



Corporate Policy & Resources Committee

27 November 2023

Title	Outline Budget Report 2024-25 to 2027-28
Purpose of the report	To make a decision
Report Author	Terry Collier Chief Finance Officer and Paul Taylor Chief Accountant
Ward(s) Affected	All Wards
Exempt	No
Corporate Priority	Community Affordable housing Recovery Environment Service delivery
Recommendations	<p>Committee is asked to:</p> <p><i>To note the current projected draft Budget gaps set out in 1.80-1.81.</i></p> <p><i>To recommend that the Council that explores the range of options over the four year period set out in the report, to close the budget gaps including seeking to maximise transformation savings, including digital transformation, smarter use of physical assets, delivering cashable savings, prioritisation and collaborative savings and in the last instance uses its Reserves to deliver a balanced budget for 2024/25 and noting that there is some headroom to protect front line services and vulnerable residents, either in 2024/25 or future years.</i></p> <p><i>To confirm support for the initiatives suggested in the report which will allow Officers to work on closing the gaps for the years 2024-25 to 2027-28.</i></p>
Reason for Recommendation	<i>Councils have a statutory duty to balance their budgets. It is important that we take a medium-term approach in ensuring that we can take action sufficiently early to ensure the Revenue Budget remains financially sustainable.</i>

1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> The Council has a legal obligation to have a balanced budget (we not allowed plan to run a deficit have expenditure greater than income) Price inflation and rising interest rates have increased Council costs substantially The cost-of-living crisis is increasing demand for housing support and also hitting income (e.g. Council Tax collection rates) It is not possible to increase income by further borrowing and investment The budget gaps and the assumptions behind those gaps are set out in 1.82 to 1.84 Council must look to make savings to live within our means There are limited reserves (reserves are similar to households' rainy day funds built up from setting aside funds over time), but these are can only be use once 	<ul style="list-style-type: none"> To produce a balanced budget for 2024/25 and a plan for future financial stability going forward To meet in full all our statutory obligations To maintain the discretionary services that the Council has in place and are highly valued by residents To ensure that Council staff have a stable environment in which to deliver the Council's priorities
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> Take a medium-term view when preparing the budget for 2024/25 by also working towards a balanced budget across the next 4 years Identify all areas of budget pressure and work with service managers to mitigate costs and impact 	<p>To recommend that the Council that explores the range of options over the four year period set out in the report to close the budget gaps including seeking to maximise transformation savings, including digital transformation, smarter use of physical assets, cashable savings, prioritisation and collaborative savings and in the last instance uses its Reserves to deliver a balanced budget for 2024/25 and noting that there is</p>

<ul style="list-style-type: none"> • Look at options for transformational service change using digital technologies • Look for cash savings taking a both a short-term and longer-term view • Looking closely at all contracts and procurements • Considering options for assets e.g. reduce footprint and costs • Seek to increase income streams • Judicious use of reserves to allow time for savings to be realised 	<p>some headroom to protect front line services and vulnerable residents, either in 2024/25 or future years.</p> <p>To confirm support for the initiatives suggested in the report which will allow Officers to work on closing the gaps for the years 2024-25 to 2027-28.</p>
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External Impact creating pressure on the Council's Budget

- 1.1 Following on from coping with the economic impacts of the COVID-19, some of which are still being felt, such as the change to people's working and shopping patterns meaning our parking income levels are still below pre-pandemic levels, we have for the last year and half been dealing with a *cost of living crisis*. This has had a number of major impacts on the Council's Budget position. These impacts include:
- Inflationary pressures pushing up staff remuneration costs, fuel, energy, food and contract costs.
 - More residents struggling to make ends meet and presenting themselves in need of housing supporting increasing the need to spend on temporary accommodation,
 - Households under pressure finding it hard to pay council tax, resulting in collection rates dropping,
 - Interest rates rising pushing up cost of borrowing for the Council contributing towards making financing of direct delivery of affordable housing unaffordable,
 - Rising mortgage rates are pushing up housing costs for households as they come off existing fixed rate mortgage deals,
- 1.2 Given the combination of both the pressures set out above and the expectation that we are unlikely to see an increase in government funding and are more likely to experience a further reduction in funding over the Outline Budget we suggest that a key guiding principle informing our approach to the medium term budget should be to seek to "live within our means" and that we are mindful of current and future costs in our approach to delivering and developing services.
- 1.3 The vast range of issues to be considered include:
- The extent to which services' income such as car parking charges return to pre-pandemic levels, considering we are seeing changes to

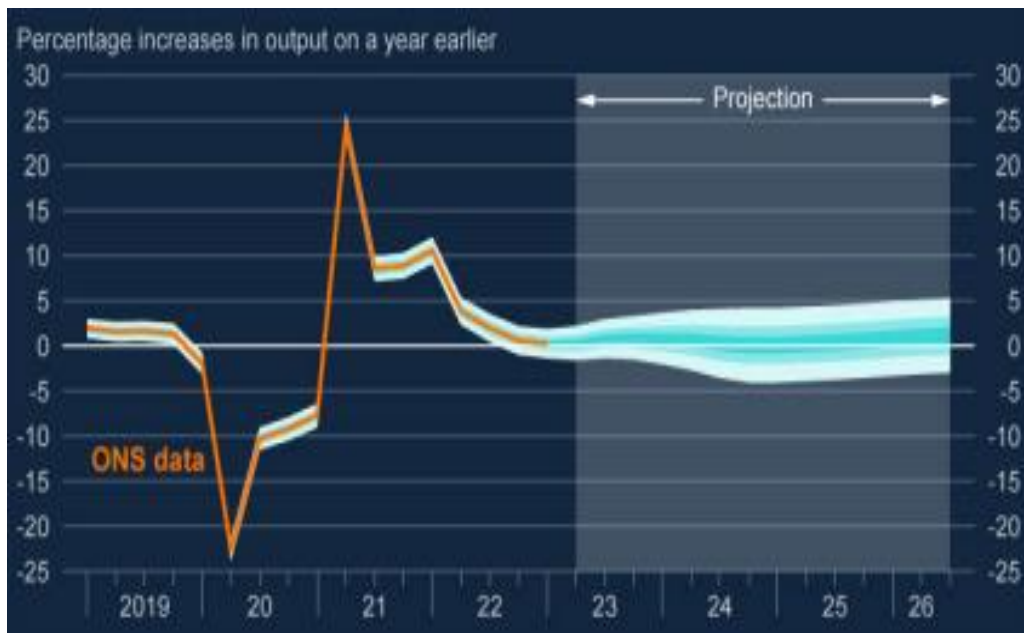
people's behaviour, for example, increased home working and online shopping. Have they permanently changed and do they impact on the time any recovery may take?

- What will the impact be on our local economy in terms of jobs? Will the green shoots of a post pandemic recovery, as seen with the recent rise in recruitment numbers at Heathrow Airport, be slowed down or will the growth prospects for the Borough be reversed.

