Medium Term Financial Strategy 2022/23 – 2027/28

Elmbridge Borough Council

... bridging the communities ...

Contents

1. Executive Summary

The Medium-Term Financial Strategy (MTFS) is the Council's key financial planning document which takes account of all the various factors and influences that may impact on the Council for the next few years. It also considers and encompasses the financial implications of Council Priorities and is thus an integral part of the service planning process and is updated, at least, annually. The MTFS ensures that we have a clear policy framework to enable us to allocate funds in accordance with our priorities as we go through the service planning and budget setting process.

Continuing a trend set over several years, Local Government funding remains highly uncertain, with a number of factors likely to result in significant changes to the Council's funding position over the medium term. In addition, all local authorities are currently facing significant financial challenges, especially given the aftermath of the pandemic, and Elmbridge Borough Council is no exception.

This report outlines proposals for the Council's new Medium-Term Financial Strategy including detailed plans for a balanced budget for 2022/23. The Council's ambitions are set out in the Council Plan including the priorities for next year. The report details targeting of the Council's Finances to the priorities focused around the outcomes set out in the Council Plan.

The budget includes estimates of future demand and economic pressures as the Council makes plans for the Borough, post the pandemic, and in shaping the financial framework for future service delivery. The setting of the budget has been particularly challenging due to increased demand in the Council's statutory services and the disproportionate budget associated with discretionary services. The Council is continuing to manage the pressures it faces in-year however it must also recognise the material impact on its medium-term financial plans due to the long-term impact of the pandemic.

The contents of this strategy are the Council's response to the significant financial and service challenges that it faces and the need to plan ahead for the future with fewer resources. However, it is not simply about identifying savings, it is also about all the things we need to do to make the Council financially resilient and organisationally stable so that we can continue to deliver Council objectives and thrive as a successful and resilient Council.

The Council has continued to respond to the financial challenges in a systematic and planned way, through an approach based around economic growth, managing demand, and a strong track record for identifying and delivering savings, increased income as well as efficiencies, whilst protecting priority services as much as possible. The Council will have to make very difficult choices in the years ahead about which services to prioritise.

It has been necessary to plan for reductions in the Council's spend. The majority of these are delivered through the Councils Transformation programme which aims, through a series of programmes, to reshape service delivery over the next three years with the objective focus on outcomes in the delivery of services for residents and communities as well as improved value for money.

The funding estimated to be raised from council tax and the business rates retained over the next three years is not sufficient to cover the current level of expenditure and new budget pressures. So, it is incumbent upon the Council to agree a strategy that bridges the shortfall and/or reduces expenditure in order to bring expenditure within the funding envelope available.

The background to the current MTFS is one of significant uncertainty given the impact of the COVID-19 pandemic, the results of which have impacted on the way the Council operates, the needs of our residents and the income that we rely on to fund our services. Because of the current level of national economic uncertainty and the widespread pressures on public spending, it is vital the Council understands its financial outlook and continues to plan effectively for the future.

The Council Plan is can only be delivered through a sound understanding of the Council's longer-term financial sustainability which enables decisions to be made that balance the resource implications of the council priorities against financial constraints.

Robust financial planning and financial management alongside our budget preparation, performance management and reporting are an integral part of our corporate governance and gives us the ability to take a strategic view and align our priorities beyond the current budget period. This is crucial to support and ensure our financial resilience and long -term financial sustainability.

The Councils MTFS funding assumptions are based on the provisional local Government Finance settlement issued on 16 December 2021. Final settlement figures will not be confirmed until later in February. The impact of Covid-19 on the Council's financial position, in particular on the income levels has been significant and despite national increases in the core spending power of Local Government to reflect this, the additional funding is not sufficient to meet all of the Council's pressures. At this stage any future Covid impact is unknown.

The key objectives of the report are:

- To ensure that the Council is financially resilient, stable and sustainable for the future.
- To ensure that effective financial planning contributes to the delivery of the Council plan and priorities.
- To plan for future resources available and to estimate expenditure requirements whilst ensuring value for money is achieved and resources are utilised where outcomes are measurable and have real impact.
- To maximise income from Council Tax and Business Rates to support Council priorities.

The MTFS sets out the Council's approach to the prudent management of its finances against a reducing reliance on central government funding and increased reliance on local funding sources.

Local authorities are legally obliged to set a balanced budget each year and to ensure they have sufficient reserves to cover any unexpected events. Therefore, to legally balance the budget the Council must make spending plans affordable by matching it to the estimated funding available over that time. The gap between the two amounts is referred to as the "budget gap" or the "funding gap". Thus, the funding gap is a combination of the Council's best estimate of the future budget needed to cover rising cost pressures and demands for services alongside a reduced amount of funding. Action will be required over the period covered by the MTFS to enable the Council to satisfy the legal requirement to balance the budget, annually.

A balanced budget will ensure we are in a good financial position so we can provide services that are needed, look after the borough's assets, give vulnerable people the help they need, invest in shaping the way the future grows and transform our services through the use of technology to support the borough's digital future by following the principle "digital by default, inclusive by design".

The report comments on the key risks that are facing the Council in the medium term and outlines interdependencies including the timings and outcomes of funding including the Government's Spending Review, "Levelling Up" agenda, Fair funding proposals and Business Rates Retention proposal, all of which require clarification in respect of next year and future years.

Taking all of the above into account, it is the view of the Section 151 Officer that the budget proposals recommended by Cabinet will deliver a balanced budget for 2022/23 provided the significant levels of savings and income included in the budget is delivered. In addition, the continued reliance on reserves to fund on-going service expenditure is clearly not sustainable in the medium to long term.

As previously resolved, it is incumbent upon Members to agree plans to deliver the required budget reductions and to rebuild the council's reserves over the medium to long term to meet the commitment made to :

- reduce expenditure in discretionary services; and
- rebuild reserves to pre pandemic levels by 2030.

2. Delivering the Council's Priorities

The Council Plan is a document which sets out how we are going to deliver our vision and priorities in the upcoming year, these are then used to inform service plans and in turn the financial plans.

The Council's vision for the period 2018-23 is:

A responsive and effective Council, protecting and promoting the interests of residents and businesses and safeguarding our environment, while maintaining a community for all.

In November last year Cabinet and Council considered the "Our Vision for Elmbridge 2030" report, which set out the direction for the future and commits to a programme of transformation, the 2030 Programme. The 2030 Programme will transform the Council's services, showing a shift in emphasis from recovery to building a post-pandemic future while closing the budget gap aligning future expenditure with the projected available resources contained in the Council's Medium-Term Financial Strategy and plan.

The priorities are reviewed annually to ensure that they are responsive to the needs of the local community and the Council which provides essential services. The priorities for 2022-23 are:

- Climate change and a low carbon future
- Council budgets
- Covid-19 Recovery and Modernisation
- The Elmbridge Local Plan
- Housing Affordability
- Strategic representation and community Leadership

The role of the Council's financial planning process is to support the achievement of the Council's Strategic Priorities and Council Plan. This Vision runs to March 2023 and a new Council Plan for 2023 and beyond will be developed during the year.

The Council Plan can be found on http://www.elmbridge.gov.uk.

