000	1.489
TOTAL OF ALL SCHEMES	**19.893**	**5.798**	**0.032**	**14.063**

Movement in Available Capital Receipts

	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m
Forecast Capital Receipts 1st April	0.000	0.000	0.000	0.000
Capital Receipts during year	0.000	0.000	0.000	0.000
TOTAL AVAILABLE CAPITAL RECEIPTS	**0.000**	**0.000**	**0.000**	**0.000**

SURREY HEATH BOROUGH COUNCIL

Appendix 3

Treasury Management Strategy 2024/25

(Appendix 3 to the Medium Term Financial Strategy 2024/25 to 2027/28)

February 2024

Surrey Heath Borough Council
Knoll Road, Camberley GU15 3HD

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Annex A

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 between £12 million and £15 million over 2024/25.

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 2024/25 investment strategy from that adopted and approved in February 2023**.**

Business Models:

1.4 Under the 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:

Sector	Time limit	Counterparty limit	Sector limit
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.

1.6 * **Minimum Credit Rating**: 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 Lowest published credit rating is the lowest from those published by either Fitch, Moody’s or Standard and Poors.

1.8 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.

1.9 **Banks and Building Societies (unsecured)**: 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.

1.10 **Secured Investments**: 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.

1.11 **Government**: 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.

1.12 **Registered Providers (unsecured)**: 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.

1.13 **Money Market Funds (MMF)**: 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.

1.14 **Strategic Pooled Funds**: 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.

1.15 **Real Estate Investment Trusts (REITs)**: 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.

1.16 **Operational/Transactional Bank Accounts**: The Council may incur operational exposures, for example though 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.

1.17 **Risk Assessment and Credit Ratings**: 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.

1.18 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.

1.19 **Other Information on the Security of Investments**: 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.

1.20 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.

1.21 **Investment Limits**: 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.

1.22 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.

1.23 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 £174.0 million of loans (forecast as at 31 March 2024), 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 **£237 million**; however the Council will incur a net cost of carry until the funds are utilised and must not borrow purely for investment purposes.

2.2 **Objectives**: 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.

2.3 **Strategy**: 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 slightly 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. This also provides liquidity for repayment of debt should funds become available through sale of assets.

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 2024/25 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. Access to PWLB loans is 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.

2.8 **Sources of borrowing**: 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

2.10 **Annual Minimum Revenue Provision (MRP) statement**: 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 21 February 2024 as part of the annual budget for 2024/25 and the Medium Term Financial Strategy.

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

£ million	2023/24 estimate	2024/25 budget	2025/25 budget	2026/27 budget	2027/28 budget
MRP Payment	2,740	2,974	3,156	3,328	3,444

2.12 On 31 December 2023, the Council held £165.1 million of borrowing and £17.4 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.

Annex B

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 £237 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.

Annex C

Treasury Management Indicators 2024/25

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 £17 million and variable rate borrowing of £165 million which equates to net borrowing of £148 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 2024/25.

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	2024/25	2025/26	2026/27
Limit on principal invested beyond year end	£2.5m	£2.5m	£2.5m

Annex D

INVESTMENTS as of 31st December 2023

	£
Debt Management Office	7,000,000
Other Local Authorities Short Term	0
Total Government	**7,000,000**
Aberdeen Standard	500,000
Aviva	300,000
CCLA Public Sector Deposit Fund	500,000
Federated	3,000,000
Legal and General	2,500,000
Total Money Market Funds	**6,800,000**
CCLA Property Fund	2,000,288
Total Longer-Term Investments	**2,000,288**
Total Invested (excluding the NatWest Business Reserve)	**15,800,288**
NatWest Business Reserve	1,562,273
NatWest Transactional Account	35,807
Total Invested	**£17,398,368**

Annex E

Existing Investment & Debt Portfolio

	31 Dec 23 Actual Portfolio £m
External Borrowing:	
Public Works Loan Board - Long Term	50.00
Phoenix Loan	48.62
Local authorities - Short Term	66.50
Total Gross External Debt	**165.12**
Investments:	
Banks & Building societies	1.60
Government – DMO	7.00
Government - Other Local Authorities	-
Money Market Funds	6.80
Other Pooled Funds	2.00
Total Treasury Investments	**17.40**
Net Debt	**147.72**

Annex F

Minimum Revenue Policy (MRP) Statement

1. 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).