Economic update

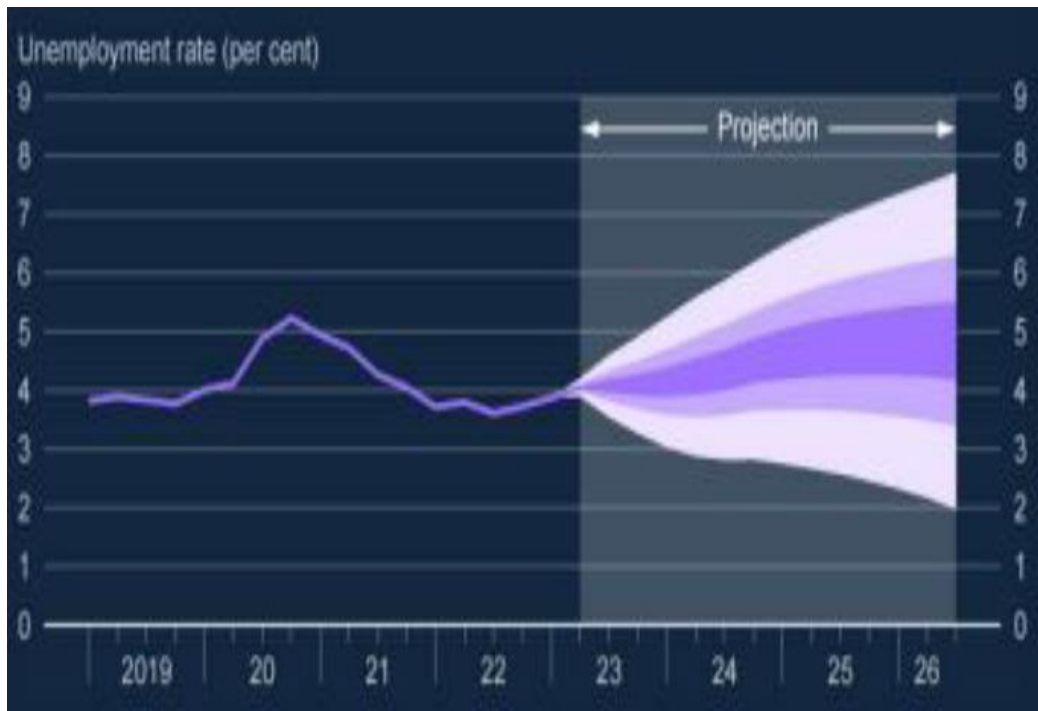
- 1.4 ArlingClose, the Council's Treasury Management Advisors provided the Economic summary in September 2023, as shown below.
- 1.5 Bank of England's unemployment projections that forecast a sharp rise in unemployment over the next three years, as shown in the table below. This potentially will add to pressures on households and resulting in increased need to provide council tax support for example.
- 1.6 Past increases in Bank Rate, and the higher path of market interest rates on which the forecast is conditioned, weigh to an increasing degree on the UK economy in coming quarters. Gross Domestic Product (GDP) growth remains below pre-pandemic rates in the medium term, also reflecting relatively weak potential supply and a waning boost from fiscal policy, as shown in the table below.

Chart 1: Bank of England chart, reproduced by Arlingclose showing range of economic growth for the UK ranging from most pessimistic to most optimistic



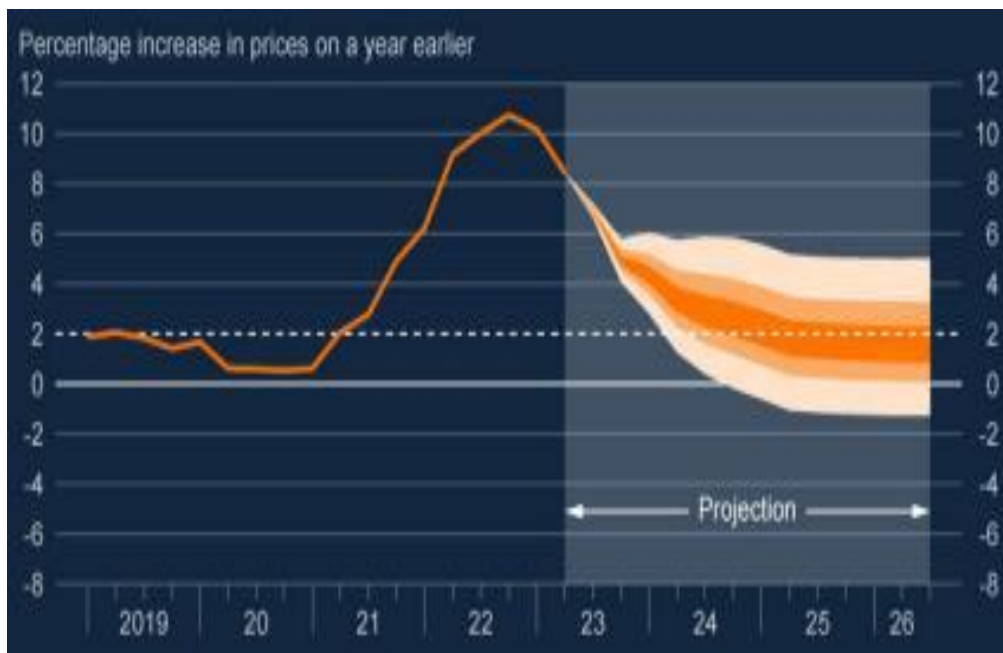
- 1.7 The UK economy has been in excess demand over recent quarters, but an increasing degree of economic slack is expected to emerge after the middle of next year, leading to a rise in unemployment, as shown in the table below:

Chart 2: Bank of England chart, reproduced by Arlingclose showing range of unemployment outcomes for the UK ranging from most pessimistic (8% by mid 2026) to most optimistic (2% by mid 2026)



- 1.8 Second-round effects in domestic prices and wages are likely to take longer to unwind than they did to emerge. In the modal forecast conditioned on market interest rates, an increasing degree of spare capacity in the economy and declining external cost pressures lead Consumer Prices Index (CPI) inflation to return to the 2% target by 2025 Q2 and to fall below target in the medium term, but to a lesser degree than projected in the May Report.
- 1.9 The Bank of England's Monetary Policy Committee (MPC) continues to judge that the risks are skewed to the upside, but by less than in May. Taking account of this skew, mean CPI inflation is projected to be 2.0% and 1.9% at the two and three-year horizons respectively.

Chart 3: Bank of England chart, reproduced by Arlingclose, showing projected future movement in prices ranging from most pessimistic (5% mid 2026) to most optimistic (1% deflation by mid 2026)



- 1.10 UK inflation and wage growth remain elevated, but the August CPI data suggested that inflation was falling more rapidly. In a narrow 5-4 vote, the MPC took the opportunity to hold rates at 5.25%, a level we see as the peak. Near-term rate cuts are unlikely, although downside risks will increase as the UK economy inevitably slides into recession.
- 1.11 While the MPC vote was close, and the minutes contained the warning about the need for further tightening if inflationary pressures persist, both the decline in closely-watched inflation measures and confidence that wage growth had peaked, clearly allowed policymakers to focus on the weaker activity data. The MPC on 2/11/23 again voted to keep rates unchanged at 5.25%
- 1.12 The UK economy has so far been resilient. However, recent data indicates a further deceleration in business and household activity growth as higher interest rates start to bite. Global demand will be soft, so offer little assistance in offsetting weakening domestic demand. A recession remains a likely outcome.
- 1.13 Employment demand has weakened, and unemployment has increased, although the tight labour market has resulted in higher nominal wage growth. Anecdotal evidence suggests slowing recruitment and wage growth, and we expect unemployment to rise.
- 1.14 Consumer confidence has improved due to signs of real wage growth amid strength in the labour market, but household spending will remain weak as mortgaged households suffer higher interest payments and unemployment rises. Business investment/spending will fall back due to higher borrowing costs and weaker demand.
- 1.15 Inflation is anticipated to continue to fall over the next 12 months, albeit with upside risk. The MPC's attention will remain on underlying inflation measures and wage data. Policy rates will remain at the peak for another 10-12 months,

until the MPC is comfortable the risk of further second round effects have diminished.