3. Government Funding and Local Context

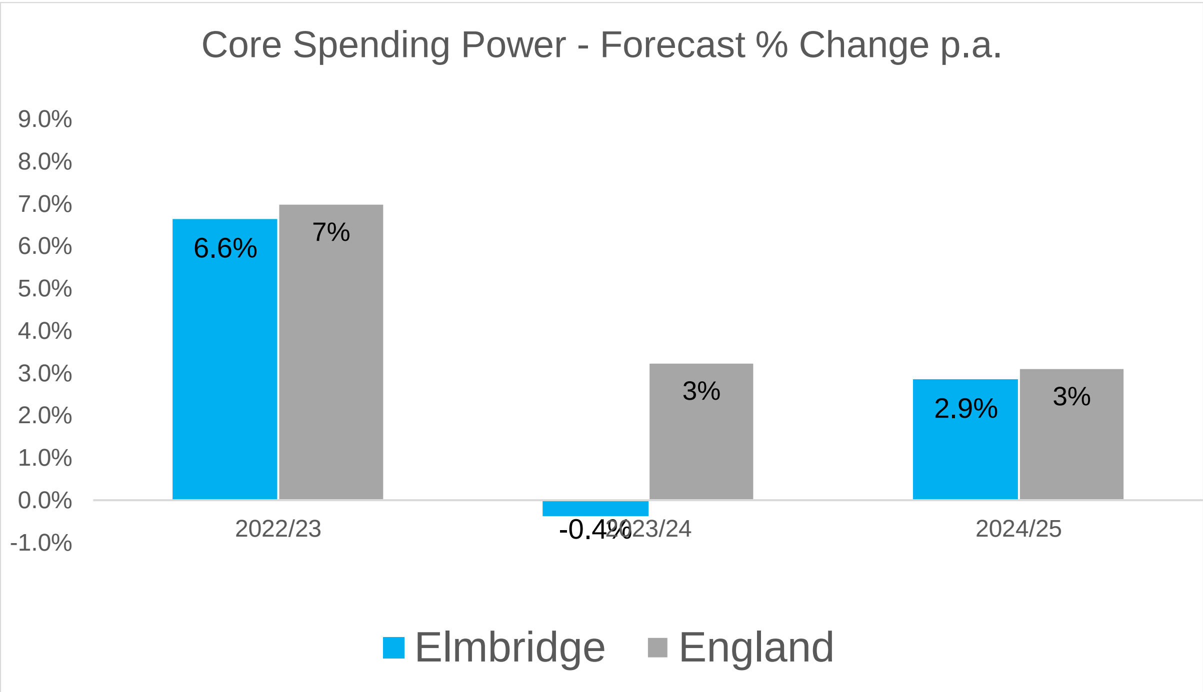
There are concerns over a lack of clarity in the government consultation on the Fair Funding Review, which will revamp the way in which central government funding is allocated. With further consultation on business rates retention, the results of the Spending Review and the outcome of the Fair Funding Review all being delayed, local authorities have no reliable basis on which to plan appropriately for their budgets, even in the short term.

Yet again the multi-year spending review did not materialise for 2022/23, resulting in this being the fourth one-year settlements in a row for local Government. This means since 2019 councils have had the challenging task of setting strategic plans over the medium-term, with little certainty about the funding available over that period. This does not provide a firm foundation for efficient financial planning and case for multi-year settlement has never been more compelling.

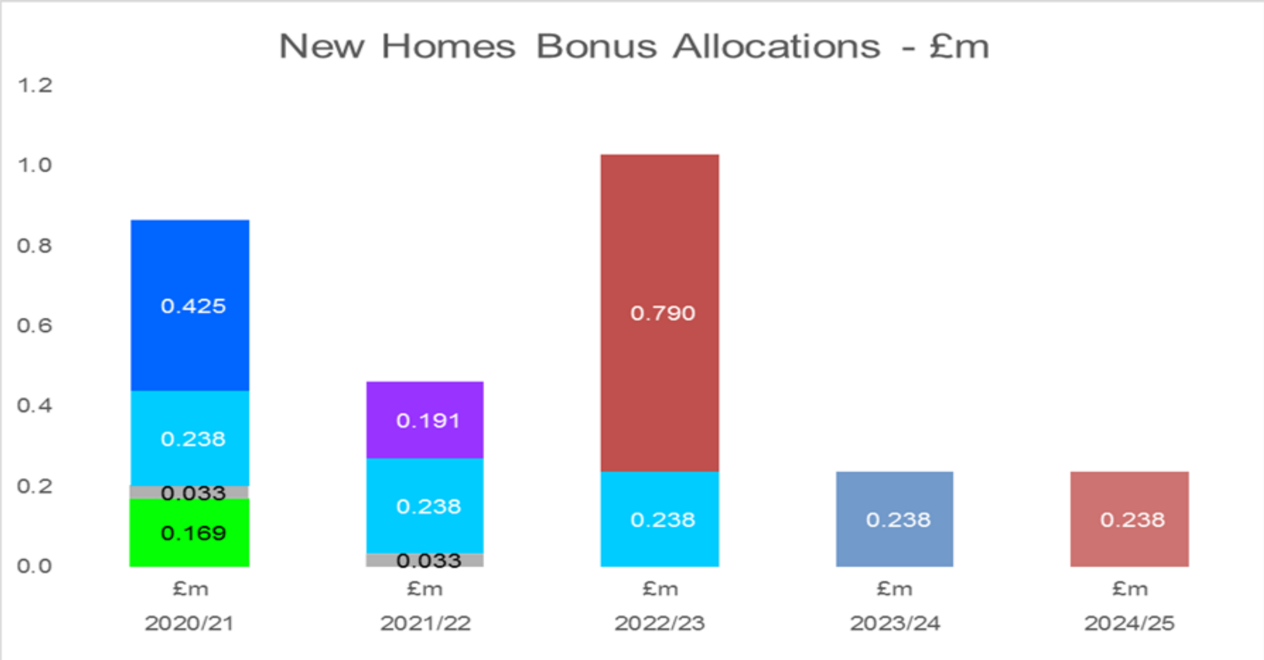
The timing of local government finance reforms is crucial to financial planning, not least because it is anticipated that the outcome of the reform will result in a reduction to the Council's baseline funding level, via the business rates system. It is still unclear as to the timing of the finance reforms covering Fair Funding Review, Business Rats reset and New Homes Bonus.

Over 85% of the Councils gross expenditure is funded by a combination of Council Tax (£15.4 million), various fees & charges, Property rental and Interest Income.

An annual funding of Revenue Support grant/business rates retention has been assumed throughout the MTFS period but only 2022/23 has been confirmed in December 2021. The Government uses a complex formula to allocate funding to councils. The formula includes a wide range of social, economic and demographic factors. The increase in Core Spending Power (CSP) was 7% in England, compared to the England average the CSP increase for Elmbridge is 6.6%, attributable mainly New Homes Bonus and one- off grants.



