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Corporate Management Committee

Thursday, 15 December 2022 at 7.30 pm

Council Chamber - Civic Centre

Supplementary Agenda

Medium-Term Financial Forecast, (Amanda Fahey, Assistant Chief Executive)

Synopsis of report:

To present a Medium-Term Financial Strategy for the period 2022/23 – 2025/26, providing a framework to deliver a sustainable financial position to enable the Council to achieve its strategic objectives and to support preparation of the 2023/24 Budget.

The report sets out a Medium-Term Financial Forecast, which is produced for indicative planning purposes only, as detailed Budget proposals, including Council Tax level, will be considered by this Committee in January, for recommendation to Council in February 2023.

The Committee is also asked to consider a proposal for the creation of an additional Assistant Chief Executive post, to create capacity at a senior level in the organisation to support delivery of its strategic aims.

Recommendations:

(i) To recommend the Medium-Term Financial Strategy to Council for approval

(ii) To approve (a) the creation of an additional Assistant Chief Executive post, with an annual budget of £150,000 including on-costs to be included in the updated MTFS, and (b) a supplementary estimate of £20,000 in 2022/23 for associated recruitment costs.

1. **Context and background of report**

1.1 The production of a Medium-Term Financial Strategy is an integral part of the financial planning cycle of the Council, building the framework in which financial decision-making is taken and setting out the context for detailed budget preparation.

1.2 The figures contained in this document are indicative at this stage. They are designed to highlight areas for consideration in the preparation of future forecasts and detailed budget setting and to set out the financial risks facing the Council. The assumptions contained in this report will not necessarily be the final ones used in the preparation of the 2023/24 budget, due in part to continued uncertainty caused by the current economic climate and the yet to be released provisional local government finance settlement.

1.3 This report includes sections covering:

- Economic context including the impact on the Council of announcements in the Chancellor's Autumn Statement
- Key areas of financial risk or uncertainty
- High level forecasts of revenue and capital spending, and associated reserves and funding

culminating in a recommended Financial Strategy.

1.4 It is inevitable in the current economic climate, and in light of the risk factors set out in the report, that there will be significant pressure on the Council's resources, as it seeks to find a balance between service delivery in support of its residents, businesses and local communities, and managing the pressures on its own budgets.

1.5 The report demonstrates the strong possibility that the Council's reserves will be severely depleted in the medium term and the Strategy therefore sets out an approach to mitigate this risk, reducing the Council's reliance on reserves to balance its budget, and returning to a more sustainable financial model over time.

2 Economic context

2.1 Local government has proved itself time and again as having the ability to adapt to its environment and face the challenges thrown at it by external circumstances.

2.2 Like many others, Runnymede responded to years of austerity and cutbacks in funding, by seeking new ways of raising income and reducing its reliance on central government funding, developing a more commercial outlook for its services and working in partnership with others to continue to deliver high quality services for its residents.

2.3 Throughout the Covid-19 pandemic the Council has continued to be adaptable, supporting the local community and delivering direct support to residents and businesses; taking on additional responsibilities with the minimum of financial support.

2.4 During these challenges, the Council has acted prudently, ensuring that it has sufficient reserves set aside to respond to external stimuli and future shocks to the system. This has put the Council in a strong position to face the next significant challenge caused by the current economic climate, including the highest levels of inflation seen for some 40 years, as the Country enters into recession.

3 Government Response

3.1 The "mini budget" launched by the then Prime Minister and Chancellor in September announced a number of policy initiatives which resulted in turbulent markets and major interest rate rises. The position has stabilised to some degree following the appointment of a new Prime Minister and Chancellor and the delivery of the Autumn Statement on 17 November 2022, which reversed a number of the earlier proposals.

3.2 Measures in the Statement included further targeted cost-of-living support to households in receipt of means-tested benefits, those over state-pension age or claiming a disability benefit, continuation of the Household Support Fund for 2023/24 and additional certainty on the Energy Price Guarantee. Those on low pay will be supported by an increase to the National Living Wage, while those in receipt of benefits will see them uprated in line with inflation (measured by September CPI, 10.1%) which will also be applied to the State Pension, the minimum income guarantee in Pension Credit, and to the benefit cap.

3.3 It was announced that Government Departmental Expenditure Limits (DEL) would be maintained at least at 2021 levels, after adjusting for funding that was proposed to support the Health and Social Care Levy, which is no longer going ahead. Additional funding was announced for healthcare system and schools meaning that total DEL would rise by 3.7% over the Spending Review period (2022/23 -2024/25) with real terms growth of 1% expected after the Spending Review period. Additional support was announced for Adult Social Care and discharge, from new grants and from increased flexibility for councils to raise Council Tax, and by delaying the roll out of adult social care reform.

3.4 The preceding paragraphs provide a snapshot of measures contained in the Autumn Statement. How these changes, and others such as amendments to the Business Rates Retention Scheme, may affect Runnymede's finances are set out in later sections of the report.

4 Medium-Term Financial Strategy Review – key risks

4.1 This section of the report sets out the key areas that have been considered when reviewing the financial strategy.

<u>Inflation</u>

4.2 Every year the Council makes allowances in its budget calculations for inflation and while additional inflationary effects were built into the base budget in 2022/23, the now record-high levels of inflation, and in particular, spiralling energy costs, has meant that further, above average, uplifts are required. The tables below show the indicative percentages used in the forecasting and the resultant cost pressure on the Council's budget.