- 1.16 Maintaining monetary policy in restrictive territory for so long, when the economy is already struggling (as the recent PMI data indicate), will require significant policy loosening in the future to boost demand and inflation.
- 1.17 Global bond yields remain volatile. Like the UK, the Federal Reserve and other central banks see persistently higher policy rates through 2023/2024 as key to dampening domestic inflationary pressure. Data points will therefore prompt changes in bond yields as global interest rate expectations shift.
- 1.18 Reports in the media in late October 2023 indicate that there will be a significant rise in the number of business closures over the next few years, which will only exacerbate a difficult economic climate for the residents in the Borough and ultimate the Council, on its services, i.e., homelessness and funding, i.e., the collection of the Council Tax, where the Collection rate is forecast to decline by at least 2% from a robust 97% Collection Rate.
- 1.19 Officers believe that as the number of local residents come to an end of their current fixed interest rate mortgage deal, the financial pressure on these households will increase significantly and this will have a knock on effect for the Council.

Responding to the above economic impacts

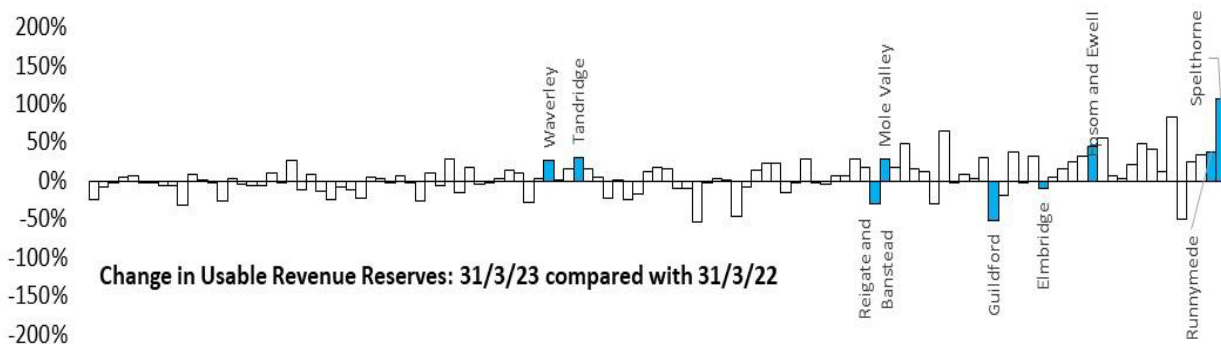
- 1.20 Officers are not proposing any amendments to the current level of localised council tax support for our residents struggling to pay council tax.
- 1.21 Along with a substantial number of English district and borough councils, Officers believe that the Council will see a rise in numbers of residents presenting themselves for Housing Options support, which is why officers have submitted a £900k growth bid to deal with this issue.
- 1.22 The suspension of the direct housing development programme in September 2023, will provide Council with the breathing space it needs to access a wide range of options to deliver the affordable housing desperately needed in the Borough.
- 1.23 There are a range of possibilities to consider from joint ventures to sale of a development site. Each site will need to be considered as part of the master plan for each location in the Borough.
- 1.24 Due to the current property market and high interest rates, in the short term, it may not prove beneficial to sell a property, as it could crystallise a capital loss, which would have a significant impact on the General Fund balance, which would require funding from the Council's revenue budget or matching against the disposal of another asset which would generate a capital gain to offset or reduce any capital losses.
- 1.25 The accumulated capitalised costs of £14.7m, as at 30 September 2023 can remain in the balance sheet for now, until Council makes a decision
 - On the basis that Council wish to progress these sites to completion, (excluding direct delivery), i.e., as part a joint venture or selling the sites to a third party, these costs can remain in the balance sheet as capitalised costs.

- If Council ultimately decide that these sites will not form part of a joint venture or are not to be sold, then these costs must be charged to the Revenue Budget immediately and this will have a major impact on the Revenue Budget, which can be partially offset by the repurposing and use of the Council's Earmarked Reserves.
- 1.26 The capital costs continue to accrue at approximately £180k per month, which is taking much needed operational cashflow from the Council's, as it is tied up in each capital project, until they are completed.
 - 1.27 Officers are constantly reviewing the Council's policy of capitalising borrowing costs in the light of these delays and section 4.8 of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in respect of borrowing costs, in the light of future Council's decisions.
 - 1.28 With Public Works Loan Board (PWLB) fixed interest rates currently (17/11/23) at 5.07%, the financial viability of the Council's remaining capital projects, as set out in the addendum to the 2023-24 to 2026-27 Capital Programme, which was approved by Council on 19 October 2023, will require careful management.
 - 1.29 An option for Council to consider would be cashing in the Council's £33m investments, which yield approximately 4.4% to internal fund the construction of the leisure centre and reduce the need for external PWLB borrowing at say 5.1%, saving the Council 0.7% (5.1% - 4.4%) per annum in net interest payable. Considerable more modelling is required, so this is not being put forward as a decision for this meeting. Since work on this report commenced PWLB rates have started to fall (reducing from 5.6% to 5.1% for 50 year fixed rates) this may mean if the rates continue to fall that the differential between borrowing rates and investments would sufficiently close to render this no longer an option worth exploring.
 - 1.30 Where PWLB fixed interest rates to fall by over 50% to below 2.5% the Council could consider refinancing the leisure centre by seeking to look in the financing at long run lower rates, to assist with cashflow and protect the revenue budget.
 - 1.31 Taking out a short term PWLB fixed interest rate loan for say three years, and then refinance for the forty-seven years at a lower rate, this is a risky strategy as the council would be hoping for a reduction in PWLB fixed interest rates over the next three years.
 - 1.32 Over the last few years, officers have been exceeding the Council assumed collection rate of 97% for 2023-24, however, the council has been experiencing a reduction in the amount of Council Tax collected and based on the comments above and erring on the prudent side it is recommended (as set out in the separate report on this Agenda) that the Council should adopt a prudent 95% collection rate for 2024-25 (currently forecast an outturn collection rate for 2023-24 of approximately 5%).
 - 1.33 Local Government finances are under the microscope as never before. According to the BBC on 1 November, as many as one in ten councils is in serious financial difficulties.
 - 1.34 At a recent conference, the District Council Network agreed to submit a letter to the Chancellor of the Exchequer to highlight the financial pressures on

Councils caused by a 26% increase in demand for temporary accommodation, which is having a significant impact on Council's finances. Spelthorne is contributing towards national lobbying of Government to recognise the impact of these pressures on councils.

