

Surrey Heath Borough Council
Council
23 February 2022

**Medium Term Financial Strategy 2022/23 - 2025/26
and Annual Budget 2022/23**

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) which covers:

- the revenue budget estimates for the next financial year (2022/23) and the indicative estimates for the period 2023/24 to 2025/26
- the annual Treasury Management Strategy
- the capital strategy and four-year capital programme

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

Recommendation

The Council is advised to RESOLVE that the Medium Term Financial Strategy, as set out at Annex A to this report, be agreed, comprising:

- (i) the Revenue Budget Estimates covering the period 2022/23 to 2025/26 as follows:
 - (i) 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) 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) 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) the recommendation from the Executive 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 authority be delegated to the Strategic Director of Finance & Customer Services, 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 re-purposed;
 - (v) that 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 be allocated to support budgets in the services these earmarked reserves were set aside for;
- (ii) the Capital Strategy, as set out at Annex A, Appendix 2 to this report, and associated Capital Programme (appendix 2-1) covering the period 2022/23 to 2025/26 which includes:
- a) the new capital bids for £1.139 million in Appendix 1 to Annex A for 2022/23 be approved, and that they be incorporated into the Capital Programme; and
 - b) The Prudential Indicators summarised below and explained in Annex A for 2022/23 to 2025/26 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	2022/23 Proposed £m	2023/24 Estimated £m	2024/25 Estimated £m	2025/26 Estimated £m
Capital Expenditure	1.139	1.428	1.428	0.928
Capital Financing Requirement	174	171	167	164
Ratio of net financing costs to net revenue stream	28.22%	27.54%	26.89%	26.30%
Financing Costs	3	3	3	3
Operational Boundary	230	230	230	230
Authorised Limit	235	235	235	235

- (iii) The Treasury Management Strategy for 2022/23 shown at Annex A, Appendix 3 to this report, including;
 - a) The Treasury Management Indicators for 2022/23 at Annex C to the Strategy;
 - b) The Minimum Revenue Provision policy statement and estimated minimum revenue provision payment table at Annex F to the Strategy; and
 - c) the Treasury Management Policy Statement at Annex G to the Strategy.

The Council is also asked to note:

- (i) 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 which will be considered by the Performance and Finance Scrutiny Committee and the Executive early in the new financial year;
- (ii) the Council Tax base for Surrey Heath Borough Council is 38,976.2 as set at Council on 15 December 2021;
- (iii) 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 and
- (iv) The statement of the Chief Financial Officer (Strategic Director Finance and Customer Services) on the robustness of estimates and sustainability of balances.

1. Background and Supporting Information

- 1.1 This report and the Medium Term Financial Strategy which this report covers provide an overview of how the Council's revenue and capital expenditure and income are used for the 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

- Capital programme for 2022/23 to 2025/26
- Treasury Management Strategy

- 1.3 The Capital Strategy was introduced as a new report in 2019/20 to give a high-level overview of how the Council's capital expenditure, capital financing and treasury management activities all contribute to the provision of local services and also provide an overview of how the associated risk is managed along with the implications for future financial sustainability of the Council. It has been written with a view to enhance members' understanding and also fully complies with the Prudential Code 2017.
- 1.4 Treasury management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of financial risk is therefore central to the Council's prudent financial management.
- 1.5 The Council's portfolio of investments comprise funds available for longer term investment and short term investments sufficient to meet cash flow requirements

2. Reasons for Recommendation

- 2.1 The Council is required to set a budget each year at Budget Council (normally the February preceding the commencement of the financial year on 1 April).
- 2.2 It is considered sound financial management that as well as setting an annual budget, the Council should produce and approve a strategy showing indicative budgets for the following three years.
- 2.3 The 2017 Prudential Code stipulates that a Capital Strategy should be prepared which summarises the Council's Capital, Investment and Borrowing plans.
- 2.4 Treasury management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the 'CIPFA Code') which requires the Council to approve a treasury management strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the 'CIPFA Code'.
- 2.5 In accordance with the DLUHC Guidance, the Council will be asked to approve any further revision to the Treasury Management Strategy Statement should any of the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change in interest rates or in the Council's capital programme or in the level of its investment balance.

3. Proposal and Alternative Options

- 3.1 The Council is requested to approve the Medium Term Financial Strategy and the annual revenue budget for 2022/23; the Treasury Management Strategy for 2022/23 and the capital strategy and capital budget estimates for the period 2022/23 to 2025/26. It should be noted that the Capital Strategy and programme will be reviewed and revised annually and presented to budget Council each year.
- 3.2 The Council should note that Item 11 of this agenda will consider the pay award for Council staff. The proposal put forward is within the budgets estimates contained in the revenue budget and these will be adjusted in the budget following the approval of Agenda Item 11.
- 3.3 If the Council does not approve the Medium Term Financial Strategy and the revenue and capital estimates, and alternative budget would have to proposed and adopted by Council prior to the new financial year (1 April 2022). Failing this the previously adopted budget set in February 2021 would continue (subject the sustainability of estimates).

4. Contribution to the Council's Five Year Strategy

- 4.1 The budgets are set in support 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.
- 5.2 The budgeted target for investment income in 2022/23 is £75,000 based on an average investment portfolio of £13 million at a weighted average interest rate of 0.58%. The budget for interest paid on debt in 2022/23 is £2.920 million, based on an average debt portfolio of £147 million and an average interest rate of 2%. If the actual level of investments and borrowing vary, or actual interest rates change from those forecast, then performance against budget will be different. The forecast position on both treasury investment earnings and debt financing will be reported in the Treasury mid-year report.
- 5.3 Where investment income exceeds budget, e.g. from higher risk investments including pooled funds, or debt interest paid falls below budget, e.g. from cheap short-term borrowing, then the revenue benefits will be transferred to the Interest Equalisation earmarked reserve to cover the risk of debt financing rates increasing in future years.
- 5.4 Financing for the corporate capital programme for 2022/23 – 2025/26 is anticipated to be funded by capital receipts and contributions, capital reserves and government grants. There is no planned increase in capital borrowing over this period.

- 5.5 Any changes required to the approved treasury management indicators and strategy, due to changes in economic conditions or from an increased capital programme, will be reflected in future reports for Executive and Council to consider.

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 fiscal management 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 control 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 use of reserves 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 previously 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 councils 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. 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.

Attachments:

Annex A - Medium Tern Financial Strategy

Appendices

Appendix 1 – Revenue Budget Estimates

Appendix 1-1 – Budgetary growth

Appendix 1-2 - Efficiencies

Appendix 2 – Capital Strategy

Appendix 2-1 – Capital Programme

Appendix 3 – Treasury Management Strategy

Annex A – 2022/23 Treasury Management Strategy

Annex B – 2022/23 Treasury Management Strategy - Other Items

Annex C – 2022/23 Treasury Management Indicators

Annex D – Treasury Investments as at 30th November 2021

Annex E – Existing Investment and Debt Portfolio

Annex F – Minimum Revenue Policy (MRP) Statement

Annex G – Treasury Management Policy Statement

Appendix 4 – Reserves

Background Papers

CIPFA Code of Practice: Treasury Management in the Public Services – 2017 Edition

Agenda items 5, 6 and 7 of the Executive Committee held on 15 February 2022