	----------- Inflation -----------			
	2023/24	2024/25	2025/26	2026/27
Pay - Inflation	2.00%	2.00%	2.00%	2.00%
Pay - incremental progression	1.70%	0.90%	0.75%	0.50%
Prices - General	2.00%	2.00%	2.00%	2.00%
Prices - Rents	0.00%	1.00%	1.00%	1.00%
Prices - Taxation	3.10%	2.00%	2.00%	2.00%
Prices - Energy	10.00%	5.00%	3.00%	3.00%
Prices - Fuel	10.00%	3.00%	3.00%	3.00%
Prices - Other	5.00%	2.00%	2.00%	2.00%

	2023/24	2024/25	2025/26	2026/27
Expenditure	£'000	£'000	£'000	£'000
Pay - Inflation	306	414	422	430
Pay - incremental progression	346	187	157	105
Premises	107	96	98	100
Energy	74	41	26	26
Transport & Fuel	57	33	34	35
Supplies & Services	149	112	115	117
Other	7	26	26	27
	1,046	908	877	840
Income				
Fees and Charges	(142)	(145)	(147)	(150)
Rents and Leases	0	(271)	(274)	(276)
	(142)	(415)	(421)	(427)
Net total	904	493	456	414
Cumulative	**904**	**1,397**	**1,853**	**2,266**

4.3 The tables above include the original working assumptions of an annual 2% pay award. Since moving to locally based pay settlements, Runnymede has endeavoured to provide its staff with a package of rewards that support the recruitment and retention of talented staff, and in October, the Council approved its Corporate Business Plan 2022 – 2026, including its Organisational Development Strategy. The annual pay award is just one part of the way the Council supports its staff. In times of such significant rising cost of living, it is important that the Council continues to reward staff, but this has to be affordable in the context of the Council's overall financial position.

4.4 The table below shows the impact of various options for pay awards, including the potential provision of one-off additional support to staff to assist with the impact of the cost-of-living crisis.

Scenarios	----------- Percentage -----------				----------- £000s -----------			
	2023/24	2024/25	2025/26	2026/27	2023/24	2024/25	2025/26	2026/27
Pay award - 2% annually	2.00%	2.00%	2.00%	2.00%	306	414	422	430
Pay award - 3% in year 1	3.00%	2.00%	2.00%	2.00%	458	468	426	435
Pay award - 3% in year 1 & 2	3.00%	3.00%	2.00%	2.00%	458	625	482	439
Pay award - 3% annually	3.00%	3.00%	3.00%	3.00%	458	625	643	663
One-off lump sum:								
£1,000					695			
£1,500					1,043			
£2,000					1,390			

4.5 The scenarios for varying pay increases show the effect in each year, but it should be noted that there will be a cumulative pressure on base budgets where increases are applied year on year. For example, a 2% increase in all years 2023/24 to 2026/27 would see salary costs rise by over £1.5m compared to the budget for 2022/23. While these figures were factored into the last iteration of the medium-term forecast, increasing these levels to 3% in each of those years would add more than £800,000 to salary costs by 2026/27.

4.6 In addition, the Council has been planning for the impact of the increase to the National Living Wage from £9.50 p/hr to £10.42 p/hr from April 2023 (for over 23s). The Council provides this same minimum to all its directly employed staff and has been remodelling its pay scale to ensure no-one falls below this level. The cost of this remodelling is estimated to be some £257,000.

4.7 The payment of a one-off lump sum, which would not be consolidated into base salary scales, could provide a mechanism to support staff in the immediate term without creating an on-going budgetary pressure. It would however be required to be met from the Council's reserves. A later section of this report sets out the potential draw on those reserves over the life of the forecast.

4.8 Further discussion of the factors affecting the proposed pay award for 2023/24 will be set out in a separate report to this Committee, in January.

<u>Government Funding</u>

4.9 While the Autumn Statement set out that Departmental Spending limits would remain at least the same as at the last Spending Review, it will be difficult to see exactly how this will affect Runnymede until publication of the Provisional Local Government finance settlement, expected to be launched week commencing 19th December.

4.10 In 2022/23, the Council received a Services Grant, largely to negate the effect of additional Employers National Insurance Contributions, introduced to support Adult Social Care. With these increases now being reversed, it would be reasonable to assume that the Services grant will cease in 2023/24 (indeed, it was originally badged as a one-off grant). The Council also previously received Lower Tier Services Grant, a large part of which was provided to ensure that no Council fell below the funding level of the previous year. It may be reasonable to assume that this floor mechanism will continue. It should also be noted that when allocating funding, the Government assumes that Council's will increase their Council Tax towards the maximum allowed without triggering a referendum and will build in an element of growth for the Council Tax base to account for additional income to the Council from higher numbers of dwellings each year, that will be liable for Council Tax.

4.11 An area of continuing uncertainty relates to the fate of the New Homes Bonus Scheme which provides Councils with a bonus payment for each net new dwelling in its area, with additional element for Affordable Housing. This scheme has been tightened over the past few years, making the Bonus much less than under the original scheme, but continued to provide over £900,000 of funding in 2022/23. It is unclear whether the Scheme will continue in its current state, be further restricted (perhaps by raising the threshold above which growth is rewarded) or whether the Scheme will be scrapped in its entirety. If the latter, then the monies released ought to be ploughed back into Local Government (as they are top sliced from the funding pot before distribution takes place) but there is a risk that any re-allocation will see funding moving away from Runnymede and redistributed to other Authorities.

4.12 It seems unlikely that the Fair Funding Review, which is intended to address wider issues of the fair distribution of funding between local authorities, will go ahead in the near future, given the pressures on Government at the current time, which may mean that the spectre of the so-called negative Revenue Support Grant raised in previous years, may continue to be pushed back. Nevertheless, the Council should be aware of the risk that funding redistribution may bring and be planning for reduced resources in the future.

4.13 Councils need confirmation on these reforms, and how resources will be allocated between Councils, in order to support longer-term sustainable financial planning.