2. 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

3. For capital expenditure incurred and funded through borrowing the Council will calculate MRP using the annuity method.

4. MRP is the principal element for the year of the annuity required to repay over the asset's useful life the amount of capital expenditure financed by borrowing or credit arrangements. The authority will use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during repayment period (e.g. by the application of capital receipts) should be made as necessary.

5. As summarised in the table below, MRP will be based on the estimated useful life of the assets purchased by prudential borrowing.

Asset class	Estimated useful economic life
Land and heritage assets	50 years
Buildings and services	50 years
Vehicles and plant	10 years
ICT equipment	5 years
Investment property	50 years
Assets under construction/pending regeneration	0% until development complete

6. 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.

7. In accordance with provisions in the guidance MRP will be charged starting in the year following the date an asset becomes operational.

8. The forecast MRP in £million is shown in the table below:

£ million	**2023/24 estimate**	**2024/25 budget**	**2025/25 budget**	**2026/27 budget**	**2027/28 budget**
MRP Payment	2,740	2,974	3,156	3,318	3,444

Annex G

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.

Appendix 4

31 March 2023 £,000	Reserve	Forecast 31 March 2024 £,000
	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	10,479
1	Chobham & Town Team Partnership	1
151	Community Fund 2002	151
653	CIL Admin and Monitoring	676
260	Commuted Sums	260
467	Contain Outbreak Management Fund	-
-	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	5,318
-	JPUT balance (closed - confirmed in 2023/24)	-
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	5,587
147	Southampton/London Pipeline	147
-	Surrey Family Support Programme	-
211	Homelessness	211
239	Swift Lane	239
40	EH - covid	40
46	Home Improvement Agency	46
44,100	**Total Earmarked Revenue Reserves**	**38,302**
9,215	**General Fund Balance**	**7,424**
53,315	**Total available reserves**	**45,726**
		[Estimated]

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Appendix 5

Budget scenarios, assumptions and sensitivity analysis

Scenario	Detail	Impact on budget 2024/25	Impact over MTFS 2025/26 to 2027/28	Comment on Financial impact	Amount if known £	Sensitivity over the Medium Term			Notes
						Most likely	Best case	Worst case	
Central government									
Fair funding review	Funding baselines for local authorities, as determined by the local government finance settlement, are based on an assessment of local authorities' relative needs and resources. The methodology behind this assessment was introduced over fifteen years ago and has not been updated nationally since the introduction of the 50% business rates retention system in 2013/14. Since that time, demographic pressures have affected local areas in different ways, as has the cost of providing particular services. In recognition of these pressures, the Government announced a review to address concerns about the fairness of current funding distributions. The outcome of this review will enable the Government to reconsider how the relative needs and resources of local authorities across the country should be assessed which could ultimately result in funding moving away from the South East to more deprived parts of the country.	The local government finance settlement confirmed in February 2024 has not announced any fairer funding changes for the 2024/25 financial settlement.	There is no expectation that the fairer funding review will take place in time for the 2025/26 settlement and is unlikely in the first year of a new parliamentary session.	Minimal		No change within the period of the MTFS	No change (standstill position)	An additional tariff to our business rates and/or Council Tax account (aka 'negative RSG') could be introduced. Although impossible to calculate, a holding figure of £0.5m is included.	The Council has a low amount of business rates retention, compared to the amount it collects. The reliance on government support has diminished since the 2016 funding review. As such, unless central government intends taking local tax (Council Tax) collected in the borough and redistribute it to other parts of the country, the impact is likely to be minimal – particular if the amount of business rates retained is reduced under the reet (see below)
New Homes Bonus	The New Homes Bonus (NHB) is a grant paid by central government to local councils to reflect and incentivise housing growth in their areas. It is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. There is also an extra payment for providing affordable homes.	Due to the projected low growth in the council tax base in 2024/25, the amount the Council has been allocated in the fiancé settlement is very low.	If the New Homes Bonus scheme is maintained, the Council would expect more growth in its tax base, which should generate further tranches of NHB.	Reduced NHB in 2024/25 is offset by the current funding guarantee grant.	£9.5k	Phased out	£100k based on continuation of scheme and increased housing delivery partly linked to prevailing economic conditions for housing development.	Phased out	When NHB was originally set up, Council received the settlement amount and this was for a period of six years. Since then, the duration of the payments has tapered and now payments are for single year settlements only. It is expected that NHB will eventually be phased out and may be replaced by another form of funding.