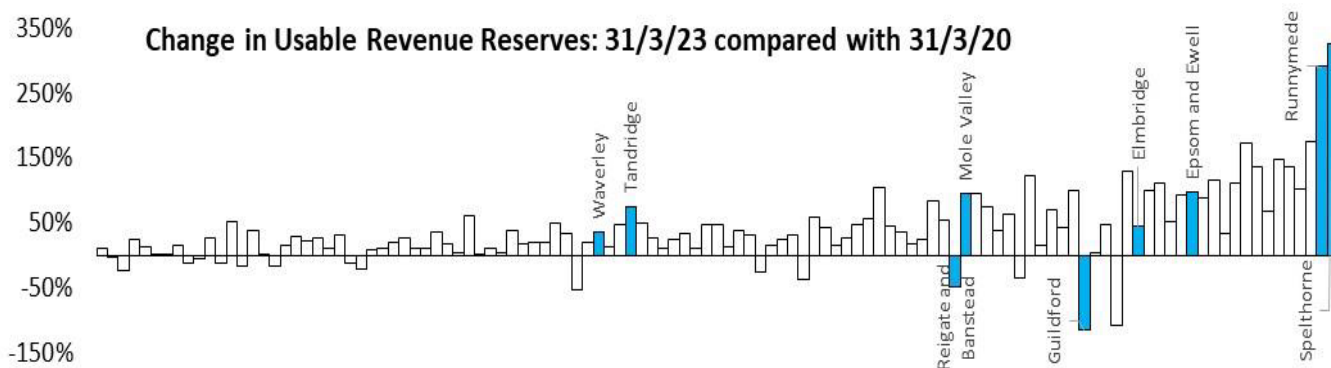
- 1.35 As the Council saw in 2023-24, despite extensive lobbying, officers are not anticipating that the Council will receive any significant additional Government financial support in 2024-25 for the challenges faced with income recovery.
- 1.36 Refreshing the Council's annual Reserves Strategy and consideration of some planned short-term use of reserves as part of a longer-term strategy to balance the Council's budget and maintain financial stability for the Council over the next four years. See paragraph 1.83 for projected movement in reserves excluding sinking funds reserves.
- 1.37 As part of the Council's long term financial sustainability strategy, the Council has continued to steadily grow its cash back usable reserves, and the table (chart 4) below shows the movement in reserves from 31 March 2022 to 31 March 2023, as compared to some other Surrey Districts, it can be seen from the chart that in the year 2022-23 Spelthorne increased its reserves more than any other district or borough council.

Chart 4: Change in Usable Revenue Reserves 31/3/23 compared with 31/3/22



- 1.38 The table highlights that the investment portfolio is continuing to perform and allow the Council to set aside cash for any unforeseen circumstances.
- 1.39 This strategic approach is highlighted by Chart 5 below (which shows the change in useable reserves between 31 March 2020 and 31 March 2023,

Chart 5: Change in Usable Revenue Reserves: 31/3/23 Compared with 31/3/20



again, demonstrating the balanced approach adopted by the Council to grow its useable reserves, and provides some comparative information against some other Surrey Districts. It can be seen that over the last three years Spelthorne has seen the biggest increase in useable reserves of any district (or borough).

- 1.40 At the end of 2022-23 the Council has £72m (including £38m in earmarked sinking funds reserves) in cash backed reserves (including £8.4m set aside to be applied as Community Infrastructure Levy) and whilst a significant proportion of them are earmarked for specific purposes (including sinking funds), some could be applied to offset the budget deficits. In January a Revised Reserves Strategy report will be brought to this Committee to review and reconsider the purposes for which some of these reserves will be held.
- 1.41 The suspension of the Council's direct housing development projects is having a negative medium-term impact on the funds flow from Knowle Green Estates Ltd. (KGE) to the Council.
- 1.42 Over the next few months, Council along with the Board of Directors at KGE, will need to access and finalise a suitable strategy that will turn the £400k annual deficit for KGE into a positive contribution. The Council with the Board of Spelthorne Direct Services (SDS) can also review the future projected Revenue contributions from SDS to the Council.

Pay Awards

2023/24

- 1.43 The local Unison branch formally requested that the pay award be restricted so that each FTE received the equivalent of £1,925 per annum, which equates to an average aggregate pay award of 3.54%, across the Council. Council agreed this and built this into the 2023-24 Budget.
- 1.44 By structuring the pay award in this manor, the percentage increase is approximately 10% for the lowest grade members of staff and just under 2% for our highest-grade members of staff.

2024/25

- 1.45 Unison initially requested a 14% increase, following discussions with management, who explained the financial challenges facing the Council and that if this award was granted it was likely to lead to redundancies. The consensus was that it was preferable to protect these posts going forward.

- 1.46 The proposal is for a 3% award as follows:
- 2% (consolidated ie built into the base for future years) for all employees
 - 1% non-consolidated to be divided equally between all FTEs, regardless of grade, which will provide a greater percentage award to employees on lower grades.
- 1.47 Senior officers have discussed the above proposals informally with local Unison who are understanding of the pressures the Council is facing. The above proposal is subject to sufficient progress being made in closing the budget gap and if necessary it could be the case that the uplift which is affordable would be just the 2% consolidated element.
- 1.48 It should be noted that the Council following on from the LGA Peer Review last year recently commissioned an Establishment Review which confirmed that across many roles our council staff are not as well remunerated as other comparable councils.
- 1.49 **Pensions** - Local Government pensions are subject to a triennial valuation every three years. The next one is due to reflect the position as at 31 March 2025 and will impact on employer contributions in 2026-27. We have built in some provision for a further upward increase. The Outline Budget projections has reflected an anticipated £500k increase in employer contributions from 2026-27.
- 1.50 **New Spelthorne Leisure Centre** – Again, this has been subject to increased inflationary build costs which increased the cost at the point the Council approved the scheme and as advised to the Council when the scheme was approved, once it is constructed it will not fully cover its costs once it becomes operational in the summer of 2024, full scheme does not complete until phase 2 is completed in late 2024-25. This has been reflected in the Outline Budget projections and is one of the pressures on the Budget gap.
- 1.51 **Additional Statutory Duties** - we also need to be mindful of the potential for additional statutory duties and requirements being imposed on Councils during the Outline Budget period, a potential example could be the proposed waste management changes such as universal green waste collection being proposed by DEFRA in a few years' time which could have a significant cost impact on our refuse collection arrangements. Officers will undertake an analysis in the coming weeks to provide a summary of the split in budgeted spend between mandatory and discretionary areas of activity
- 1.52 **Inflation** – The latest Consumer Prices Index figure for October of 4.6% was a significant reduction from the previous month and a slightly bigger fall than expected. Within the MTFP the Council is modelling the following:
- 5% for third party contracts for 2024-25 and cash freeze thereafter
 - 3% for salaries, for 2024-25 and 2.5% thereafter
 - 5% on Fees & Charges
- Opportunities-** not only will there be challenges, but there will also be opportunities including:
- 1.53 **Zero-based budgeting and budget consultation** – undertaking a zero based budgeting exercise requires a significant amount of time and resource

but it may be worth considering undertaking in autumn 2024 to feed into the 2025-26 Budget process in order to undertake a fundamental review of budgets. Similarly in 2024 it may be worth considering options for undertaking some targeted budget options engagement/consultation with residents to generate feedback which councillors can take into account when making future prioritisation decisions particularly for the challenging 2026-27 Budget.