(1) New Homes Bonus: There is the potential for this scheme to be stopped after 2022/23, given it does not fit in with the levelling up agenda. However, in the absence of an announcement on this, £250 million has been retained in the scheme (with the remaining £304 million of funding added to the 2022/23 Services Grant). The allocation of the £250 million has been based on an average of previous years. The Council receives New Homes Bonus as an incentive for housing growth, this equates to £1.028 million as part of the financial settlement in 2022/23. Over the years, the Council has relied heavily on New Homes Bonus receipts to fund Capital Projects and Council Initiatives. Beyond 2022/23, it is unclear if Councils will receive any NHB funding



(2) New 2022/23 Services Grant: The future years' methodology for this funding is not known at this stage, with the government also confirming that there will be no transition on the 2022/23 amounts. It should be noted that the increased costs associated with the higher NICs contributions could be seen as included in this funding pot. EBC received £161k as services grant in 20222/23. It has been confirmed that this grant will be excluded from any transitional protection.

(3) Lower Tier Services Grant: The methodology for this grant remains unaltered. However, due to the unfair nature of this grant being reduced in 2022/23 for some authorities and replaced by the 2022/23 Services Grant, the methodology has been adjusted to undo this replacement. This could be important for future years if the government is not providing transition on the 2022/23 Services Grant.

4. Treasury Management

Treasury management is concerned with keeping sufficient but not excessive cash available to meet Council's spending needs, while managing the risks involved. It is about how cash and investments are managed to ensure security and liquidity of any council money invested. Surplus cash is invested until required, while a shortage of cash can be met by short term borrowing, to avoid excessive credit balances or overdrafts in the bank current account. Timing differences between the movement of money creates a cash flow leading to surpluses or deficits. Surplus of cash will lead to investment and a deficit leading to short term borrowing. Treasury Management is the management of those cashflows, investments and borrowing to provide optimum return whilst placing importance for Security, Liquidity and Yield, in that order.

The Council invests its reserves (both Capital and Revenue) in a wide range of financial institutions and the investment interest earned is used to support the delivery of services. The major issue for treasury management continues to be the low-level of interest on short-term deposits and the significant difference between short term investment rates and long-term borrowing rates.

Emphasis continues to be placed, in line with the Treasury Management Strategy, on mitigating counterparty risk by giving preference to security and liquidity. This has resulted in greater use of investments with higher security and increased liquidity but at low interest rates. The Strategy continues to support a policy of limiting the need for external borrowing by the utilisation of internal funds.

5. Council Tax Levels

The Budget has taken into consideration the administration's desire to continue the policy of moderating the increase in its Council Tax where this can be managed prudently. The Council's approach is to deliver an affordable but realistic level of Council Tax over the period of the MTFS. The Council needs to ensure that it has adequate resources to meet its statutory and mandatory obligations and the means to deliver its priorities.

Council Tax is the main source of funding for the provision of local services, and despite it being determined locally on a democratic basis, there continues to be centrally imposed limits on increases without express local permission through the mechanism of a referendum. Boroughs and District Councils had been allowed discretion to increase Council Tax by up to £5 per annum or 2%, whichever is the greater for next year. Taking all relevant considerations into account, the Administration has decided to recommend to Council that the increase in Council Tax for the year 2022/23 should be set at £5 per year (2.16%), taking the annual total to £236.30 for a Band D equivalent. For planning purposes, a 2% increase is assumed in the MTFS for future years as currently there is no indication at this stage if this level of increase will continue in future years.

6. Medium-Term Outlook and the Underlying Funding Gap

The outlook for local government revenues and spending needs in subsequent years is highly uncertain. However, without additional funding and/or flexibility over council tax rates, it is highly likely that councils will have insufficient revenues to keep pace with rising spending needs.

This was true even before the COVID-19 crisis. Increases in the demand and cost of key services were always likely to outpace increases in local tax revenues if council tax increases are effectively capped by the default 2% referendum limit in the future.

The following section sets out the approach to developing a medium-term financial plan for 2022/23 to 2027/28. There is continuing financial uncertainty as a result of worldwide Pandemic as well as local authorities operating in an environment of single year finding settlements. It is therefore essential to have a continuous review of the funding and spending assumptions in order for the Council to respond to changes in an orderly and managed way.

At the heart of the approach is the full recognition of demographic and other pressures to ensure the correct level of base funding required for the services.

In February 2021, the Council agreed that the structural budget gap of £3 million needed to be addressed over the next 2 to 3 years, so that the Council doesn't continue its reliance on significant use of reserves to provide Council services. Subsequently in December 2021, the Council agreed to re-build reserves to pre pandemic level by 2030.

Strategic Review of Services

In September this year, the Council commissioned "Ignite" to do Strategic Benchmarking and Opportunity Identification of all our services. The organisation was contracted through the Crown commercial framework which is available to Public Sector bodies and the cost of the assignment is £35,000. This sum has been funded from the Transformation fund that was established earlier this year.

It is acknowledged that continuing to identify savings year after year is not sufficient to reduce our overall net expenditure to meet the funding envelope available. This year we have taken a twin track approach, firstly we asked all services to identify 15% budget savings as well as identifying "big ticket" items rather than proposing savings that deplete services further. It was also agreed that we should use our experience in the last 18 months to "review and re set the dial" when it comes to providing services.

Acknowledging how challenging it has been to try and achieve the 15% budget savings target for next year as well as the Big ticket items, Council Management Board in consultation with the Leader enlisted some external help using a model that could help us to assess the scope for a more strategic approach to reviewing where we deploy our resources. This in turn should help to direct discussions in future service provision and help achieve budget reductions required to provide Council services within an affordable financial envelope.

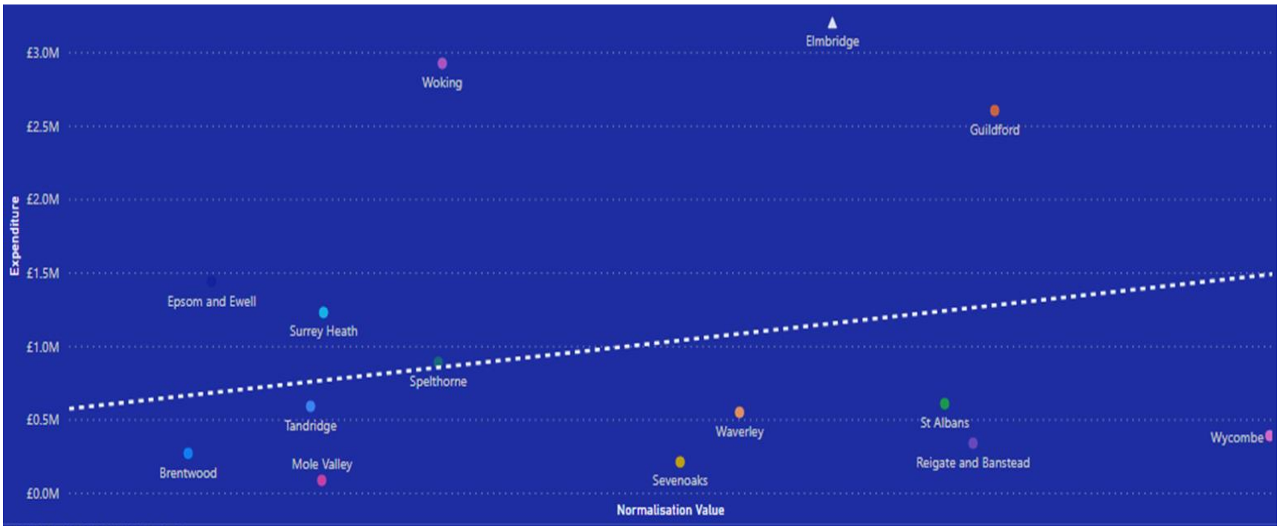
Members will be aware of the findings of the review undertaken by Ignite where they highlighted that EBC is an extreme national outlier in terms of its discretionary service offers (evidenced in the graphs below). Elmbridge has high levels of discretionary expenditure, particularly in areas of Community Support Services and Leisure & Culture and have recommended that expenditure is reduced in these areas to move towards our comparators. The key messages were:

- Net expenditure on Community Support Services is not only the highest in the comparator group but the highest in the country.
- Elmbridge has the greatest number of Community Centres (7) compared to those in the comparator group.
- Net expenditure in Sports development and community recreation is the highest in the comparator group.
- Open spaces income is significantly less than our comparator group.
- Parking income is significantly less than our comparator group.
- Continue to drive digitalization and process improvements.
- Need for a visionary plan for Hurst Pool site.
- Progress regeneration plans for Lower Green.
- Review of all Assets to balance operational, community and commercial outcomes.

