

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	2.539	1.490	0.990	0.990
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:
 - o 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).
 - o Capital Strategy. (Appendix 2 to the MTFS).
 - o Capital programme for 2024/25 to 2027/28. (Appendices 2-1 to 2-3 to the MTFS).
 - o Treasury Management Strategy incorporating Annexes A-G. (Appendix 3 to the MTFS).
 - o Estimated balances on earmarked reserves (Appendix 4 to the MTFS).
 - o Scenario planning, assumptions and sensitivity analysis (Appendix 5 to the MTFS).
 - o 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	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>
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. 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 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 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.