Council Tax

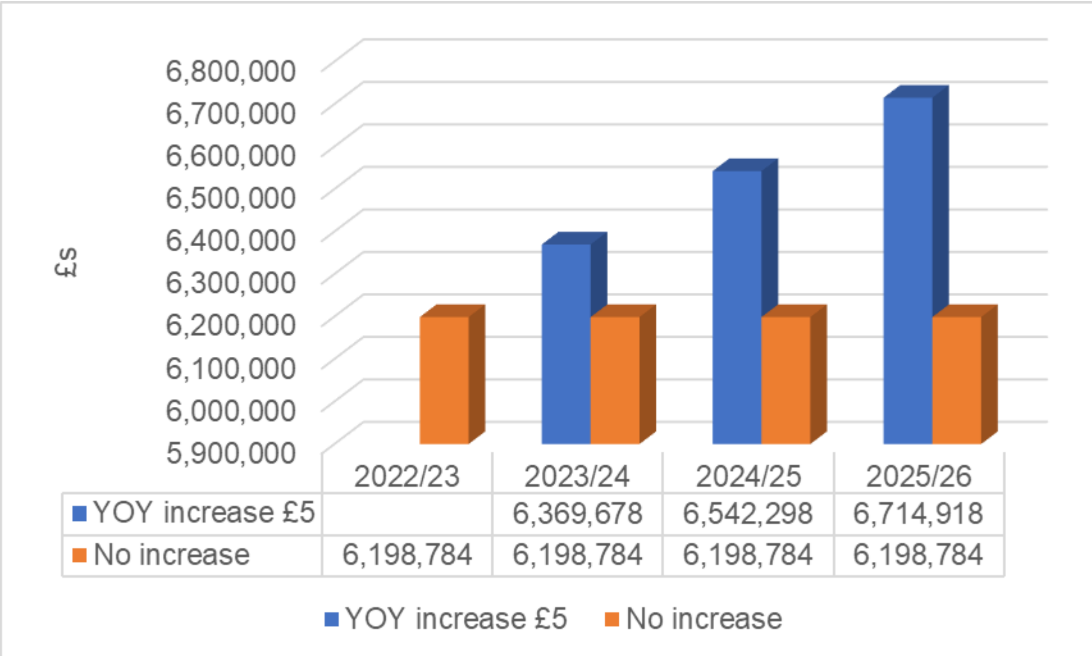
4.14 The Autumn Statement announced that the level of Council Tax increase that triggers a referendum, will be raised from 2% to 3% and councils with Social Care responsibilities will have the option to raise the social care precept by up to 2%. Previously Borough Councils like Runnymede who have a low tax level have been allowed to increase their Council Tax by up to 2% or £5, whichever is higher, and the previous forecast included an assumption of a £5 increase throughout the medium-term. A £5 increase to Runnymede's element of the current Band D charge would be an increase of 2.78% so it can be seen that raising the referendum trigger to 3% will have little effect on council tax income for Runnymede, unless the £5 limit is also increased when the Council Tax Referendum Principles are published for consultation.

4.15 Applying the maximum uplift to Runnymede's existing Band D amount of £179.55, would see an increase of £5.37, taking the charge to £184.92. Using the existing tax base of 34,524, this would provide additional income to the Council in 2023/24 of £185,343. This is only £12,700 more than under the previous assumption of a £5.00 increase.

4.16 An increase of £5.37 per annum equates to approximately 10p per week for a Band D taxpayer but is only a proportion of the total tax paid once the County Council and Police precepts are added.

4.17 Those needing help with their Council Tax bills are supported by the Localised Council Tax Support Scheme for 2023/24, which was approved by a meeting of the full Council earlier in December.

4.18 During difficult economic times, Councils may consider supporting their residents by not increasing the level of Council Tax by the maximum permissible or by freezing it at previous levels. While this may support taxpayers in the short term it has a cumulative effect on resources for the Council to fund services in the future, as illustrated by the chart below.



	2022/23	2023/24	2024/25	2025/26
YOY increase £5		6,369,678	6,542,298	6,714,918
No increase	6,198,784	6,198,784	6,198,784	6,198,784

4.19 Compared to maintaining a flat level of Council Tax over the period, an annual rise of £5 would see additional income of around £170k in 2023/24, £344k in 2024/25 and £516k in 2025/26 which equates to over £1m of additional resource over the medium term.

4.20 The Council is also required to set its Council Tax base for the year ahead by 31st January, taking into account any growth in numbers of chargeable dwellings, the level of discounts and exemptions and the effect of the Council Tax Support Scheme. A separate report to the Committee on its December Agenda, sets out the detail of this calculation and proposes a revised tax base of 34,864.6. At current year tax levels, this would provide additional income of £61,155.

4.21 By 15th January each year, the Council must also estimate any surplus or deficit on the Council Tax Collection Fund and pay out that surplus to precepting bodies (Surrey County Council, Surrey Police & Crime Commissioner, Runnymede Borough Council) or recoup any deficit owed. As reported separately to this Committee, the current projection is a forecast surplus of £2,663,804, with Runnymede's share being £226,849.

Business Rates

4.22 The Business Rates Retention Scheme is both complex to administer and to account for. Income for any one year takes more than two years to flow through into the Council's general fund, commencing with estimates made in January for the year ahead, alongside the receipt in advance of government grants to cover various mandatory reliefs, followed by an estimate of the outturn for that year in the following January and finally, an outturn statement in May. Much like Council Tax, the Council collects all of the Business Rates on behalf of the Government, the County Council and itself, and distributes shares to and from the Collection Fund as appropriate.

4.23 The Council only keeps a proportion of the business rates it collects (40%) which is then reduced further by payment of a tariff to Government, which is redistributed across the sector in line with baseline needs. The Council may keep 50% of any growth it generates in the income it collects, above a pre-set baseline and has chosen to take advantage of pooling arrangements with other local authorities to increase this proportion in 2023/24.

4.24 There are significant risks facing the Council in respect of its business rates income over the medium-term from both the economic climate and from potential changes to the Scheme itself. The Government have announced further rates support packages for some business in 2023/24 but there remains a risk of increasing bad debt. All businesses will be facing changes to their rateable valuations under the 2023 Revaluation exercise. Large swings in value are normally addressed through a self-funding transition scheme which smooths out the losses and gains in revaluation by phasing the changes in over time. The coming year is unusual in that a government funded transition scheme has been announced. Local authorities are intended to be protected from any change to their overall income by adjustments to their tariff or top up payments.

4.25 The key risk moving forward is the reset of the baselines for measuring growth. Once these are reset to a new baseline, all historic levels of growth are erased, and the Council will only be able to keep any growth above a new, higher baseline. This also negates any advantage from the business rates pooling system in a reset year as growth above the new baseline is likely to be minimal.

Commercial income

4.26 The Council has an investment property portfolio of some £552.8m generating gross income of around £28m and net income of £9.7m in the current year.