The review also showed that EBC spend on Statutory services was below our comparator group of councils.

The outcome of the Ignite review and the key messages shouldn't come as a surprise as these reinforces the consistent messages that the Council Management Board and the Section 151 officer have given to various administrations over the years.

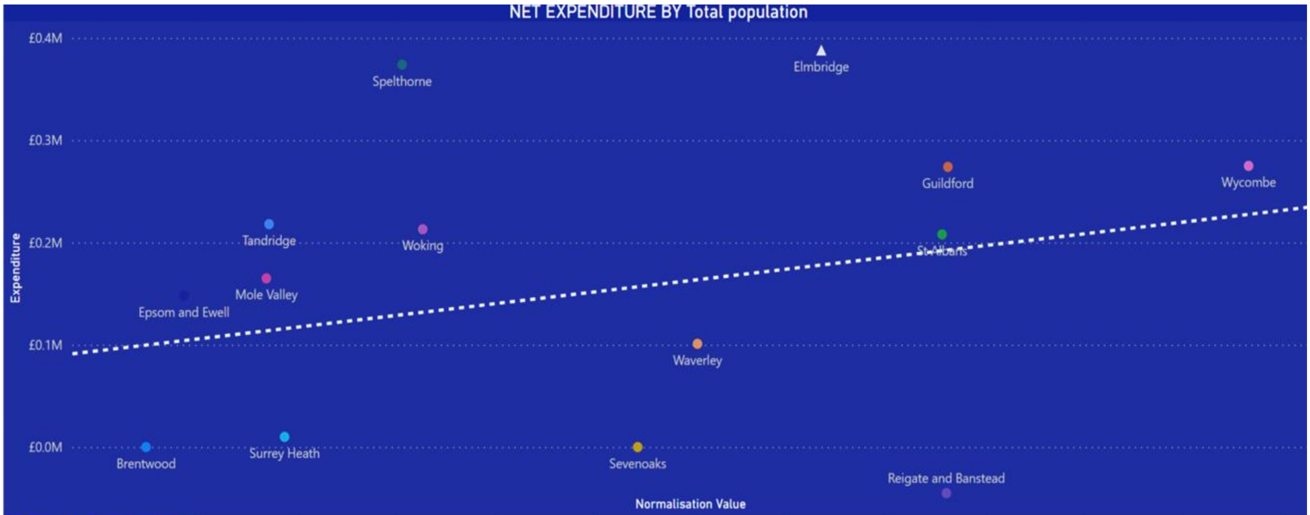
The graph below shows that EBC spend in Community Support Services is the highest in the country amongst our comparators



RO RETURN FULL DATA

Sub Item Name	Employees (C1)		Running Expenses (C2)		Total Expenditure (C3 = C1 + C2)		Sales, Fees and Charges (C4)		Other Income (C5)		Total Income (C6 = C4 + C5)		Net Current Expenditure (C7 = C3 - C6)	
Head of service	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)
⊞ Community support services	£2,177K	£1,273K	£2,709K	£1,722K	£4,886K	£2,994K	£1,130K	£647K	£554K	£354K	£1,684K	£1,001K	£3,202K	£1,993K
Total	**£2,177K**	**£1,273K**	**£2,709K**	**£1,722K**	**£4,886K**	**£2,994K**	**£1,130K**	**£647K**	**£554K**	**£354K**	**£1,684K**	**£1,001K**	**£3,202K**	**£1,993K**

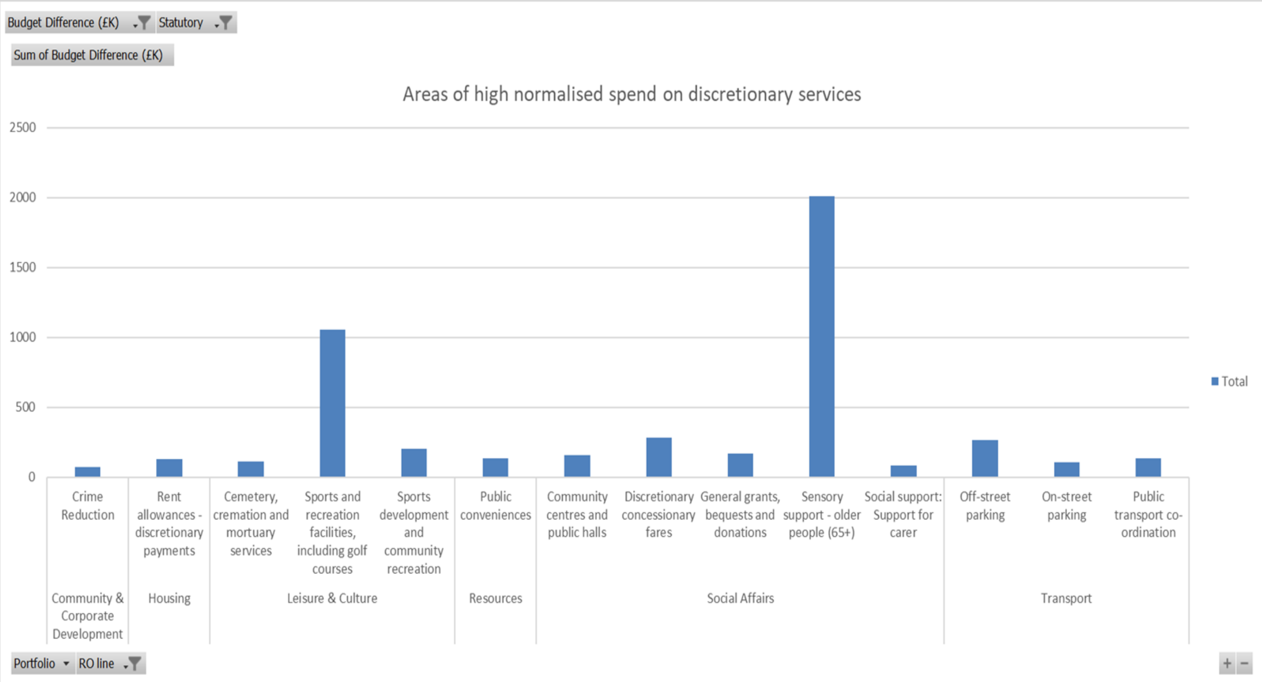
The graph below shows that EBC spend in Sports development and community recreation is higher than our comparators