Scenario	Detail	Impact on budget 2024/25	Impact over MTFS 2025/26 to 2027/28	Comment on Financial impact	Amount if known £	Sensitivity over the Medium Term			Notes
						Most likely	Best case	Worst case	
Business rates reset	The government is intending to apply a "full reset" to the system, which means that all growth above business rates baselines will be removed from individual authorities and redistributed across all authorities on the basis of needs. This will have a negative financial impact in Council's in the South East as funding is redistributed to areas of higher need.	Funding settlement confirms no reset in 2024/25	Potential for a reset during the MTFS period. Assumption is that this will be in the last year due to time to take this through the parliamentary cycle.	A reduction of the business rates amount retained between £500k and £1m. Transitional relief may apply.	£500k - £1,000k	£500k	£500k with transitional relief	£1 million, and earlier than anticipated (ie: in 2026/27)	The Government announced in December 2022 that neither the Fair Funding Review nor the business rates reset will be implemented until the next Parliament. Statements from Ministers and officials at the Department for Levelling Up, Housing and Communities indicate that, in making this decision, they were seeking to prioritise "stability" for local authorities. The MTFS assumes a £500k reduction in business rates in 2027/28 assuming there is transitional relief in 2026/27.
UK Shared Prosperity Fund (UKSPF)	A grant from the Department for Levelling Up Housing and Communities (DLUHC) which provides capital and revenue funding for specific projects to all Councils. SHBC had/has an allocation of just over £1 million over a three year period. 2024/25 has the bulk of the funding and is the third and final year of the funding settlement.	Funding to support capital projects and revenue support for administratio n	No further tranches of UKSPF announced	Grant funding to support agreed programme of projects	£800k	No future funding beyond 2024/25.	Funding continues at a similar level ie circa £1m over three years from 2025/26)	No future tranches of funding beyond 2024/25	The Council has submitted and had approved its list of projects. Full use of available funding anticipated. The MTFS has not assumed any funding beyond 2024/25.
Homelessness grant	A grant from the Department for Levelling Up Housing and Communities (DLUHC) which provides revenue funding for the reduction of homelessness within Council areas.	2024/25 is the second year of a confirmed settlement.	It is anticipated that further tranches of this grant will be made in some form or another and the amount will be in line with previous settlement amounts.	Grant confirmed in 2024/25	£330k	Funding in 2024/25 confirmed and future grants made	Increase in future amounts in line with increased homelessness pressures	Funding reduced from 2025/26	Despite the continued homelessness pressures nationally, following a consultation on the funding formula the grant for Surrey Heath will reduce to £160k in 2025/26.