	2021/22	2022/23	2023/24
	Actual	Probable	Estimate
	£'000	£'000	£'000
Gross income	27,745	28,051	28,276
Less: Change in provision	(2,232)	(1,410)	(1,449)
Less: Direct expenditure	(2,732)	(2,800)	(2,900)
Less: Interest borrowing costs	(10,588)	(10,588)	(10,588)
Less: Minimum Revenue Provision (MRP)	(3,426)	(3,538)	(3,680)
Net contribution to Council	8,767	9,715	9,659

4.27 Reserves are set aside to support the continuation of this major income stream, to maintain its commercial properties in a lettable condition and to make provision for known lease events such as break clauses, or the offering of rent-free periods to attract new tenants. Budget estimates for commercial income are also reduced by making allowance for doubtful debts in order to mitigate the risk of over-reliance of this key income stream.

Treasury Management

4.28 The Council will bring forward an updated Treasury Management Strategy for consideration in January before recommendation to full Council in February, alongside its Capital Strategy. These strategies will go into more detail on the planned Capital Expenditure and borrowing and investment strategies. The medium-term financial forecast shows that the Council is benefitting from addition income due to higher levels of return on its cash investments in the current climate, but it should be noted that this potentially temporary increase, while supporting current budgetary pressures, does not address the underlying budget deficit.

4.29 The Council currently has outstanding debt of £648.2m, split £548.2m in the General Fund and £100m in the HRA.

4.30 The cost of carrying debt incudes both the annual interest payments and the requirement to set aside a provision each year to build up funds to repay the debt when due. The Council's existing borrowing has all been at fixed interest rates, so it is protected from the current hikes in rates. The Council's average borrowing rate is 2.33% for General Fund borrowing, (2.49% when including the Housing Revenue Account), including both short- and longer-term maturities, up to 50 years. Current rates from the Public Works Loan Board as at 5th December 2022 are:

35 years	4.25%
40 years	4.13%
50 years	4.04%

4.31 The Council needs to ensure that it can continue to meet the cost of existing borrowing and that any new borrowing is appropriate, prudent and affordable. This will be particularly important when assessing the future Capital Programme, as the opportunity for capital receipts is limited and the Council must not overextend its borrowing position without the confidence that it can support the expected interest and repayment costs.

Regulatory Change

4.32 The Council adapts to meet the changing regulatory regime such as the tightening of investment guidance and the Prudential Framework for Capital Finance. The Levelling-Up and Regeneration Bill currently working its way through Parliament, touches on a number of areas such as Planning, Infrastructure Levy, compulsory purchase of land and more, but significantly for Runnymede includes a section on Capital Risk Management.

4.33 Should the Bill be enacted, it would enable the Secretary of State to make directions to any local authority to reduce or mitigate financial risk, in the event of a trigger event occurring. The trigger events include where a Council issues a s114 notice, effectively stating that its expenditure is likely to exceed its resources, where the Secretary of State grants a capitalisation direction or grant funding to prevent a council's expenditure exceeding its resources, or where any of a range of financial thresholds are breached.

4.34 The thresholds may include the level of a local authority's debt compared to its resources; the amount of debt it holds outside of the Public Works Loan Board; the proportion of its assets held for commercial investment; the amount of funds the authority has set aside for repayment of debt.

4.35 Powers invested in the Secretary of State may include setting a limit on the authority's borrowing, requiring the sale of specific assets and the appointment of an independent expert to conduct a financial risk review.

4.36 The Council is confident that it has robust financial risk measures in place and strong governance arrangements. Nevertheless, it must consider what effect this new legislation may have when enacted and build this into its future financial plans.

4.37 The much-publicised failures at some local authorities, the higher prevalence of the issuance of s114 reports, and the tightening regulatory regime, have led to a wider perception of financial risk within the sector. In addition, the increased focus on the use of resources commentary within the annual audit process, may see more Council's subject to statutory recommendations or qualified opinions from their auditors. The production of a robust financial strategy is one part of the framework to provide assurance to regulators, auditors, stakeholders and the public.

5 Medium-Term Financial Forecast – Revenue

5.1 The Medium-Term Financial Forecast set out at Appendix 1 takes the last reported forecast and updates it for known variances that have occurred, including;

- Planned underspends, where expenditure expected to be incurred during 2021/22 has been carried forward to the current year. This created an underspend in 2021/22 of approximately £1m which boosted reserves at the start of the year, but which is expected to be utilised in the current financial year.
- Variations to budgets following supplementary estimates approved by Committee or through the use of the urgency process under Standing Order 42
- The anticipated effect of inflation, interest rates and government funding, as set out in section 4 of this report
- Unavoidable variations such as increases to future external audit costs

5.2 This forecast shows an anticipated £1.9m draw on working balances in the current year, a significant move away from the broadly balanced budget position originally estimated. As noted above, this is in part due to £1m of spend activity carried forward from the previous year, which would have created an underspend in 2021/22 that boosted balances at the start of 2022/23. The recent budget monitoring report to Committee in November, highlighted a further £1.2m of pressures on service expenditure stemming from supplementary estimate of £848,000 approved up to 30th September 2022, cost pressures or reduced income of £446,000, and £575,000 of unachieved savings, offset in part by reductions in expenditure or increases in income of £694,000. This net pressure of some £2.2m was largely offset by increased income from treasury management activity due to rising interest rates.

5.3 The more recent forecast however includes further service cost pressures and updated income forecasts, including commercial property income. A significant change is also expected in the final income for 2022/23 under the Business Rates Retention Scheme, which would have caused a major variance of over £2m, had it not been for the ability to draw down funding from the Business Rates Equalisation Reserve. This reserve was set up specifically to smooth fluctuations in business rates income to the Council. Given the complexity of the Scheme and the high value of related cash flows, final outturn figures for business rates can be subject to significant change. The estimated outturn figures, and budget position for 2023/24, will be subject to completion of the NNDR1 return, due for completion by the end of January.

5.4 While the summary shows 2023/24 moving back toward a balanced position, the combination of further changes to expected business rate income due to the national baseline resets, future reductions in interest rates leading to lower interest received on investments and increasing provision for repayment of debt (based on current planned activity) see the underlying budget deficit move up towards £3.5m by 2025/26.