RO RETURN FULL DATA

Sub Item Name	Employees (C1)		Running Expenses (C2)		Total Expenditure (C3 = C1 + C2)		Sales, Fees and Charges (C4)		Other Income (C5)		Total Income (C6 = C4 + C5)		Net Current Expenditure (C7 = C3 - C6)	
Head of service	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)	Expenditure (£)	Budget Difference (£)
⊟ **Leisure & cultural services**	**£262K**	**£170K**	**£194K**	**£69K**	**£456K**	**£239K**	**£52K**	**£22K**	**£16K**	**£13K**	**£68K**	**£36K**	**£388K**	**£203K**
Sports development and community recreation	£262K	£170K	£194K	£69K	£456K	£239K	£52K	£22K	£16K	£13K	£68K	£36K	£388K	£203K
Total	**£262K**	**£170K**	**£194K**	**£69K**	**£456K**	**£239K**	**£52K**	**£22K**	**£16K**	**£13K**	**£68K**	**£36K**	**£388K**	**£203K**

This graph highlights the two areas where EBC has the highest net discretionary spend



Plans to deliver required budget reductions

The Administration has agreed as part of their 2030 vision that the main areas of budget savings should be in the major discretionary spend areas, Community Support Services and Leisure and Cultural Services.

The approach will focus on what matters most, reduce the emphasis on doing it ourselves and not necessarily from buildings that we own and operate, in favour of community networks/partners and outcomes and supporting people to lead independent lives.

Services will need to re shaped so that the Council is financially sustainable and can support our communities to make the changes necessary to address climate change priorities.

These reviews will recognise the need for strategic transformation and modernisation, shaping services to meet the need in the community and reflect the available resources around anticipated outcomes.

- **Target is to reduce net spend in the two discretionary service areas by a minimum of £1.5 million by April 2025.**
  - **Action is required to reduce the net budget spend in Community Support services. This will be achieved by updating the service offer and focusing on the desired outcomes.**
  - **Action is required to reduce net budget spend on Leisure & Cultural Services. This will be achieved by updating and refocusing the service offer, identifying the most efficient ways of delivering the desired outcomes and increased income opportunities within the Leisure offer will need to be progressed**
- **Council will continue to drive Digital Transformation and process improvements to deliver savings included in the budget and continue to do so to deliver further efficiencies. An updated Customer Access Strategy will be considered by Cabinet in March 2022.**
- **Officers will continue to maximise rental income from the Council's property portfolio and review all assets to balance operational, community and commercial outcomes.**
- **A plan and Business case for the redevelopment of Hurst Pool on an on-going revenue neutral model will be developed and agreed by November 2022.**

7. Impact of Covid-19 on the Commercial Property Sector

The impact of Covid on commercial property continues to impact all commercial sectors in different ways, although there is a far more positive outlook than 12 months ago.

The retail, restaurants and leisure operators (such as gyms) had been the most affected. There has been consolidation over the last 12 months, with many business's ceasing to exist. The operators who have fared best are those with the most robust on-line businesses. There has been a significant reduction in administrations in this sector with most of those who have survived to this point likely to thrive as a clearer route out of restrictions becomes clearer. Some retailers are already reporting pre Covid sales levels. This could obviously change if there are any further variants which brings with it more lockdowns. The Council's assets in this sector have seen rent reductions over the last 12 months where lease expiries have occurred. The council has taken a realistic approach, and, in most cases have retained tenants upon expiry of their leases albeit on lower, but market, rents rather than carrying voids in expectation of higher rents at some point in the future. The council does benefit from the fact much of its retail income comes from supermarkets which remains the strongest sector.

Demand for Industrial and Logistics space continues to fare the best with demand for space still very strong, with rental growth in excess of 10% across the council's industrial assets over the last 12 months. The council has very few voids in this sector but in both the cases where tenants have vacated higher rents have been secured from new occupiers.

Offices have overtaken retail and leisure as having the most uncertain future with employees' and employers' working practices changed permanently with more flexible working here to stay. This is therefore leading to a reduction of office space requirements. The Council are reviewing its own occupation requirements and following the first serviced office letting in its portfolio, looking for other similar opportunities elsewhere in its portfolio as individuals look to work closer to home. Whilst we are fortunate to have a very low vacancy rate across our investment portfolio, nearly all are in the offices sector.

The Council's Investment and Operational property portfolios have not been immune to the effects of the pandemic but has fared better than most. The balance of our portfolio by use provides us with a strong platform going forwards.

8. Managing Financial Risk and Uncertainty

Given the uncertainties of the economic environment and the national political landscape, the scale of reductions required present significant risks in delivering balanced budgets over the medium term. Key strategic risks are regularly reported to Cabinet, Audit and Standards Committee and the Council.

As the Council's funding becomes increasingly reliant on local sources and exposed to greater fluctuations, it is increasingly important to have appropriate strategies for managing any impact.

The Council continues to face an uncertain financial climate over the medium to long term which presents a high risk to the Authority and there remains potential for further, as yet, unrecognised risks. For this reason, a prudent approach to the level of reserves held by the Council remains sensible and necessary. The Strategic Director & Deputy Chief Executive, as the Council's Chief Finance Officer, is required to state whether the reserves are adequate as part of the annual budget setting process.

In assessing an authority's level of general reserves, Chartered Institute of Public Finance Accountants (CIPFA) has identified one of the major factors is meeting possible increases in either unpredictable or demand-led expenditure or income. The principal assumptions made in formulating the annual budget impact not only the budget itself, but also on the level of general reserves. This year, the impact of the pandemic has become a significant factor in preparing the budget and planning for the future including the level of reserves required to have a balanced budget.

The principal demand-led pressures on income are in respect of housing and development activity within the Borough, reflected in income obtained from planning applications and the New Homes Bonus, and also in respect of off-streetcar parking and recycling services. In addition, given the Council's Property Portfolio, any variations in rentals, including rent free periods and voids will need to be managed carefully.

Estimates within the budget are based on current levels of activity; a variation in activity levels of 10% would produce a variation in income, as follows:

Services	Impact on income due to a variation of 10% +/- in activity levels £'000
Planning Applications	140
Off street Parking	350
Community Support Services	200
Income from recycled waste	200
Income from Leisure facilities /Cemeteries	115
Green Waste Income	125
Other External Grant Income (including SCC)	100
Property Rental Income	450
Business Rates	600
A 1% variation on Interest Rates on balances	600
Total	**2,680**

The Council's gross revenue budget at £80 million provides an extremely wide range of different services, many of them demand led. In addition, a significant sum is raised in fees & charges and rental income. As a result, it faces significant risks of adverse budget/income variations. This has been evidenced in the last 24 months during the pandemic. These risks are mitigated by close budget monitoring and regular reporting in year to officers, Council Management Board and various committees.

The Revenue Contingency and Rent Risk Reserve is held to mitigate any adverse impact on our rental income from properties and will be used to fund any shortfall. Given our reliance on rental from our Property portfolio, sufficient reserves will need to be maintained to mitigate lease expires in the next two years, likely to have an adverse impact on rental income.