Scenario	Detail	Impact on budget 2024/25	Impact over MTFS 2025/26 to 2027/28	Comment on Financial impact	Amount if known £	Sensitivity over the Medium Term			Notes
						Most likely	Best case	Worst case	
Local Housing Allowance (LHA)	Local housing allowance (LHA) rates are caps set by the Government which specify the maximum amount of housing benefit or universal credit that can be received by claimants for rental costs when renting from a private landlord. The LHA was introduced in 2008, making rent for up to the 50th percentile of local market rents potentially affordable for benefit recipients. It was reduced in 2011 to the 30th percentile of local market rents and subsequently subject to further reductions or freezes. In April 2020, the Government lifted LHA rates to cover the 30th percentile of local market rents, but LHA rates have been frozen since then. In the Autumn Statement 2023, the Chancellor of the Exchequer announced that the Government will raise local housing allowance rates from 1 April 2024 to the 30th percentile of local market rents. Following the Autumn Statement, the Office for Budget Responsibility reported that “the measure also freezes LHA rates from 2025–26 onwards, thereby eroding its generosity over time as rental prices rise”. Subsequent re-freezing of LHA rates makes the decision only a temporary solution to the current crisis in homelessness and is likely to drive further increases in homelessness and put further pressures on local authorities’ spending.	It is hoped that the unfreezing of LHA will ease some of the pressure on the Council’s budgets albeit temporarily.	Future years will see more pressures on Council budgets as more people present as homeless and this is further exacerbated by a number of resettlement people presenting to local authorities with housing needs.	Potential increased homelessness leading to additional costs for temporary accommodation		Maintain trajectory of increases in homelessness pressures	No further increase in homelessness pressures and increased use of temporary accommodation	50% increase in homelessness over the medium term	
Economic pressures									
Inflation	Since February 2022 there have been successive raises in the underlying rate of inflation. This has eased somewhat in the past 6 months but has caused pressures on Council budgets in-year and in future years.	Assumption of 3.6% average rate during 2024/25	Gradual fall in inflation rate over period, and stabilising at Bank of England target of 2% for CPI	`Reduction in contractual and cost increases from current high in	Varies across budget heads, but 1% of NCS is c.£175k	25/26 – 1.8% 26/27 – 1.4% 27/28 – 1.7% OBR forecast of CPI	As per most likely – rates not expected to fall faster.	25/26 – 2.6% 26/27 – 2.5% 27/28 – 2.8% OBR forecast of RPI	The most likely outcome is reflected in the MTFS

Scenario	Detail	Impact on budget 2024/25	Impact over MTFS 2025/26 to 2027/28	Comment on Financial impact	Amount if known £	Sensitivity over the Medium Term			Notes
						Most likely	Best case	Worst case	
				2023/24 and 2024/25					
Energy Costs	The international spike in energy process in 2022 has resulted in a legacy of higher energy prices. Whereas the housed market has been supported by government/supplier funding and OFGEN capping, the same does not apply to the commercial sector and prices are more subject to market fluctuations.	Gas – 18-25% Elec – 15-20% (Laser forecasts)	Prices are still subject to world-wide impacts and the price of LNG and Oil. A cycle of peaks and troughs is the most likely scenario.	Varies depending on market factors	Difficult to estimate accuratel y	Possibly lower than current increase	Lowers and stabilises	Global events spark another price spike.	The Council minimises its risk to price fluctuations through the local authorities LASER contract which increases the purchasing power of councils and achieves economies of scale. The MTFS assumes a 2% increase year on year in line with expected future CPI.
Interest rates	The primary lever that the Bank of England (BoE) uses to try and control inflation is through raising and lowering the Banks Base Rate of interest. The recent inflationary increases have seem a corresponding rise in the interest rates that the Council can borrow at.	The expected fall in rates anticipated (and forecast) for 2024/25 is not likely to be as great or as fast as previously forecast nationally. This means the Council will be paying a higher rate in 24/25 on its short-term borrowing.	Rates are still ultimltely expected to fall. Mirroring the inflation rates (see above) albeit with a slight time lag.	The cost of short-term borrowing will be higher. An upside is that the returns on the Council's investments is better.	Assumpti on of a drawdow n of £1.75m from the Interest Equalisati on Reserve	2024/25 – between 5.25% and 4.5% (falling as year progresses) Settles at 2.5% in later years	Rates fall faster and further than most likely case.	Rates do not fall – potential settle between 3-3.5% (Capital Economics forecast)	The Council holds c.£100m of debt in fixed long term loans The rate on these is fixed and varies between some at 2.5% and up to 2.95%. Short-term loans are more variable (although each loan is individually fixed) but exposes the Council to re-financing risk. The opportunity is that as rates fall, the re-financing becomes cheaper. The MTFS makes provision of £1.75m in 2024/25 and £0.75m in 2025/26 for this.
Council pressures									
Contractual indexing on contracts	The outsourced contracts of the Council will generally be subject to a contractual inflationary uplift (see above for inflation).	Included in the growth pressures for the budgets (see Appendix 1-1)	Contractual increase again in 2025/26 and 2026/27	Unavoidable contractual growth	£965k offset by recharge to partners of (£816k)	Contractually agreed at £965k by JWS board	Continued contractual inflationary uplift	A contract failure results in retender at a higher price.	MTFS assumes continued contractual inflationary uplifts over the medium term.
Retender of waste contract	The current contract is due to expire in 2026/27. This will need to be retendered as there is not any scope for an extension.	Nil (but see notes)	Cost retender in 2026/27 and potential	It is expected that the new	£650k budgeted for	£650k + £200k	Could be better is a competitive	£1m in 2025/26 contractor.	The potential for increased costs above inflation in 2025/26 have been built in the MTFS.