5.5 This would see £8.45m being drawn down from working balances to support service provision over the medium term, resulting in a balance of £9.7m by the end of the period. While this figure would be above the existing minimum recommended threshold of around £3m, it is not sustainable to rely on reserves to support on-going service delivery.

5.6 Moreover, this forecast does not include any potential growth requests that will come forward for consideration as part of the detailed Budget report in January or any allowance for in-year growth in future years. Neither does it include the propensity for the Council to underspend against its budgets, or any upside risk that the forecast is too pessimistic, for example in respect of government funding announcements.

5.7 Appendix 2 models two alternative scenarios, building on the base forecast detailed above.

5.8 Scenario 1 takes the bottom line of the initial forecast and adds a number of potential pressures that require consideration when building the final budget. These adjustments include;

- Revenue growth bids
- The effect on revenue of any capital growth bids (e.g., where new ICT systems require on-going software licences or maintenance fee)
- In-year growth (supplementary estimates)
- Pay award, above the 2% in the base forecast and taking account of the factors set out in section 4

5.9 Adding these factors into the forecast would produce a budget deficit of £5.5m by 2025/26 with revenue balances reducing by £15.8m, to a level below the minimum threshold, unless corrective action is taken to rebalance the budget.

5.10 Scenario 2 takes a less pessimistic view by building in lower estimates for growth while maintaining the same provision for pay costs. It assumes that government grant funding is maintained at 2022/23 levels and allows for additional income from fees and charges above the inflation levels included earlier.

5.11 This scenario would reduce the draw on reserves over the period to £11.7m and see balances fall to £6.5m, which is £3.5m above the existing minimum threshold. However, it still produces a budget deficit by 2025/26 of £4m and without corrective action, the depletion of reserves to below the minimum level will simply be shifted back by one year.

5.12 While the forecast will be refined throughout the budget setting process, it is clear that the Council needs to take action to improve resilience and significantly reduce its reliance on reserves to cover the shortfall in the General Fund.

5.13 It would be prudent to also review the minimum threshold for the level of working balance to hold over the medium term. This is currently set at just below £3m and is calculated taking the following risks into account:

	£000s
Provision for shortfall in major income budgets	365
Provision for uninsured risks	100
Emergencies	
- Cost of major incident (not covered by Bellwin scheme reimbursement)	100
- Business contingencies (disaster recovery)	250
Planning appeals and enquiries	
- Estimated cost of a major inquiry	150
Potential additional service expenditure (not provided for in base budget)	
- Homelessness budget	100
- Corporate property - holding costs of void properties	1,895
	2,960

5.14 While allowances for demand pressures, and income variations are still valid in the current economic climate, does the minimum threshold adequately cover the level of risk moving forward? And should any additional allowance be made for cost-of-living support to the community? Are there other, emerging risks that should be factored into the equation? In uncertain financial times, it may be wise to increase the minimum threshold, when possible, in order to ensure a sufficient buffer against unexpected shocks to the system. This will be considered as part of the Strategy and updated in the budget reports in January.

6 Medium-Term Financial Forecast - Capital

6.1 The Council's Capital Programme will be set out alongside its Capital Strategy, for consideration by this Committee in January. It will need to take account of any regulatory change, as set out in section 4 of this report, and the affordability of schemes. As noted previously, the Revenue account is under pressure and the viability of capital spending will be constrained by the amount of costs falling to the revenue account, whether from directly attributable costs such as licences, software or staffing requirements, or through the need to support additional borrowing.

6.2 Capital spending can be funded through a variety of sources including external contributions, e.g. grants, contributions from Developers, Community Infrastructure levy, contributions from its revenue account and capital receipts. Any shortfall is known as the capital financing requirement and can be supported by borrowing.

6.3 As borrowing is subject to an ever-tightening regulatory regime, it is imperative that the Council maximises the opportunities for other sources of funding.

6.4 Table 1, Appendix 3 shows the current capital programme, and current funding method, excluding any growth. Included are the rolling replacement of major ICT systems and vehicles. Table 2 sets out the capital receipts already included to support the existing programme and Table 3 show the effect of the programme on utilisation of key capital of reserves.

6.5 Combined, these tables demonstrate the dwindling level of resources available to support the capital programme, despite annual contributions to both of the repair and renewal reserves. There is also risk to the programme if capital receipts are delayed or reduced. With potential restrictions on borrowing, and the unaffordability of additional borrowing in the general fund, the generation of new capital receipts becomes an essential part of future capital planning.

7 Strategic Response

7.1 In October, the Council approved its new Corporate Business Plan, setting out its priorities and the way it will work over the period to 2026. This is supported by a detailed action plan spanning the life of the Plan, and through the work of Member Working Parties that have set their priorities for the year ahead, drawing out the first set of deliverables from the Plan.

7.2 This work is to be supported by a range of cross-service officer working groups, bringing together the right people from across the organisation, to drive a consistent and collaborative approach to delivery of the strategic aims of the Plan.

7.3 In order to do this, the Council must have regard to its overall financial sustainability, reducing its reliance on reserves to close its revenue budget gap and creating capacity for capital funding. The Council must respond to the external stimuli such as the current economic climate and the perception of risk within the Local Government Sector and the response of regulatory bodies to that perceived risk.

7.4 Thinking differently about how it delivers its strategic aims, including future regeneration and housing plans, will be a key part of its response, in addition to the development of a detailed Asset Management Strategy to ensure that its property portfolio is well-managed, and delivering good outcomes for the Council.

7.5 In order to create sufficient capacity at a senior management level to drive forward the Council's plans, it is proposed to supplement the Corporate Leadership Team with an additional Assistant Chief Executive post. The creation of this post will provide additional strategic resource, and by spreading the management of services across three posts (Chief Executive plus 2 x Assistant Chief Executives) rather than two (Chief Executive and existing Assistant Chief Executive post) will allow the leadership team to have a greater focus on innovation, partnership working and longer-term planning.

7.6 It is proposed to commence recruitment for this post in the New Year to enable this support to be in place as early as possible to support the Council's strategic aims. A recommendation is therefore made now, ahead of the detailed budget setting process, to approve a supplementary estimate of £20,000 for recruitment costs in the current year alongside an on-going budget of £150,000 for the post, including on-costs. A further report will be submitted to Corporate Management Committee in January, setting out the proposed recruitment process and the establishment of an Appointments sub-Committee.