- 1.54 **Partnering** – Over the last few years, SBC have been partnering with other councils to ensure that the emphasis is on service delivery, rather than additional administration or supervision. These include:
- Counter Fraud – with Reigate & Banstead Council
 - Spelthorne Personal Alarm Network – with Mole Valley District Council
 - Family Support - with Elmbridge and Epsom and Ewell Borough Councils and Surrey County Council
- These are just a few of the successful partnerships the Council are involved with locally for the benefit of our taxpayers.
- 1.55 Both Mole Valley District Council and this Council are currently progressing the joint venture to combine the Finance Teams of the two Councils, this is to improve resilience, aid recruitment and deliver efficiencies and savings, particularly around the use of Centros, the Council's Enterprise Resource Planning financial system.
- 1.56 The Audit Committee is currently considering the option of potentially joining a shared internal audit partnership.
- 1.57 Should the Council look to outsource some of its services to other Councils, alternatively, should Spelthorne Borough Council establish itself as an outsourcing shared service? In the context of the financial challenges all councils are facing and uncertainties around the future of local government in Surrey, it is particularly timely to look at these opportunities, including procurement (for example looking to aggregate contracts across councils to increase buying power).
- 1.58 Partnering can also be considered in the context of how the Council can effectively work with other partners and communities to achieve its desired outcomes drawing on the resources of those partners and communities to add to the resources the Council itself is able to apply.
- 1.59 **Investment Properties** – following a number of challenges, that have impacted on the Council, requiring the planned use of the Sinking Fund earmarked reserves, which is what they were intended for, to maintain the £10m+ contribution to the revenue budget, things are settling down.
- 1.60 There is still work to do in respect of increasing the occupancy rates at a couple of our buildings which would significantly increase the Council's revenues.
- 1.61 The latest unplanned external challenge to impacted on the United Kingdom and the Council's income streams, namely the unrest in the Middle East and ongoing war in Ukraine will slow down economic growth and activity over the coming months.

- 1.62 Until then, Officers will continue to exercise caution and taking a worst case scenario for reduced rental income and landlord costs. This prudent approach makes it clear that as forecast, there will be a need to use the Sinking Fund to balance the Council's Revenue Budget and maintain the £10m revenue contribution to the Council.
- 1.63 The recent sinking fund review modelled the likely impact on future cashflows and are forecasting that over the next 44 years, the Council will invest an average net £3.5m per annum into the Council's sinking fund to cover unplanned emergencies, such as, warfare, together with providing sufficient fund to ensure that the Council still receives a £10m contribution towards front line service delivery, affordable housing and regeneration programmes.
- 1.64 The modelling indicates that in 45 years time the aggregate sinking fund balance will potentially be in excess of £200m, with the vast majority of loans for investment assets almost paid off, providing Council with sufficient funds to consider a wide range of options.
- 1.65 **Invest to save & cashable savings** – Officers are exploring a number of options, however, given the financial challenges facing the council, their preference is to generate cashable savings and from those savings launch the invest to save strategies, as this would protect the Council's operating cashflow.

There are several other initiatives that fall under the invest to save category that Officers will be looking to deliver cashable savings of £1.15m over the following headings over the next 4 years.

1. Cashable including procurement savings- this will focus on opportunities to aggregate spend with other councils, and review contract renewals as savings opportunities
2. Business Improvement/transformation including digital transformation
3. Green Initiatives.

Progress on delivery of savings will be reported to councillors on a quarterly basis as part of the Budget monitoring process. In order to capture some of the cashable savings arising from transformation it will be necessary to implement some additional vacancy control processes.

With respect to the Business Improvement strand the breakdown is set out below

Item	Total Yr1	Total Yr2	Total Yr3	Total Yr4	Total
Email	£31,074	£82,863	£124,295	£165,726	£403,957
Hybrid	£16,200	£32,400	£48,588	£64,784	£161,972
E-bills	£1,141	£11,900	£17,856	£22,128	£53,025
Paris Licence		£2,858			£2,858
Advantage Digital (Connect)		£21,793			£21,793
GovTech	£34,382	£109,915	£123,915	£125,602	£393,814
Portal Subscriptions					
Webchat		£35,500	£35,500	£35,000	£106,000
IVR					
Missed Bin					
Garden Waste	£2,000	£2,000	£2,000	£2,000	£8,000
	£84,797	£299,229	£352,154	£415,240	£1,151,419

From these savings, the Council will be looking at other various invest to save projects to reduce costs over the next 5 years..

1.66 **Digital Transformation** - The Council's digital transformation programme is now bringing projects to a conclusion and these will deliver cashable savings, and includes:

- A move towards replacing physical document printing and postage to hybrid solutions. The initiative will deliver a stepped reduction in costs through an initial managed transition to hybrid mail which will reduce the average price of outbound communication by 30p per unit on average. Further savings will then be delivered with a further shift to fully electronic delivery methods, eventually reducing the cost to 10 pence per correspondence item. It is noted that not everyone will have emails, so the traditional communication will still be available, savings of over £150k are achievable.
- Application of Artificial intelligence, better use of data, enabling In order to crystallise over time savings from these changes the Council will expect to see reduced staff levels over a period of time in some services areas but will look to achieve this in a managed way through natural wastage etc

1.67 **Knowle Green Offices** – As the hybrid era of working continues, officers are continuing to explore how the Council can maximise the opportunities and reduce the overall running costs for the current office. The Council is it is suggested will need to evaluate options for downsizing its office footprint including moving away from the current Council offices.

1.68 **New Corporate Plan** – this is being formulated by the Administration working with officers, and will be a key priority for the Council to evolve the current Corporate Plan to ensure that all cost of services are aligned to deliver the strategy established by Council. This will help the Council to focus on what are its strategic priorities and equally what it is prepared over time to do less of. One piece of work which may assist with prioritisation will be analysis

being undertaken by officers to summarise which service areas are statutorily required and which are discretionary, although it should be noted that in some service areas it is not a black and white and some mandatory services have discretionary levels of resourcing etc.

- 1.69 **Centros (financial system)** – the project is ongoing and has achieved improvements in the budget setting process, enabling officers to produce the first draft of the 2024/25 month twelve weeks ahead of previous years, enabling councillors and officers to have great oversight over the Councils finance.
- 1.70 Other projects include:
- Budget Monitoring and refining the clarity of reports
 - **Business intelligence dashboards** – is an information management tool that analyses information and displays it graphically, which will also assist with data used in Council reports in conveying important messages.
 - **Application Programme Interface** – enabling us to open our data for the development of apps for our services, Officers are already looking to see how we can establish interfaces with the Assets team to model sinking funds.
 - **Mapping** – by introducing ‘maps’ for our standard internal external reports, once established, this will reduce the time taken to collate the report by over 95% in respect of Officer time.
- 1.71 Now that the financial system upgrade has been achieved, officers will now be working with Transformation Team to access and prioritise all projects and agree a delivery schedule for the next three years.
- 1.72 **Empty property premia** – Following last year’s Council decision to apply the maximum empty property council tax premia with the decision being made in the context that Surrey County Council would ringfence its 76% share of the council tax generated and make it available for us to bid for to use to support our projects which align with County priorities, Officers will be submitting a claim to Surrey County Council (SCC) to make use of their offer to spend their share of this income of related project in our Borough again for 2024-25 but we will only assume this will generate a further £50k grant support.
- 1.73 **Affordable Housing Delivery-** as stated above the direct delivery of affordable homes has been suspended, however, it remains essential that the Council maintains momentum of its affordable and keyworker programme, now moving forwards in the form of our emerging placemaking and joint venture strategy otherwise it faces abortive costs which will significantly increase its Revenue Budget gaps and will fail to deliver on one of the main priorities of the Council’s Corporate Plan
- Current initiatives**
- 1.74 Officers have several initiatives that they have been working on to drive efficiency, reduce costs or increase income, some have been mentioned separately in this report, particularly around partnering, and also including:
- 1.75 In mid October the draft budget gap was initially identified at £6m of which £2.3m related to the extent to which service growth proposals exceeded savings. All Group Heads and MAT were tasked to find savings/additional

income in excess of £2.3m. To date potential savings of £1.3m have been found, and provisionally £0.564m of growth bids removed. Additionally £0.5m of funding is proposed to be applied from earmarked reserves.