Scenario	Detail	Impact on budget 2024/25	Impact over MTFS 2025/26 to 2027/28	Comment on Financial impact	Amount if known £	Sensitivity over the Medium Term			Notes
						Most likely	Best case	Worst case	
			increase in future bid price from new contractor.	contract will see an increase in the core cost of the service.	increase (SHBC element) and £200k for retender costs		tender exercise drives cost efficiencies		
Retender of grounds maintenance contract	The current contract is due to expire in 2026/27. This may not need to be retendered as there is scope for a two year extension, however it is unlikely that the current contractor will continue without revising the terms and conditions and price.	Nil (but see notes)	Cost retender in 2026/27 and potential increase in future bid price from new contractor or increase in cost through a two year extension.	It is expected that the new contract will see an increase in the core cost of the service. However, this could be mitigated by a reduction in the level of service provided.	Nothing budgeted at present.	Uplift in line with historic inflation	Negotiated uplift less than historic inflation	Uplift in line with historic inflation plus a re-signing price c.£210k extra	The current contractor is amenable to either re-tendering or extending. A retender exercise might generate some competitive process, but this is not certain with current market conditions. The MTFS assumes that there is no uplift budgeted for in the later years at present. This will become clearer once options on retendering, change in provision and other options are known.
Staff cost of living increases	The expectation is that staff would receive an annual cost of living increase in their salary remuneration.	4% increase agreed executive in December	Assumption is a forecast at 2% per annum	Growth in budget	£592k in 2024/25 £300k pa in later years.	As per agreed decision		Later years may have pressures to increase above the budgeted award	Although 2% is budgeted for later years in the MFTS, this is not confirmation of any award as each year is subject to the formal negotiation process – **i**t is a prudent assessment for forecast purposes only.
Local plan costs	The Council's Local Plan is proceeding to Regulation 19 stage. This will require an independent examination.	Costs of this are budgeted as a one -off cost for 2024-25	No impact on this element of the plan.	Growth in budget for 2024/25 and reversed in the following year	£100k	£100k		Any delay will mean not being able to reverse out the £100k growth in future years	The costs at this point in time are the best estimate – these will be confirmed during the year, but should not exceed the original estimate. The MTFS provides £100k of one off growth in 2024/25 only.
Contractual claims	The Council (along with the other 3 partner councils) are in a contractual dispute with a contractor. This contractual dispute is progressing through the Courts. The Council	Nil budgeted impact	Nil budgeted impact	Nil budgeted impact		£0	The Court awards the Councils damages of	£12m inclusive of costs to be apportioned	The Council is preparing for a Court hearing which most likely will take place in late 2025 or even 2026 depending on the Court's