7.7 Appendix 4 sets out a range of actions to take forward under the Medium-Term Financial Strategy.

8 Policy framework implications

8.1 The Medium-Term Financial Strategy is an important part of the budgetary framework of the Council, highlighting financial risks, and providing a framework to deliver a sustainable financial position to enable the Council to achieve its strategic objectives. The MTFS is a policy framework document that is required to be adopted by Council.

9 Resource implications/Value for Money

9.1 The figures contained in this report are indicative only at this stage but provide sufficient information to demonstrate the financial risks facing the Council. A robust financial strategy is essential for the delivery of the Council's objectives over the medium term, ensuring that decision-making takes due regard of the financial consequences.

10 Legal Implications

10.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs.

11 Equality Implications

11.1 Equality Impact Assessments will be undertaken, where appropriate, for any new schemes considered as part of the detailed budget process, rather than at a strategic level, to enable comprehensive assessments to be undertaken where necessary.

12 Environmental, Sustainability, Bio-diversity implications

12.1 The Council's Corporate Business Plan, which is supported by its financial planning, includes its Climate Change Strategy. Specific measures that require funding will be incorporated into the Council's budget plans as they are developed.

13 Conclusions

13.1 There is no mistaking the financial challenge facing the Council in the years ahead. It has acted prudently in the past by setting aside earmarked reserves to support known risks and to provide against future costs e.g., future repairs and maintenance, variations to commercial property income. It also has a substantial level of unearmarked reserve (working balance) from which to draw, enabling it to take measured action to reduce its underlying budget gap. This will avoid the necessity for short-term, reactive measures, such as traditional "salami-slicing" of budgets which often do not prove sustainable over time.

13.2 The measures set out in Appendix 4 should enable the Council to rebalance its budget over time, continue to deliver services for its residents and local communities, and support its ambitions as set out in the Corporate Business Plan.

13.3 It is recommended to approve the Medium-Term Financial Strategy 2022/23 – 2025/6 for consideration by Council.

(To resolve)

Medium Term Financial Strategy 2022/23 to 2025/26 - General Fund Summary

	Estimate 2022/23	Probable 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
	£'000	£'000	£'000	£'000	£'000
Housing Committee	2,229	2,225	2,450	2,415	2,415
Community Services Committee	4,870	5,679	5,101	5,101	5,101
Environmental and Sustainable Committee	4,453	4,897	4,246	4,194	4,200
Licensing Committee	25	25	25	25	25
Regulatory Committee	105	105	105	105	105
Planning Committeee	2,048	2,215	2,191	2,204	2,204
Corporate Management Committee	(17,652)	(16,012)	(17,634)	(17,708)	(17,893)
Adjusted base budget A	**(3,922)**	**(866)**	**(3,516)**	**(3,664)**	**(3,843)**
Accounting adjustments:					
- Reversal of depreciation charges	(2,178)	(2,178)	(2,178)	(2,178)	(2,178)
- Capital charge to HRA	(43)	(43)	(43)	(43)	(43)
- Other Accounting Adjustments	0	0	0	0	0
Transfers to/(from) reserves:					
- Business Rates Equalisation reserve	(3,147)	(4,200)	(1,535)	0	0
- Car Parks Reserve	0	200	200	200	200
- Equipment repairs and renewals reserve	750	750	750	750	750
- Property repairs and renewals reserve	1,345	1,345	750	750	750
- Investment Property income equalisation reserve	750	750	750	750	750
- Surrey Infrastructure Feasibilty Fund	(162)	(162)	0	0	0
Treasury and Financing					
- Investment & Dividend Income	(440)	(2,200)	(3,700)	(2,700)	(2,400)
- Interest on loans to RBC companies	(1,862)	(1,806)	(2,013)	(2,013)	(2,013)
- Capital Financing	13,480	13,469	14,129	14,900	15,277
- Minimum Revenue Provision (MRP)	4,586	4,439	4,715	5,007	5,311
Government Grants (Non-Service Specific)					
- New Homes Bonus	(907)	(907)	(450)	(240)	(240)
- Lower Tier Services Grant	(125)	(125)	(125)	(125)	(125)
- Services Grant	(128)	(128)	0	0	0
Budget requirement B	**7,997**	**8,338**	**7,734**	**11,394**	**12,195**
Funded by:					
- Business rates retention scheme	(3,800)	(4,485)	(3,325)	(1,935)	(1,990)
- Share of Business Rates (surplus)/deficit for prior years	3,147	4,885	2,520	0	0
- Share of Council Tax (surplus)/deficit for prior years	(165)	(121)	(185)	0	0
- Share of Business Rate Enterprize Zone receipts	170	170	170	170	170
- Share of Business Rate Pooling Fund gain	(900)	(700)	(352)		
Sub total of government funding C	(1,548)	(251)	(1,172)	(1,765)	(1,820)
Net demand (B less C)	**6,449**	**8,087**	**6,562**	**9,629**	**10,375**
Tax base - Band D equivilent numbers	34,524	34,524	34,865	35,115	35,365
Band D tax per year	179.55	179.55	184.92	189.92	194.92
Council tax income D	**(6,199)**	**(6,199)**	**(6,447)**	**(6,669)**	**(6,893)**
Use of / (contribution to) Working Balance	**250**	**1,888**	**115**	**2,960**	**3,482**

General Fund Working Balance					
Working Balance at start of year		18,194	16,306	16,191	13,231
Use of working balance		(1,888)	(115)	(2,960)	(3,482)
Working balance at end of year		**16,306**	**16,191**	**13,231**	**9,748**
Over / (Under) minimum balance level of £2.96m		**13,346**	**13,231**	**10,271**	**6,788**

