



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





Page left intentionally blank



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 I, and Annexes I.1 and I.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
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 calculation 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 shown below:

£'000	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>
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	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>
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:

<u>2023/24</u>		2024/25	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>
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



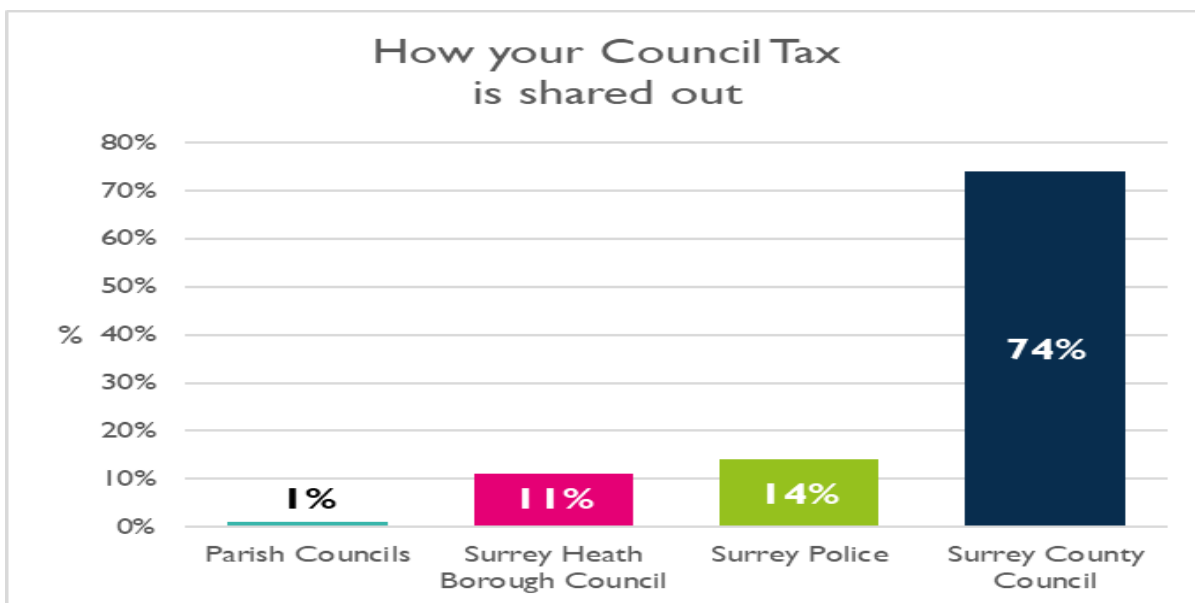
the Council has had to find service efficiencies to maintain services to the residents and businesses of the borough.

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:

<u>Retained Business Rates</u>					
<u>2023/24</u>	(£ 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 £15 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 subsidising 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 £40.4 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.

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 Horizon Scanning and 'known unknowns'

- 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 its 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

Appendix 1	Revenue Budget Estimates 2023/24
Appendix 1-1	Revenue budget growth items
Appendix 1-2	Revenue budget efficiencies
Appendix 2	Capital Strategy
Appendix 2-1	Capital Programme 2023/24 – 2026/27
Appendix 2-2	Capital Funding 2023/24 – 2026/27
Appendix 2-3	Capital Receipts 2023/24 – 2026/27
Appendix 3	Treasury Management Strategy
Appendix 4	General Fund Balance and Earmarked Reserve Summary
Appendix 5	Scenario planning, assumptions and sensitivity
Appendix 6	Glossary of finance and budget terminology