- 1.76 At the same time Group Heads and senior managers were asked to look ahead over the next four years (2024-25 to 2027-28) and identify additional savings/income/transformation opportunities.
- 1.77 MAT are considering options for incentivising staff and managers to identify and propose savings (either expenditure reductions or additional income) which are implementable and help close the budget gaps.

Medium Term Financial Strategy (MTFS)

- 1.78 Continuing to refresh our medium-term financial strategy (MTFS) will help bring together all known factors affecting the Council's financial position and its financial sustainability into one place. This should be as wide ranging as possible and include all the assets and liabilities on an organisation's balance sheet. This is particularly important, and challenging, in the context of the significant additional uncertainties generated by the financial impacts of COVID-19, as mentioned above, some of which have yet to be fully felt. The Council also needs to understand the full impact of the cost of living crisis as it unfolds, and take action, as it has done so, with utilising the Cost of Living and supplementary reserves amounting to £564k. It also allows the Finance team to balance the financial implications of objectives and policies against constraints in resources. This should in turn form the basis for Council's decision making.
- 1.79 A good MTFS should provide a clear and concise view of future sustainability and the decisions that need to be made to address any gaps in long-term financing. It forms the pivotal link to translate the organisation's ambitions and constraints into deliverable options for the future.
- 1.80 Considering the above Officers are predicting that the (surplus) or deficit for the four years ended 31 March 2028 will be as follows, as shown in Appendix A. It should be noted that the budget gap represents a central set of assumptions. One key assumption is that any potential business rates reset and "fair funding" review, given the timing of the next General Election, will not happen before 2026-27 at the earliest. We have built in an assumption that in 2026-27 we will see a significant drop in the amount of retained business rates we are allowed to keep.

The following Budget Gap analysis is broken down into four stages (to demonstrate how we move from initial gaps such a gap of £4.7m for 2024-25 to balancing the budgets in each year).

a) to show underlying gaps reflecting projected expenditure and income before savings, and use of reserves

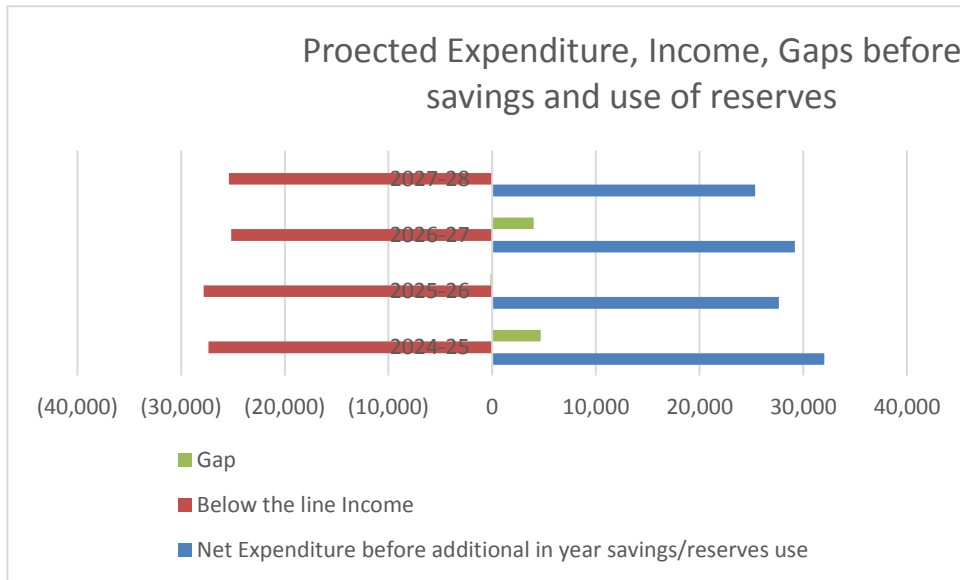
b) to show underlying gaps reflecting projected expenditure and income including identified savings streams (and specific savings items identified for 2024-25 by managers), and use of reserves

c) to show underlying gaps reflecting projected expenditure and income including identified savings streams, and use of specific reserves

d) to show underlying gaps reflecting projected expenditure and income including identified savings streams, and use of specific reserves and residual savings to be found and use of reserves to balance the Budget each year

A)

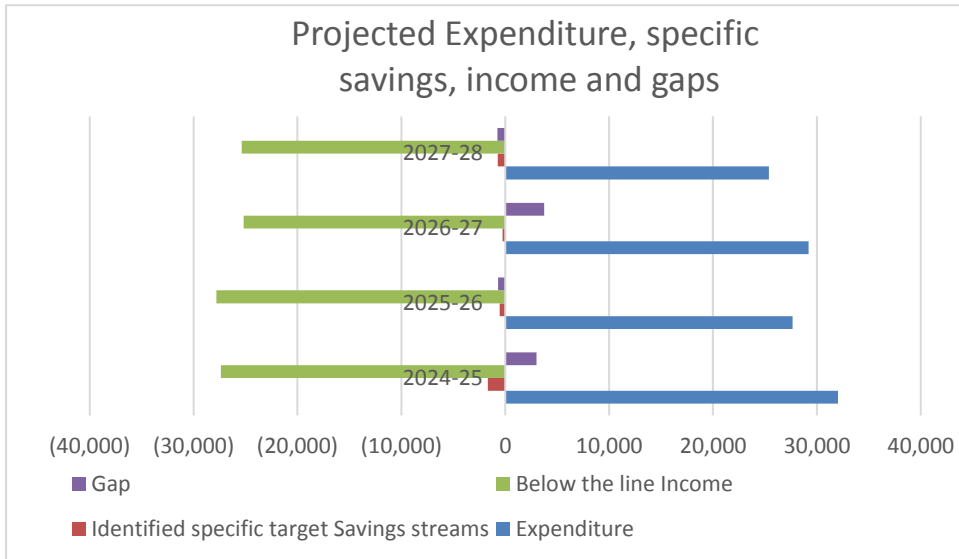
	£000's	£000's	£000's	£000's
	2024-25	2025-26	2026-27	2027-28
Net Expenditure before additional in year savings/reserves use	32,035	27,659	29,191	25,377
Below the line Income	(27,367)	(27,816)	(25,175)	(25,385)
Gap	4,669	(157)	4,015	(8)



B)