Medium Term Financial Strategy 2022/23 to 2025/26 - Alternative scenarios

Scenario 1:	Estimate 2022/23 £'000	Probable 2022/23 £'000	Forecast 2023/24 £'000	Forecast 2024/25 £'000	Forecast 2025/26 £'000
Use of / (contribution to) Working Balance	**250**	**1,888**	**115**	**2,960**	**3,482**
Allowance for revenue growth bids			1,000	500	500
Allowance for supplementary etimates in year			350	350	350
Potential revenue growth related to new capital schemes			500	500	500
Pay adjustments			1,500	650	700
Adjusted Use of / (contribution to) Working Balanc	**250**	**1,888**	**3,465**	**4,960**	**5,532**
General Fund Working Balance					
Working Balance at start of year		18,194	16,306	12,841	7,881
Use of working balance		(1,888)	(3,465)	(4,960)	(5,532)
Working balance at end of year		**16,306**	**12,841**	**7,881**	**2,348**
Over / (Under) minimum balance level of £2.96m		**13,346**	**9,881**	**4,921**	**(612)**

Scenario 2:	Estimate 2022/23 £'000	Probable 2022/23 £'000	Forecast 2023/24 £'000	Forecast 2024/25 £'000	Forecast 2025/26 £'000
Use of / (contribution to) Working Balance	**250**	**1,888**	**115**	**2,960**	**3,482**
Allowance for revenue growth bids			500	250	250
Allowance for supplementary etimates in year			350	350	350
Potential revenue growth related to new capital schemes			350	350	350
Pay adjustments			1,500	650	700
Change in funding asumptions			(457)	(667)	(667)
Change in income assumptions			(150)	(300)	(450)
Adjusted Use of / (contribution to) Working Balanc	**250**	**1,888**	**2,208**	**3,593**	**4,015**
General Fund Working Balance					
Working Balance at start of year		18,194	16,306	14,098	10,505
Use of working balance		(1,888)	(2,208)	(3,593)	(4,015)
Working balance at end of year		**16,306**	**14,098**	**10,505**	**6,489**
Over / (Under) minimum balance level of £2.96m		**13,346**	**11,138**	**7,545**	**3,529**

Table 1:Current Capital Programme	**Budget 2022/23**	**Budget 2023/24**	**Budget 2024/25**	**Budget 2025/26**	**Budget 2026/27**	**Budget 2027/28**	**Budget 2028/29**	**Budget 2029/30**	**Budget 2030/31**
Summary	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Housing Services - HRA	13,223,515	23,980,600	17,990,600	18,146,350	12,260,950	1,300,000	1,300,000	1,300,000	1,300,000
Housing Services - GF	684,049	651,507	651,507	651,507	651,507	651,507	651,507	651,507	651,507
Community Services	1,114,728	410,000	332,000	396,000	220,000	264,000	308,000	220,000	220,000
Environment & Sustainability	6,536,873	4,792,205	1,331,480	0	62,944	40,674	2,713,849	0	91,051
Corporate and Business Services - Property	10,148,031	6,620,000	0	0	0	700,000	0	0	0
Corporate and Business Services - IT	31,646,684	1,095,000	2,527,500	4,015,000	1,370,000	5,990,000	1,512,500	860,000	1,000,000
Corporate and Business Services - Other	13,137,595	710,000	1,045,000	2,400,000	1,000,000	5,500,000	1,200,000	500,000	800,000
	63,353,880	**37,549,312**	**22,833,087**	**23,208,857**	**14,565,401**	**8,946,181**	**6,485,856**	**3,031,507**	**3,262,558**
Method of Financing									
HRA Revenue reserves	12,630,250	16,512,851	16,647,601	15,662,101	6,590,950	780,001	780,001	780,001	780,001
Earmarked Reserves	2,262,070	1,192,205	1,343,480	3,076,000	1,562,944	6,684,674	3,201,627	1,000,000	1,291,051
Grants & Contributions	4,838,852	7,639,257	2,019,507	965,757	4,431,507	651,507	535,000	535,000	535,000
Capital Receipts	23,622,708	7,204,999	2,822,499	3,504,999	1,980,000	829,999	1,969,228	716,506	656,506
Borrowing	20,000,000	5,000,000	0	0	0	0	0	0	0
	63,353,880	**37,549,312**	**22,833,087**	**23,208,857**	**14,565,401**	**8,946,180**	**6,485,856**	**3,031,507**	**3,262,558**

Table 2: Assumed Capital Receipts	**2022/23 £**	**2023/24 £**	**2024/25 £**	**2025/26 £**	**2026/27 £**
Housing Improvement Loan Repayments	5,000	5,000	5,000	5,000	5,000
Virginia Water Scout Loan Repayment	4,500	4,500	4,500	4,500	4,500
Addlestone Canoe Club Loan Repayment	10,715	10,715	10,715	10,715	10,715
Addlestone ONE redevelopment:					
- Witley House to PA Housing		6,200,000			
- Remaining units to sell		2,260,000			
Egham Gateway redevelopment:					
- Magna Square - Sale to RBCI	11,837,595				
- Magna Square - Sales to the Public	2,465,000	2,465,000	2,465,000		
Ashdene House / Barbara Clark House	1,275,000				
	15,597,810	**10,945,215**	**2,485,215**	**20,215**	**20,215**

Table 3: Reserves at year end	**Budget 2022/23**	**Budget 2023/24**	**Budget 2024/25**	**Budget 2025/26**	**Budget 2026/27**	**Budget 2027/28**	**Budget 2028/29**
	£	**£**	**£**	**£**	**£**	**£**	**£**
Equipment Repairs and Renewals Reserve	595,930	653,725	560,245	634,245	821,301	1,086,627	-165,000
Property Repairs and Renewals Reserve	3,440,000	3,690,000	3,940,000	2,290,000	2,040,000	590,000	140,000
Capital Receipts	2,774,224	7,334,440	7,850,539	6,545,755	5,115,970	836,186	-582,827