Scenario	Detail	Impact on budget 2024/25	Impact over MTFS 2025/26 to 2027/28	Comment on Financial impact	Amount if known £	Sensitivity over the Medium Term			Notes
						Most likely	Best case	Worst case	
	and its partners have made claims against the contractor for wilful breach of contract and in response the contractor has filed counter-claims to seek variations to the agreement.						£1.4 million plus recovery of legal costs from the contractor of circa £500,000	between the four Councils	schedule. The Council anticipates a positive outcome to the discussions and no additional growth has been built into the MTFS.
Council income									
Retail property income	The Council believes that there will be an impact on its retail income (legacy from the pandemic and cost of living crisis). It is anticipated that this will recover over the MTFS	Reduction in retail property income (costs of voids, rent free periods, lost service recharge)	It is expected that some of major rent free period =s will unwind in later years, plus a recover in rents and occupancy.	The income from retail property is used to offset the costs of debt financing of the portfolio.	£921k in 2024/25 Reversal of (£838) in 2025/26	£921k in 2024/25	Best case scenario could be a 5% improvement in net income in each of the years of the MTFS to plan for the scenario of replacement tenants being found or lease negotiations occurring ahead of business plan.	A prudent worst case scenario is to plan for a 10% loss of net income in each of the years of the MTFS to allow for higher than anticipated tenant insolvencies.	
Other property income	This is estimated to increase in 2024/25 as the portfolio approaches 100% let status with minimal churn of tenants.	Net increase in rents in 2024/25 budget.	Continued increase in income as rent reviews take place.	Positive increase in income - offsets some of the reductions in the retail portfolio	Net (£240k) increase in income in 2024/25. Potential for c(£150k) increase year on year in later years	(£240k)	Best case scenario would be a 5% increase in each of the first two years of the MTFS reflecting better than anticipated rental growth from the almost fully let industrial portfolio. And 10% in the latter years of	A prudent worst case scenario is to plan for a 5% reduction in 24/25 to allow for grater tenant insolvencies than planned and 10% in the subsequent years of the MTFS due to the same factor.	

Scenario	Detail	Impact on budget 2024/25	Impact over MTFS 2025/26 to 2027/28	Comment on Financial impact	Amount if known £	Sensitivity over the Medium Term			Notes
						Most likely	Best case	Worst case	
							the MTFS reflecting the same trend and improved occupancy at the Theta office building.		
Parking income	Increase of parking fees to offset the recent inflationary costs over the past two years (since last review) currently running at 20%, and to fund capital investment in the borough's carparks.	Fee growth included in budget along with capital and revenue investment	Further review in later years of MTFS a possibility	Neutral following cost increases in 2023/24 and 2024/25 budgets, plus cost of financing capital investment	(£410k) extra income. Capital programme increased to deliver improvements to parking services.	(£410k) income	More effective procurement reduces capital costs	£0 income if parking strategy rejected. Capital costs will still remain. Need to increase the capital financed from the tax account.	The MFTS assumes that the increases in parking charges are implemented, parking usage levels are maintained, that the charges are reviewed again in 2 years, but that there are no significant increases in car park usage over the period of the MFTS.
Planning fee income	The government announced an uplift in statutory planning fees ranging from 25% to 35%. Based on the mix most commonly experienced by the Planning department at SHBC this is an average uplift of 27.5%. This has also been applied to the discretionary fees charged.	Increase in planning income budgets	It is assumed that further increases will be made by the government to statutory fees and likewise to the discretionary fees by the Council.	Whilst the fees will increase, it is not expected to impact the demand as planning fees are very small part of any development cost.	(£275k) in 2024/25 and £100k pa thereafter	As budgeted	Demand will increase as the economy recovers and interest rate falls increase mortgage availability and thus demand for home-ownership /development	Demand drops, but unlikely as we seem to be at the low point of the market.	The MTFS assumes that there is no significant fall off in demand and therefore fee income associated with the increased rates, but does not assume any significant increases, as the economy improves over the medium term.
Business rates multiplier	In the Autumn Statement, the Chancellor announced a package of additional support worth £4.3 billion over the next 5 years to support small businesses and the high street. For 2024/25 the Chancellor announced, that:	No budget impact – refunded through s31 grants from central government	Single year measure – new announcement will be in the autumn 2024 budget	No impact on Council budgets – managed through the collection fund.		No impact on Council budgets	Council receives a small grant to administer the funding	No impact on Council budgets	This is limited impact on the Council's budget as any increased funding will be passed on direct to businesses, but is shown for completeness and information for local businesses.