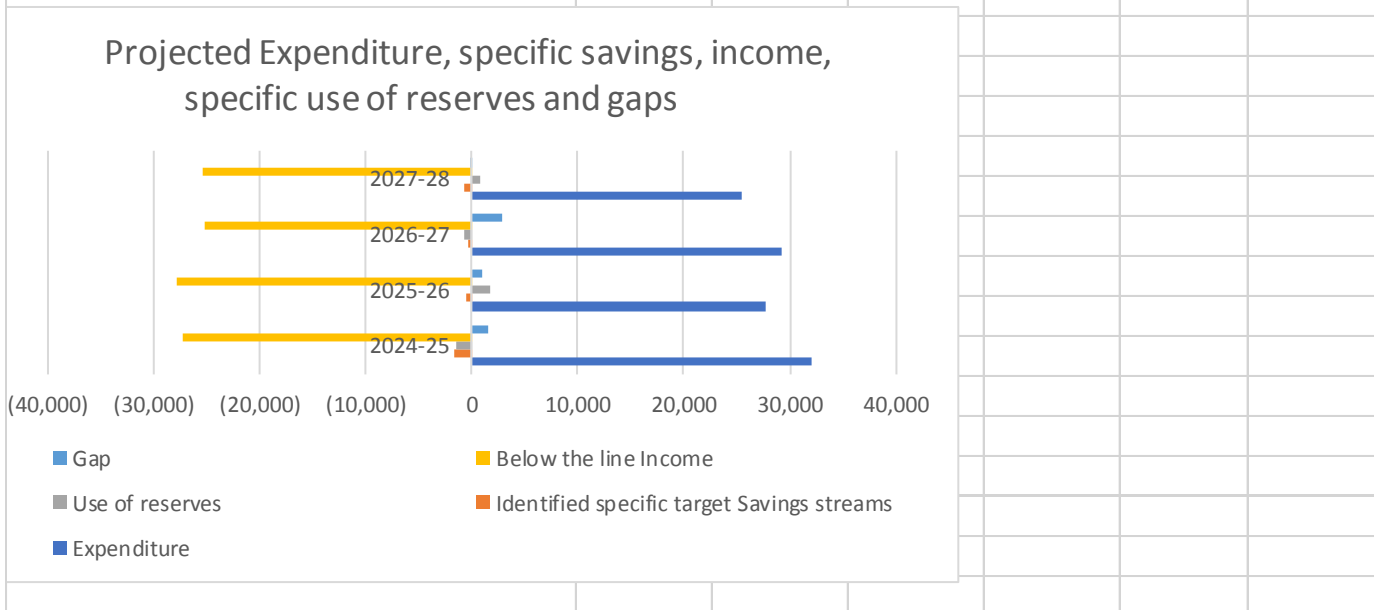
Gross Expenditure and Income after savings and before use of reserves

	£000's	£000's	£000's	£000's	£000's
	2024-25	2025-26	2026-27	2027-28	Total
Expenditure	32,035	27,659	29,191	25,377	
Identified specific target Savings streams	(1,667)	(535)	(270)	(735)	(3,207)
Below the line Income	(27,367)	(27,816)	(25,175)	(25,385)	
Gap	3,002	(692)	3,745	(743)	



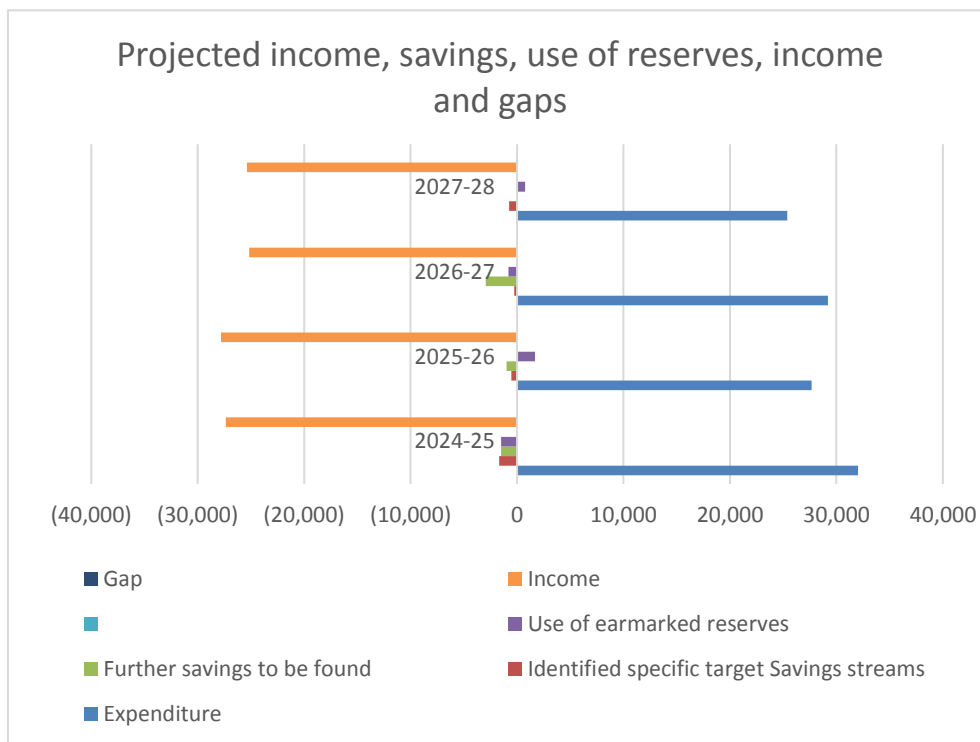
C)

Gross Expenditure and Income after savings and before use of reserves					
	£000's	£000's	£000's	£000's	£000's
	2024-25	2025-26	2026-27	2027-28	Total
Expenditure	32,035	27,659	29,191	25,377	
Identified specific target Savings streams	(1,667)	(535)	(270)	(735)	(3,207)
Use of reserves	(1,501)	1,692	(800)	743	134
Below the line Income	(27,367)	(27,816)	(25,175)	(25,385)	
Gap	1,500	1,000	2,945	(0)	



D)

	£000's	£000's	£000's	£000's	£000's
	2024-25	2025-26	2026-27	2027-28	Total
Expenditure	32,035	27,659	29,191	25,377	
Identified specific target Savings streams	(1,667)	(535)	(270)	(735)	(3,207)
Further savings to be found	(1,500)	(1,000)	(2,945)	0	(5,445)
Use of earmarked reserves	(1,501)	1,692	(800)	743	134
					0
Income	(27,367)	(27,816)	(25,175)	(25,385)	
Gap	0	0	0	(0)	



1.83 Under option D above we would indicatively balanced the Budget each year. Pursuing this suggested indicative approach suggests that there are a further £1.5m of savings to find to balance the budget. If that level of savings can not be found then greater user of reserves would need to be made.

The above analysis excludes movements in and out of the sinking funds.

Currently excluding sinking funds reserves and sums in reserves relating to CIL there is a balance of approximately £24m of reserves. Applying the above indicative use of reserves would ensure that over the four year period that the closing balance would be similar to the opening balance. This is important as we are aware that are accumulated capitilised costs some of which could depending on how our regeneration schemes are taken forward could need to be written off to Revenue in the future. Effectively we are identifying use of reserves to support closing the Budget in the two years which have more pressures ie 2024-25 and 2026-27 and replenishing the reserves in the easier two years 2025-26 and 2027-28.