Medium-Term Financial Strategy 2022/23 – 2025/26

The fundamental aim of the Council's Medium-Term Financial Strategy is to provide a framework for the effective and efficient use of Council resources whilst taking appropriate action to mitigate financial risk. This will enable the Council to maintain a sound financial position against a backdrop of economic uncertainty, rising demand and a changing regulatory and funding landscape. This will in turn support delivery of the Council's vision to be a community leader, providing high quality services, enhancing the environment and advocating for our community's interests, as set out in the Runnymede Corporate Business Plan.	
The Strategy is built on a number of key principles with supporting actions for each area.	
Revenue Budget – The Council recognises that it must optimise its limited resources to provide value for money services in the face of increasing financial pressures.	
1	A process for the identification of savings and efficiencies will be set up to capture ideas from across the organisation. From this, a set of targets will be defined, with progress on delivery monitored via the Overview and Scrutiny Select Committee. Greater focus will be given to the timely delivery of the savings programme.
2	A series of service reviews will commence, across specific service areas as directed by the Chief Executive, in consultation with the Leader and Deputy Leader of the Council. The focus of the reviews will be efficient service delivery rather than cost, but due regard to the cost of the service will be included as part of the review. The results of, and recommendations from, the reviews will feed into the Communications and Service Transformation Working Party and onward to Corporate Management Committee for approval where required.
3	Service resilience and effective delivery will continue to be explored through partnership working with other Councils, for example, in areas such as Building Control and CCTV. Service delivery models will be expected to include robust costing models and an understanding of the requirement for future investment in the service and how that will be met under the business model.
4	Early discussion with the Bid Writer and Grants Officer must take place ahead of new revenue (and capital) schemes, in order to explore external funding opportunities and reduce pressure from revenue growth, while ensuring funding conditions do not place an unreasonable burden on the Council.
5	A review of long-term vacant posts will be carried out to understand the reasons behind the vacancy and the cost of any alternative arrangements that have been put in place, e.g., agency staff/consultancy. Budgets will be re-aligned to a refreshed establishment list to ensure services are not carrying posts that are no longer required for delivery of the service.
6	An Asset Management Strategy will be produced, covering the management of all corporate property assets, with individual Asset Management Plans prepared for all investment property, setting out proposals for the future use of each asset. The Strategy will support the optimisation of income from the Council's assets alongside an improved understanding of the costs of management and maintenance. A set of performance indicators will be developed for the Council's property portfolio with regular reporting to, and scrutiny by, Members. Consideration will be given to divestment of low-performing assets or to rebalance the portfolio across sectors.
Reserves - The Council will maintain a reasonable level of usable reserves to enable it to weather the volatility of its income and expenditure streams, and to support its capital spending plans.	
7	The Council will seek to maintain its general fund reserve above an increased minimum threshold, whilst recognising that the level of balances will fluctuate over

	time as spending plan are adjusted to meet short-term budgetary pressures. The revised threshold should be set at an appropriate level commensurate with the financial risks facing the Council and will be reviewed as part of the budget-setting process.
8	Earmarked reserves will be regularly reviewed to ensure they are at, or are building towards, an appropriate level, with funds released to the general fund if no longer required.
Capital Programme - The Council will only undertake capital investment to support asset maintenance, invest-to-save schemes or strategic intent, such as the delivery of housing or regeneration schemes. Capital spending, however funded, will be affordable, prudent and sustainable.	
9	The Council will explore ways of delivering its major capital spending priorities in ways that reduce the burden on the Council's resources. This may be by phasing delivery of large programmes over a period or looking at new funding models and partnerships with the public and private sector. The Council needs to balance delivery of such schemes for its residents, with the affordability of capital spend and the affect on its revenue income streams. This will be particularly relevant should the Council's access to borrowing be restricted (e.g., under the Levelling Up and Regeneration Bill, once enacted) as it will need to find ways of progressing its strategic priorities without increasing borrowing levels.
10	The planned Asset Management Strategy will identify underperforming assets, or those where an opportunity arises, for divestment or re-purposing, following review and decision by the relevant Committee. The future of the Capital Programme is heavily dependent on the production of new capital receipts; again this is increasingly important where future borrowing may be restricted or where there is limited ability for the general fund to support capital spending either directly or through bearing the cost of carrying debt.
11	No new capital projects are to be included in the capital programme without the necessary resources to meet the full capital costs, and any associated revenue implications, being in place. Business cases should reflect all financial implications and risks and be reported alongside the request for inclusion in the Programme. If it is too early in the process to provide this level of detail, a provision may be made within the budget but will be subject to reporting of the full business case to the appropriate Committee before proceeding with the project.
Governance and Performance	
12	The Corporate Leadership Team will be supplemented by the addition of a second Assistant Chief Executive post to allow for greater strategic leadership capacity and to support the implementation of the Council's priorities.
13	A process will be set up to monitor and report the delivery of actions in the Council's Corporate Business Plan, building on work already carried out by the Council's Project Management Office (PMO).
14	The following officer working groups will be set up to support strands of the Corporate Business Plan and the work of the Member Working Parties: • Climate Change • Health & Wellbeing • Economic Development • Empowering Communities • Organisational Development • Service Review & Transformation In addition, there will be a refresh of the Council's Commercial income group which will cover the wider work of the Assets and Regeneration team and report directly to the Corporate Leadership Team. As mentioned under action point 6, a suite of performance indicators will be developed and reported as part of the Asset Management Strategy.

	The Council's project management principles and reporting methodology currently used to report on the performance of major projects and corporate KPIs (Key Performance Indicators) will be used by the working groups to report back to Member Working Parties, further embedding project management principles across the Council.
15	The Council is reviewing its approach to risk management and a revised Risk Policy and updated Risk Register will be reported to Standards and Audit Committee in line with recommendations from internal audit, the Council's self-assessment against Cipfa's Financial Management Code, and the Annual Governance Statement (AGS) 2022/23. Progress on all actions arising from the Financial Management Code review and the AGS will be reported to the Standards and Audit Committee.
16	A governance process for the collection, reporting and allocation of Community Infrastructure Levy will be designed to ensure this funding stream has proper oversight. The governance proposal will come forward for Members' approval ensuring that this funding is used to support the delivery of essential infrastructure, meets local need and conforms to regulatory requirements.
17	The Council will continue to meet with Government officers to help inform and shape the new measures being proposed under the Levelling Up and Regeneration Bill in respect of financial risk management.
18	The Council will continue to seek value for money when procuring contracts for works, services and goods. This will include identification of collaborative procurement opportunities with other Boroughs and Districts to increase buying power and savings opportunities.