Scenario	Detail	Impact on budget 2024/25	Impact over MTFS 2025/26 to 2027/28	Comment on Financial impact	Amount if known £	Sensitivity over the Medium Term			Notes
						Most likely	Best case	Worst case	
	• the small business multiplier will be frozen at 49.9p • the standard multiplier will be uprated in April by September’s CPI figure (6.7%), increasing the multiplier from 51.2p to 54.6p • the 2024/25 Retail, Hospitality and Leisure (RHL) scheme will be extended for a fifth year into 2024-25, retaining the existing scope and providing eligible properties with 75% relief, up to a cap of £110,000 per business These changes will have effect from 1 April 2024. Local authorities will be expected to use their discretionary relief powers (under section 47 of the Local Government Finance Act 1988) to grant Retail, Hospitality and Leisure relief in line with the relevant eligibility criteria. Authorities will be compensated for the cost of granting these reliefs via a section 31 grant from the government. No new legislation will be required to deliver this scheme.		statement or LG finance settlement						This is therefore not reflected in the MTFS
Council tax	Council tax to rise in accordance with government core spending power assessments and to the maximum allowed by the government cap.	2.99%	1.99%	A 1% increase for SHBC increases its share of the precept income by c£100k	Increase in 2024/25 is £319k	2.99% uplift	2.99% uplift (DLUHC confirm no increase in cap for district authorities)	Council decide not to take maximum uplift. Amounts as per previous columns.	The MTFS assumes a 2.99% Council Tax increase pa over the medium term.

GLOSSARY OF TERMS

Term	Description
Accounting period	The timescale during which accounts are prepared or reported on.
'Accounts Payable'	The section and/or system within the Council that is responsible for paying the Council's creditors and invoices raised against the Council.
'Accounts Receivable'	The section and/or system within the Council that is responsible for invoicing and collection from the Council's debtors and for invoices raised by the Council.
Accrual	The recording within the accounts of the Council the cost of goods or services received and for which an invoice has been received but for which payment has not yet been made.
Accrual accounting	The practice of accounting for goods and services when they are received/provided rather than when they are paid for/payment received.
Annual budget	The income and expenditure plans for the financial year (1 April to 31 March); set by Council in February before the year starts.
Asset	A present economic resource of the Council to which it has a right or other type of access that other individuals or organisations do not have. Something the Council owns.
Balances	A figure representing the difference between credits and debits in an account; the amount of money held in an account. Also known as 'financial reserves'.
Base budget	Estimate of the amount required to provide services at current levels. Can also be referred to as 'rollover budget'.
Budget Monitoring	The process comparing of actual income and expenditure against budget; used to support budgetary control.
*Business Rates/NDR**	Rates are payable on non-domestic property including libraries, offices, schools. The level of business rates is set by the Government and collected by the District Councils on their behalf. The money is then re-allocated to authorities in accordance with ratios and tariffs/top-ups set by central government.

Term	Description
Capital Asset	Capital or Fixed assets are long-term resources, such as plant, equipment and buildings.
Capital Charges	A charge to services to reflect the cost of fixed assets used in the provision of those services
Capital expenditure	Expenditure on items that create an asset which has a long-term benefit of more than one year.
Carry forward [of budget]	Budgets unspent in a prior year that have (once approved) been added to the current year budget. Strict rules on what can be 'carried forward' apply.
Chart of accounts	The hierarchy of recording income and expenditure within the Council's accounts. The main distinctions are between fund e.g. County fund, Pension Fund; objective e.g. service or cost centre; subjective e.g. the classification of expenditure between salaries, equipment, stationery, fuel costs etc.
Collection authority	A local authority that has statutory powers to collect precepts and other taxes on behalf of precepting authorities. A collection authority can also be a precepting authority as is the case for Surrey Heath Borough Council, which sets a precept and also collects on behalf of itself and other precepting authorities (Surrey County Council, Surrey Police and Crime Commissioner and local parishes).
Commitment	A commitment to spend occurs when an order is raised
Core spending power	'Core spending power' is a measure of the resources available to local authorities to fund service delivery. These resources are made available to local authorities through the local government finance settlement, and consist primarily of amounts raised from council tax, locally retained business rates, and central government grants including the revenue support grant, better care fund, social care grant, and new homes bonus.
Cost centre	A collection of subjective codes (*qv*) linked to a particular service or sub-service area.
Creditor	A person or company to whom the Council owes money.
Debtor	A person or company who owes money to the Council
Depreciation	The accounting method of amortising the value of an asset over its useful life

