Appendix 5

Budget scenarios, assumptions and sensitivity analysis

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

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

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

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

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

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

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

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