The table below illustrates the risk items in the budget:

Risk Item	Probability	Impact	Overall Risk of budget variance
Government Funding Fair Funding Review, which will assess the level of funding required based on an assessment of need and resources. This will coincide with the introduction of 75% Business Rates Retention and it is expected that all our external funding will be delivered through an adjustment to our Baseline funding level, tariffs/top ups and levies. It has also been announced that New Homes Bonus will cease in its current form.	High	High (adverse)	High
Waste and Recycling This is a complex area financially and at greatest risk of volatility. Fuel costs and disposal costs, particularly around cost of recycling are variable.	High	High (adverse or favourable)	High
Local Plan Additional consultancy spends' or resources may be needed in order to take forward the Local Plan process; however, the additional costs are recommended to be funded by Reserves.	Medium	High (adverse)	Medium
Planning Appeals The current position of the Local Plan process raises the risk levels in the cost of defending appeals and any awards that may be made against the planning authority. Major appeals can cost around £ 100k to £150k, equivalent to 1% of Council tax income.	Medium	Medium (adverse)	Medium

Risk Item	Probability	Impact	Overall Risk of budget variance
Efficiency Savings from Transformation and Digitalisation The pandemic has created an opportunity to do things differently. Where budgets have already been reduced because of identified savings, the revised budget level is untested so there is an inherent risk of adverse variances.	Medium	Medium (adverse or favourable)	Medium
Income If economic conditions deteriorate, demand fluctuates or due to external factors such as the pandemic there may be unbudgeted loss of income. Planning, car parking, Cemeteries & Property Rentals are all income streams where risk of volatility has been noted.	Medium	Medium (adverse or favourable)	Medium
Treasury Management Investment risks are spread between public and private sector counterparties including UK banks systemically important to the UK economy. In the unlikely event of a banking failure, there could be a serious impact on the Council.	Low	High (adverse)	Medium
Reforms to Housing & Council Tax Benefit & Universal Credit Housing benefit reforms and benefit caps may have an adverse impact on amounts of claimants benefit awards and this could have an impact on collection rates and increased claims for discretionary housing payments.	Medium	Medium (adverse)	Medium

Risk Item	Probability	Impact	Overall Risk of budget variance
Supplies & Services Contracts Where contracts have indexation clauses, estimates have been made of the inflationary increases that will be applied. In addition, some contracts are due to be re-tendered during the year which could affect the base price. Accordingly, there is an inherent risk of price volatility.	High	Medium (adverse or favourable)	Medium
Climate Change Commitment The Council committed to become Carbon Neutral by 2030. Any action plan to meet this commitment will have funding implications.	High	Medium (adverse)	Medium
Capital Financing Costs These are influenced by variable factors such as cash flow, variations in the Capital Programme and availability of capital receipts.	Medium	Low (adverse or favourable)	Low

Key actions that continue to be being taken to mitigate risks include:

- Review of fees and charges and other income generation opportunities across the Council.
- Enhance the provision of customer services by effective use of technology to align with our resident needs and accessibility requirements and use digital technology to speed processes and make it more efficient for the end user.
- Continue to review level and use of reserves and balances.
- Optimising return on cash surplus in times of low interest rates, balancing security, liquidity and yield.
- Continue to use existing assets more effectively, releasing space which can generate rental income.
- Undertake a review of capital spending plans to ensure a sustainable business case with affordable capital programmes.
- Review Partnerships and funding to Voluntary sector, strengthen service level agreements and maximise the use of Voluntary Sector to provide services.
- Maximise invest to save opportunities to generate income, improve processes and make savings.

Price Inflation and Pay Inflation

Price and Pay inflation are at a very high level. For pay inflation, the 2022/23 budget includes a provision at 3.5 % cost of living increase and a provision for pay progression is allowed for, as eligible officers progress along their pay scale. A modest 2% is included for future years.

Where the Council incurs contractual inflationary uplifts, budgets have been adjusted accordingly. This will need to be revisited during the year and when setting the budget for the following year, given the current state of the energy and utility market conditions.

9. Partnerships/Contracts/Trading Companies

Partnerships form the basis of an increasing range of the Council's services and extend from joint activities within a loose working arrangement to complex and significant vehicles for service delivery. The Council welcomes partnerships but will always seek to ensure that:-

- Robust governance arrangements are in place;
- The financial viability of partners is assured before committing to an agreement;
- The responsibilities and liabilities of each of the partners is clearly laid out in the partnership agreement;
- The accounting arrangements are established before any payments are made;
- The implications of the terms and conditions of any funding arrangements are considered before any monies are accepted; and
- Appropriate exit strategies are in place.

Elmbridge Borough Council set up an employee mutual for Building Control Services which became operational on 1 August 2015. The Council has a 20% stake in the mutual and a share of any profit, from year 4, made by the entity was expected to be received when the year 4 results are delivered. Unfortunately, the Mutual has yet to deliver a share of the profit to the Council as their Business Plan projections have not materialised as planned.

The Council has established EBC Homes Ltd & EBC Investments Ltd (wholly owned Housing Companies) to increase the provision of homes of mixed tenures in the Borough. In the early years, the companies are not expected to generate any surplus income and are reliant on the Council to provide financial support.

Given the financial sustainability of EBC Homes Ltd due to the lack of pipeline of council owned sites to scale up, members have asked officers to consider options to close the company. Any financial implications will be reported to Council.

Elmbridge Borough Council currently receives funding from SCC for services such as Community services for older people and Housing. This funding has reduced significantly in the last couple of years and is likely to reduce even further in the next few years.

10. Medium Term Financial Strategy

Financial Context 2022/23

In 2022/23, the Council's net revenue budget requirement is £20.0 million, of which £15.7 million will be met by council taxpayers, £2.3 million of Business Rates and the remainder by reserves.

2021/22	Revenue Budget £m	2022/23
78.4	Gross Expenditure	76.1
32.5	Less: Housing Benefit	30.0
3.6	Less: Capital Charges	3.2
42.3	**Gross Expenditure Budget**	**42.9**
22.7	Income from Fees & Charges, Rental, Interest and other income	22.6
19.6	**Net Expenditure budget**	**20.3**
	Funded by:	
2.3	Business Rates Baseline	2.3
2.4	Use of Reserves to balance revenue budgets	1.9
0	Surplus on Collection Fund (Business Rates & Council Tax)	0.2
14.9	Council Tax Income	15.5
19.6	**Total Funding**	**19.9**

Revenue Budget headlines:

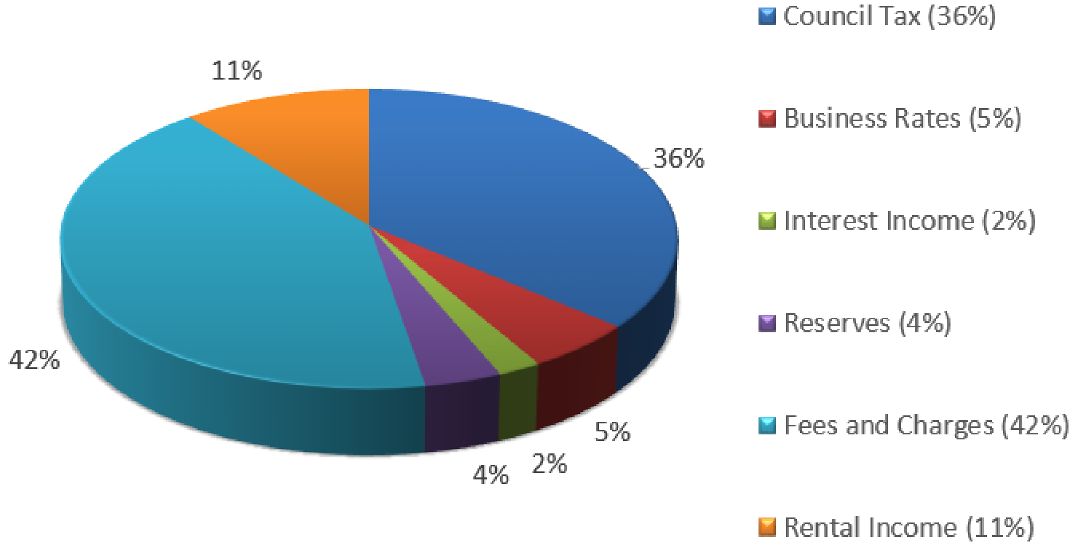
The 2022/23 revenue budget is balanced with the use of specific and general reserves.

The main headlines for the 2022/23 budget are:

- A net budget of £ 20 million.
- Available funding envelope of £ 18 million.
- Spending pressures of £2.8 million, including
    - Pay and inflation.
    - Demand and other pressures.
    - Rental income changes.
- Increase in interest income of £0.2 million
- Additional Income and budget savings of £1.9 million.

- Council Tax increase of £ 5 per annum (Band D property) generating council Tax income of £15.5 million.
- Business Rates income of £2.3 million.
- Reserves used to balance revenue budget £ 1.9 million (a reduction of 20% compared to 2021/22).

Funding Sources for 2022/23 Gross Expenditure Budget of £ 42.9 million



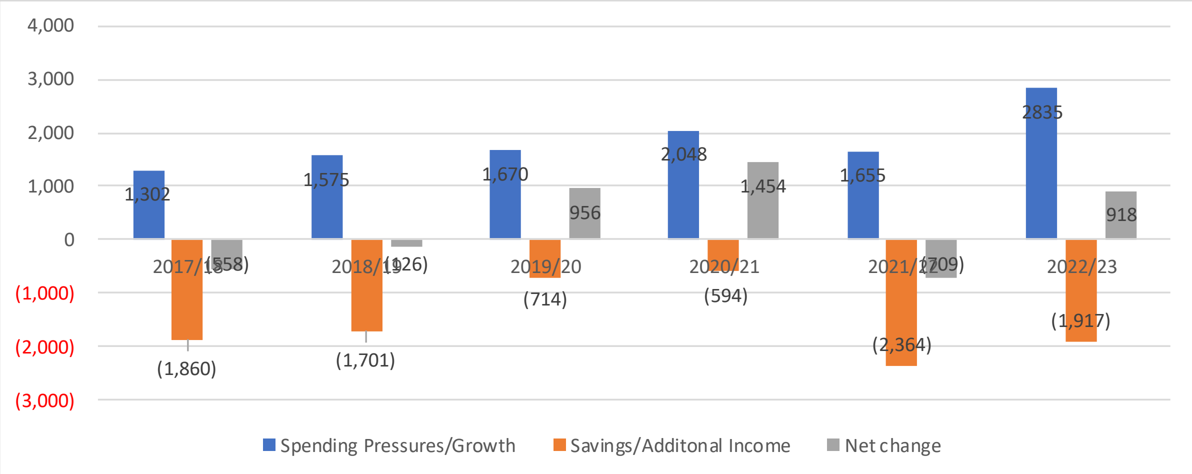
The Council's budget position is very sensitive to changes in investment returns, fees & charges, rental income, as experienced in the current year. Close to 90% of the expenditure budget is funded by a combination of council tax income, fees and charges and rental income from the Property Portfolio with the remainder funded from Business Rates, Interest Income and Reserves.

The key financial issues for the Council that can be drawn from this context are:

- The Council relies mainly on locally raised revenues including Council Tax, income from car parks, Rental Income, Business Rates and other income raised locally.
- The reduction in Business Rates and Council Tax in relative terms compared to last year does give rise to concern especially when this is likely to continue in the medium term.
- The Council has a resilient financial base that, whilst not insulating it from the impacts of public spending reductions, has enabled it to continue to take a planned medium-term approach to adjusting to the new uncertain environment due to the pandemic.

- It's vital that net expenditure budgets are reviewed with a view to reducing the reliance on reserves for service provision and reserves should be replenished when used.

Savings and spending pressures 2017/18-2022/23						
	2017/18	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**
Spending Pressures/Growth	1,302	1,575	1,670	2,048	1,655	2835
Savings/Additonal Income	(1,860)	(1,701)	(714)	(594)	(2,364)	(1,917)
Net change	**(558)**	**(126)**	**956**	**1,454**	**(709)**	**918**



The above graph illustrates very clearly the increase in service demands and the decrease in sustainable budget reductions/additional income. The 2022/23 budget now shows a net increase in spending pressures of £1 million compared to a net saving contribution of £0.7 million, the previous year.

11. The Medium-Term Financial Plan (2022/23 – 2027/28)

The financial implications of the policies and assumptions identified in this document are set out in the report. This summarises the revenue budget projections over the medium term and includes the savings, increased income and spending pressure proposals reported to Cabinet.

The trend of rising costs and decreasing funding will continue over the next few years and this creates the need for a significant strategic response. Modeling the level of the projected deficit accurately is difficult and becomes increasingly so, given the timescales and uncertainty over the outcome of the Fair Funding Review and 75% Business Rates retention.

The Medium-Term Forecast indicates that the Council faces a significant budget gap over the medium-term. Given the uncertainty and the timing over the Fair Funding Review, Business Rates retention needs assessment and the baseline reset, the MTFS projections are only indicative at this stage. Once the Fair Funding Review is completed the Financial Plan will require updating.

The Council, up to now has taken a different approach to this funding decline and has adopted a policy of finding efficiencies through transforming service delivery, for example, partnership working and generating income through the introduction of a more commercial approach in order to replace a significant proportion of the lost grant. This revenue is then reinvested in the delivery of services, thereby protecting the services valued by our residents.

This approach is not sustainable and a more fundamental and radical review of all the services is required to identify the required budget reductions in the medium term.