	£000's	£000's	£000's	£000's
	2024-25	2025-26	2026-27	2027-28
Non-committed Reserves				
Total Non-committed (excluding sinking funds, CIL reserves)				
Opening balance	24000	22,499	24,191	23,391
Balance after above use of reserves	22,499	24,191	23,391	24,134

Key Assumptions Underpinning the Projections

- Council tax is expected to increase by the referendum limit in each financial year, which currently for 2024/25 is 2.99% and then 2.99% for the following years
- Council base is set at 39,241 Band D equivalent dwellings for 2024-25 (see separate report on the Agenda) and assumes a 5% non-collection rate in the face of growing cost of living pressures (3% for 2023-24)
- The Council Tax base (number of properties) will increase by 1.5% per year
- Business rates income has been estimated at the settlement funding assessment expected as part of the LGFS
- That each year the Council's investment assets will make a £10m contribution towards supporting the cost of the Council's services. This will be regulated by use of the sinking funds reserves as an equalisation mechanism
- Any change to local government funding and a reset of the business rates retention scheme has been assumed to take place in 2026-27, on the assumption that there is not sufficient time for the necessary consultation to be undertaken by Government post the next General Election to implement any business rates reset in 2025-26
- Other grants are based on S151 Officer advice based on best information available
- Investment interest is expected to reduce from current rates to 4% and then 3% over the MTFP
- Employee budget inflation is assumed at 3% for 2024-25 (of which 2% is carried forward) and 2.5% per annum in the following three years
- General Inflation is assumed at 5 based on inflation forecasts from the Bank of England
- That the control on additional posts will continue with no FTE growth bids to be considered unless they are externally funded or are a specific statutory requirement
 - Fees and charges increase has been assumed as at least 5% (subject to the review outlined below)
- That in 2026-27 there will be a further £500k increase in employers pension contributions following the next triennial valuation

1.84 After savings already found and a suggested use of £1.5m use of reserves, the Council is currently facing a budget gap of £1.5m for 2024-25 (scenario B above). The Council is also facing a significant Budget gap in 2026-26 when we are assuming fair funding review/business rates rest and employers pensions contributions will hit. More work will be undertaken between now and February to close the gap for 2024-25.

2. Financial announcements and implications

2.1 **Council Tax** – In the 2022 Autumn Statement, the Chancellor announced that for 2023/24 and 2024/25, lower tier councils can increase their council tax bills by 3%. In comparison upper tier councils such as Surrey County Council will be able to increase by 3% plus a further 2% for adult social care. At the time of writing this report, we do not know what will be in this year's Autumn Statement, Councils are waiting to see if there will be any revision to the Council tax limitations for 2024-25.

2.2 Applying an increase of 3% in Council would yield an additional aggregate council tax revenue of £254k and £270k for 2024/25 and 2025/26 respectively.

2.3 **Provisional Local Government Finance Settlement (PLGFS)** – the announcement of provisional grant funding for councils by Government is expected to in the week before Christmas, which is very close to Christmas, this is possibly the latest we have ever received settlement details. The final settlement following consultation with councils is then expected at end of January 2024. We are expecting a “roll over” settlement i.e. do not expect any significant funding methodology changes. It is anticipated that the Fair Funding Review and Business Rates will slip to at least 2026/27- in the outline Budget projections we have assumed a reduction of a third in the amount of business rates we retain from 2025-26 and the disappearance of New Homes Bonus at the same time. This is a factor as to why the last two years in the outline budget period are particularly challenging.

2.4 **Business Rate** – The business multiplier has been frozen for another year. Whilst it has not yet been formally confirmed it is anticipated that the Business Rates Retention scheme is going to remain unchanged at 50% (this does not mean councils retain 50% of business rates but above a baseline they gain 50%) and that the associated baseline levels will not be reset for councils. There are some indications that the focus on Levelling Up by the Government may cause Government to reflect further on whether it wishes to move to a 75% Business Rates retention scheme. When the business rates baseline is reset, there is a risk for the Surrey councils as when the baseline was set in 2013-14 for the 50% retention system the Surrey Councils did relatively well. Business properties will be revalued every three years from April 2023.

2.5 **From 1st April 2023**, across England rateable values have been revalued. The Government will allow reductions to feed through immediately but has a transitional relief scheme to assist those ratepayers whose values and therefore bills are rising. We are working through analysis to understand the impact on the Council's own properties.

- 2.6 **New Homes Bonus Grant** – The PLGFS will announce figures and confirm whether the scheme is being extended.

3. Other considerations

- 3.1 Based on the current projections as shown in 1.82 above, Officers are projecting a deficit for 2024-25 which needs to be closed by the time the detailed Revenue Budget is proposed in February significant deficits for the following three years, therefore, Council will have to plan carefully how it manages the 2024/25 Budget, through the budget setting process.
- 3.2 The current net growth bids for 2024/25 amounting to £1.306m (a reduction compared to the initial bids of £2.3m put forward) will need to be carefully considered and by allowing them in 2024/25, this will impact on 2024/25 and beyond, therefore, between now and the first draft of the budget more refinement of these bids will be required, and this should increase the surplus available for Council.
- 3.3 As mentioned above, Officers have allowed for the maximum increases in Council Tax, based on the Autumn Statement (3% for 2024/25 and 2025/26) should Council decide to implement a £5.00 (2.3%) increase, this would reduce the surplus by £58k and £66k for 2024/25 and 2025/26 respectively.
- 3.4 Alternatively, Council could consider putting these funds into an earmarked reserve to assist with the Cost of Living and inflationary pressures to protect key front line services to our elderly and vulnerable residents.
- 3.5 Officers have forecast that the Council will draw down the maximum amount from available earmarked reserves (Cost of Living & Sinking Funds) and they may wish to retain the funds in these reserves to deal with future issues.
- 3.6 The MTFs and assumptions made by Officers, provides Council with some options to consider, taking into account the projected future years deficit beyond 2024/25.

4. Financial implications

- 4.1 No material implications, other than those discussed above, noting that it is not an exhaustive list.

5. Procurement

- 5.1 Procurement will play a significant role in helping to identify saving opportunities.

6. Risk considerations

- 6.1 As set out in the report, focusing on opportunities to procure goods and services smarter should generate some opportunities to deliver financial savings. Whilst the Council is mitigating risks with respect to dips in investment assets income streams there remain risks if there were higher than expected lease breaks/non renewals over the outline budget period which might result in the need to reduce the £10m annual contribution towards the Revenue Budget.
- 6.2 There remains an ongoing risk that if the Council is unable to achieve positive outcomes on its regeneration site it will have to write back to Revenue Budget

accumulated capitalised costs and potentially charge capital losses on the sites to the Budget.

7. Legal considerations

- 7.1 Councils have a statutory duty to set a balanced Budget. It is essential that the Council has plans in place to ensure the Council remains financially viable over the next few years.

8. Equality and Diversity

- 8.1 Any savings proposals impacting on service users will require an Equality Impact Assessment to be undertaken.

9. Sustainability

- 9.1 There is the potential to align climate change objectives with budget sustainability reductions as reductions in energy consumption assist in easing pressures on the Revenue Budget.

10. Timetable for implementation

- 10.1 November 2023 - Committees review and input into the Service Plans and agree the 2024-25 Fees & Charges proposals for their Cost Centres.
- 10.2 December 2023 - draft 2024-25 budget made available to Committees to consider ahead of reviewing in January for approval.
- 10.3 January 2024 – all Committees review and consider their growth and savings bids and submit list of bids to the Corporate Policy & Resources Committee for final short listing to feed into the final Detailed Budget for 2024-25.
- 10.4 January 2024 – Corporate Policy & Resources Committee meet to finalise the Net Service Budgets for each Committee, along with the budgets for investment and regeneration properties, movement on reserves.
- 10.5 22 February 2024 – Council approves growth and savings bids as part of the 2023/24 annual budget debate.

11. Contact

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Background papers: *Budget Briefing Presentation 10 October 2023.*

Appendices:

Appendix A – MTFS 2024-25 to 2027-28