Term	Description
Dwelling	A property liable for Council tax.
Ear marking	Setting aside funds for specific purposes
[Financial] reconciliation	Financial reconciliation is the accounting process by which two different data sets are compared to verify that the information within them is accurate. Reconciliation is an important business accounting practice that ensures the reliability of the Council's financial records.
Financial Regulations	Rules of financial management that apply to all officers and members of the Council. These form part of the Council's Constitution can be found on the Council's Website.
Financial Year	Period of twelve months commencing on 1 April and ending 31 March the following year.
Forecast Outturn	A projection of anticipated expenditure incurred and income received to provide an estimate of the service position at the end of the year compared to the planned budget.
Funding	Source of income to support service expenditure – can be capital or revenue
General Fund	The main revenue account of the Council through which day to day transactions are conducted.
General Ledger	A collection of accounting records detailing the authority's transactions and balances
Hereditament	A building or premises liable for Business Rates
Incremental budgeting	A process of budget setting, starting with the base budget and increasing/decreasing it by growth/efficiencies to set the following year's budget.
Internal Audit	A team that works to protect the Council's assets and assist managers in improving their use.
Invoice	A bill – a request for payment for goods or services received
Journal	The transfer of actual income or actual expenditure from one code to another, more appropriate code. Note: movement of budgets is classed as a 'virement' (qv)

Term	Description
Medium Term Financial Strategy (MTFS)	The Council's strategy for the management of its resources during the next four years, which remains under rolling review, and directly links to the service planning process.
Liability	The Council's financial debt or obligations that arise during the course of its business operations. Liabilities are settled over time through the transfer of economic benefits including money, goods or services.
(N)NDR	(National) Non-Domestic Rates – see business rates (*qv*)
Net cost of services	The aggregate position of the Council's services when all service related expenditure and income is taken into account.
Precept	A precept is the amount of money that a local authority body requires from Council Tax payers in their area.
Precepting authority	An authority that has the power by statute to raise a precept from the local tax payers – see also 'collection authority'
Profile of budget	A term used to describe the pattern of expenditure or income that is expected to occur over a period of time. Designed to reflect actual spend or income to allow better budget monitoring.
[The] Prudential Code	The authority which enables the Council to set its own borrowing limits as part of the budget setting processes.
Reserves	Amounts set aside for general contingencies and to provide for working balances, or can be earmarked for specific future expenditure.
Resources	Includes cash, staff, equipment, property, stocks, etc.
Revenue expenditure	Expenditure on 'day-to-day' items required to support the running and/or the provision of the Council services
Revenue Support Grant (RSG)	The Revenue Support Grant (RSG) - a Government grant providing general support for Council services.
Subjective Code	A code describing expenditure or income by type e.g. salaries costs, premises costs. Can also be called "accounting code"
Supplementary Estimate	An in-year increase in budget – normally necessitated by a new burden or an in-year pressure not identified at budget setting. Approval varies by value and details are outlined in the Council's Financial Regulations.

Term	Description
Tariff	Additional business rates paid over to central government. SHBC are a ‘tariff’ authority.
Tax account	The tax account refers to the monies collected from council tax and business rates and used to finance the net cost of services of the Council.
Top-up	Additional business rates paid over by central government to local authorities. SHBC are not a ‘top-up’ authority.
Treasury management	The term for all the activities and processes involved in managing the Council’s money. This includes tasks like liquidity and cash-flow forecasting, investing, risk assessment, and day-to-day operations like banking and invoicing.
Unbalanced budget	A budget where the net expenditure of the Council is not matched by funding and permitted use of reserves. Under Section 31 of the Local Government Finance Act 1992, local authorities are not permitted to set an unbalanced budget.
Ultra Vires	A Latin term meaning ‘beyond the powers’.
Variance	Difference between budget and actual income or expenditure. May be favourable (more income or lower spend than budgeted) or unfavourable/adverse (less income or more spend than budgeted)
Virement	Formal transfer of funds from one budget to another. Does not change the Council’s overall budget.
Zero based budgets	The construction of a budget based on the needs of the Council without reference to previous expenditure history.

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