

Surrey Heath Borough Council

Executive

15 February 2022

Annual Revenue Budget Medium Term Financial Strategy 2022/23 to 2025/26

Portfolio Holder:	Cllr Robin Perry - Finance
Strategic Director	Bob Watson - Finance and 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 (2022/23) and the indicative estimates for the period 2023/24 to 2025/26.

The report also provides the statutory Chief Finance Officer 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 Full Council the approval of the Medium Term Financial Strategy and associated Revenue Budget Estimates covering the period 2022/23 to 2025/26 which includes:

- (i) to approve the 2022/23 budget estimates giving a net cost of services revenue budget for the Council of £14.788 million as shown in Appendix 1 to the Medium Term Financial Strategy;
- (ii) to approve the unavoidable and service pressures of £4.791 million shown in Appendix 1 and in more detail in Appendix 1-1 to the Medium Term Financial Strategy;
- (iii) to approve the revenue efficiencies of £2.413 million shown in Appendix 1 and in more detail in Appendix 1-2 to the Medium Term Financial Strategy;

- (iv) to approve the recommendation by the Strategic Director Finance and Customer Services (the Council's Section 151 Officer¹) that a sum of up to £7.500 million of earmarked reserves at this stage be repurposed to the general revenue fund balance to support the revenue budget over the period of the Medium Term Financial Strategy and provide a sustainable budget for the Council and that delegation is given to the Strategic Director in consultation with the Chief Executive and the Portfolio Holder for Finance to identify which reserve(s) this sum is to be drawn from and the eventual amount to be repurposed;
- (v) that the increase in the Surrey Heath Borough Council element of the annual precept be increased by £5.00 per Band D property and in the appropriate statutory proportions for other properties; and
- (vi) that a total of £0.270 million of earmarked reserves are allocated to support budgets in the services these earmarked reserves were set aside for.

The Executive is also advised to note:

- (i) the Capital Strategy, Capital programme and Treasury Management Strategy form part of the Medium Term Financial Strategy, but are being considered elsewhere on this agenda;
- (ii) 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 (2021/22) is known and this will be reported in the revenue outturn report early in the new financial year;
- (iii) the Council Tax base for Surrey Heath Borough Council is 38,976.2 as set at Council on 15 December 2021;
- (iv) the Medium Term Financial Strategy contains a savings target of £1.350 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 Star Chamber challenge review that will commence in March 2022.
- (v) The statement of the Chief Financial Officer (Strategic Director Finance and Customer Services) on the robustness of estimates and sustainability of balances.

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

- (vi) the finance settlement from central Government is only provisional until ratified through the House of Commons. Any material changes from the final settlement will be communicated to the Executive and if necessary presented with the budget to Council.

1. Background and Supporting Information

- 1.1 This report and the Medium Term Financial Strategy which this covers provide an overview of how the Council's revenue expenditure and income are used for the day-to-day activities of the Council and its provision of local statutory and non-statutory services to residents and businesses of Surrey Heath Borough.
- 1.2 The Medium Term Financial Strategy consists:
 - o Revenue budget estimates for 2022/23 and indicative estimates for 2023/24, 2024/25 and 2025/26.
 - o Capital Strategy
 - o Capital programme for 2022/23 to 2025/26
 - o Treasury Management Strategy

2. Reasons for Recommendation

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

3. Proposal and Alternative Options

- 3.1 Executive is requested to recommend the medium term financial strategy and the revenue and capital budget estimates to budget Council on 23 February 2022.
- 3.2 Executive 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 2022)

4. Contribution to the Council's Five Year Strategy

- 4.1 The budgets are set in support of the delivery of the Council's Five Year Strategy.

5. Resource Implications

- 5.1 The revenue and capital resource implications for 2022/23 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 Section 151 Officer statement on the budget estimates and adequacy of reserves; the specific requirements upon the Section 151 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 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 Five-Year Strategic Plan. 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 the root and branch review of budgets and outputs, 'star chamber' reviews and strong budget management, with robust monitoring and reporting through the financial year.
- 6.3 The risks associated with the deliverability of this budget are detailed in Section 10 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 four-years of the strategy as follows:

£'000	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>
Zero-base budget review	(475)	(425)	(300)	(150)

- 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 2022/23.
- 6.9 The planned repurposing of up to £7.500 million of the Council's earmarked reserve balances as set out in the recommendation 'iv' above would leave the Council's reserves above the identified minimum level of £2 million for the next two financial years and will allow the Council time to realise the full impact of the budgetary review and star chamber process. Whilst the Council has adequate balances and earmarked reserves to manage cost pressures over the period 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.
- 6.10 The Department for Levelling Up, Housing and Communities (DLUHC, formerly MHCLG) 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 £5.00 for a Band D property for 2022/23 and over the life of the Medium Term Financial Strategy. Even at £5.00 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 increases.
- 6.11 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.
- 6.12 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 until such a review has taken place.
- 6.13 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 9th February 2022, the Government confirmed the provisional Local Government Finance Settlement for 2022/23 that was previously announced on 17 December 2021. It also confirmed that authorities would need to hold a referendum if their planned increase in Council Tax is not below 2.00% or above £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 (£5.00) within these limits will be approved.

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 10 of the Medium Term Financial Strategy highlights the risks around these budgets. Services will have their own service risk registers which contribute 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 Five Year Strategy agreed in the summer of 2021, which was subject to an extensive consultation and engagement process with local residents and stakeholders.