The Financial Plan, as part of the Medium- Term Financial Strategy (MTFS) is shown below:

FINANCIAL PLAN 2022/23 TO 2027/28

MEDIUM TERM FINANCIAL STRATEGY (MTFS) - February 2022		**2022/23 Budget £'000**	**2023/24 Projection £'000**	**2024/25 Projection £'000**	**2025/26 Projection £'000**	**2026/27 Projection £'000**	**2027/28 Projection £'000**
Net Budget Requirement to fund Services brought forward		**19,629**	**20,348**	**19,430**	**18,695**	**18,695**	**18,970**
Savings/ Income:							
Approved Savings/ Income (November 2021 Cabinet)		(1,112)	(628)				
Action Plan Savings required from Discretionary Services			(750)	(750)			
Other Savings and Income required		(743)	(500)	(650)	(820)	(500)	(500)
Cost Pressures:							
Pay Award (including increments and employers NI)		762	360	365	370	375	380
Contract Price Increases (Indexation)		448	350	300	300	300	300
Budget Growth (including Climate Change)		894	No Growth Assumed				
Reduction in External Funding (SCC - Waste Recycling and Gate Fees)			300	Funding fully withdrawn			
Pensions Contribution -Triennial Valuation		145	150	150	150	100	100
Reduction/(Increase) in Interest earned on Balances		(200)	(100)	(100)	0	0	0
Foregone Car Parking Income - ongoing reduction due to Covid		525	(100)	(50)	0	0	0
Estimated Budget Requirement to deliver services		**20,348**	**19,430**	**18,695**	**18,695**	**18,970**	**19,250**
External General Grant Income Available:							
Lower Tier Services Grant and Services Grant (Assumes that Services Grant will be only for 2022/23, but Lower Tier Services Grant will continue but may be included in Formula Grant)		(265)	(100)	(100)	(100)	(100)	(100)
New Homes Bonus (NHB) allocation		(1,028)	(238)	Assumes NHB last payment is in 2023/24			
Transferred to Reserves (NHB)		1,028	238				
External Grant Income		**(265)**	**(100)**	**(100)**	**(100)**	**(100)**	**(100)**
Cost To Deliver Services after external grant income		**20,083**	**19,330**	**18,595**	**18,595**	**18,870**	**19,150**
Proposed drawdown from Reserves	**Available 1 April 22**						
Reserves used for the purpose of COVID impact	**281**	TBC					
Interest Equalisation Reserve	**464**				100	125	150
Rent Risk Reserve	**700**	Subject to Outturn compared to budget					
Grant Equalisation Reserve	**543**	(150)	(150)	(150)	(93)	Reserve Used	
To/From Earmarked Reserves	**Var**	(225)	(200)	(200)	(200)	(200)	(200)
Use of Business Rates Equalisation Reserve	**3,866**	(1,566)	(795)	(237)	(182)		
Contribution to Reserves (Rebuilding Reserves)						982	1,176
Total Reserves (used)/set aside		**(1,941)**	**(1,145)**	**(587)**	**(375)**	**907**	**1,126**
Net Expenditure Budget after use of reserves		**18,142**	**18,185**	**18,008**	**18,220**	**19,777**	**20,276**
Funding Available from Collection Fund excluding impact of Business Rate Reliefs		**18,142**	**18,185**	**18,008**	**18,220**	**19,777**	**20,276**

Collection Fund - Amounts available to Fund Net Budget	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Business Rates retained	2,329	2,436	2,514	2,550	2,600	2,650
Fair Funding Review		(500)	(1,000)	(1,250)	(1,500)	(1,500)
Business Rates - Share of Growth	n/a	Subject to Government Review (Reset)				
Estimated Council Tax Collection Fund Surplus / (Deficit)	155	150	180	180	180	180
Collection Fund/ GF Grants (Covid)	162	200	n/a			
Council Tax Income (See below)	**15,496**	**15,899**	**16,314**	**16,740**	**17,177**	**17,626**
Total Collection Fund Funding	18,142	18,185	18,008	18,220	19,777	20,276

Council Tax Base (assuming a 0.6% growth year on year from 2022/23)	**65,569**	**65,962**	**66,358**	**66,756**	**67,157**	**67,560**
Band D Council Tax (indicative)	**236.30**	**241.03**	**245.85**	**250.76**	**255.78**	**260.89**
Percentage Increase (indicative)	**2.16%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**	**2.00%**
Total Council Tax Income	**15,496**	**15,899**	**16,314**	**16,740**	**17,177**	**17,626**

Total savings to be identified		**(1,250)**	**(1,400)**	**(820)**	**(500)**	**(500)**
Revenue Reserves (used)/ set aside in budget	**(1,941)**	**(1,145)**	**(587)**	**(375)**	**907**	**1,126**

12. Capital Investment within the Medium-Term Financial Strategy

The Capital Strategy demonstrates that the Council takes capital investment decisions in line with service objectives and properly considers stewardship, value for money, prudence, sustainability and affordability in the long-term context.

The different stages in Capital Planning are illustrated below:

Capital Strategy

- Service needs over the longer term
- Existing assets
- Gap analysis
- Affordability

Asset Management Plan

- Current inventory
- Ongoing maintenance and investment needs
- Asset utilisation

Capital Programme

- Medium-term plan for investment
- Project based
- Capacity to deliver and programming

The Strategy draws together existing good practice within the Council into a single document. The Strategy outlines some guiding principles for the use of capital receipts to £750,000 per annum but not exceeding £2 million over a three-year period. It also includes that the balance of capital receipts should not go below £5 million.

The MTFS should not just focus on current income and expenditure. The Council has large asset bases relating to delivery of services. It is vital that these assets are maximised in terms of value to the organisation and every opportunity for rationalisation and improved return, whether in terms of improved financial returns or service capacity is identified and maximised.

The Capital Programme is set in the context of the Council's priorities and its financial resources. All new projects are usually assessed in terms of their contribution to the Council objectives and their priority in terms of scarce resources.

Further to the Council's commitment to become carbon neutral by 2030, the Capital programme includes several proposals that will help the Council towards its target.

The Council reviews its capital spending plans each year and sets a three-year Capital Programme. A key consideration when setting the programme is the projected level of available capital resources and affordability, which is assessed during the budget setting process. Revenue expenditure is concerned with the day-to-day running of the services and capital expenditure is a key element in the development of the Council's services compared with investment in the assets required to deliver services. Decisions on the Capital Programme have an impact on the revenue budget, for example, in relation to:

- The ongoing running costs and maintenance of assets such as buildings and car parks.
- The revenue cost of financing capital, including prudential borrowing.

The Council's revenue and capital budgets are integrated with the financial impact of the Proposed Capital Programme, which is reflected in the revenue estimates.

The Council will only invest as long as its capital spending plans are ***affordable, prudent and sustainable.*** The fundamental constraint on capital investment by the Council is the scope to afford the financial implications in terms of council tax levels.

Capital Programme

The overall level of a fully funded capital programme has been based on the position set out in reports and on budget and council tax projections for 2022/23, considered by the Cabinet on this agenda. The estimated impact of financing this level of capital expenditure in accordance with the Council's Treasury Management Strategy has been reflected in the base budget, which includes the implementation of uncommitted capital projects in line with the level of provision made within the Council's financial strategy.

13. Local Government Act 2003: Section 25 Report by The Section 151 Officer

Statutory declarations on Robustness of Budget Estimates and Adequacy of Reserves

The Local Government Act 2003 (Section 25) requires that when a local authority is agreeing its annual budget and council tax, the Section 151 Officer must report on the following matters:

- the robustness of the estimates made for the purposes of the calculations, and
- the adequacy of the proposed financial reserves.

The Section 151 Officer for Elmbridge Borough Council is the Strategic Director of Resources & Deputy Chief Executive, Sarah Selvanathan.

Local authorities must consider the level of reserves needed to meet estimated future expenditure when calculating the budget requirement. The Section 151 officer, as part of the budget setting process each year, has to provide a statement on the adequacy of reserves that is subject to an external audit review to assess value for money and a going concern opinion.

The Council keeps a level of reserves to protect against the risk of any uncertainties or unforeseen expenditure. This is considered best practice and demonstrates sound financial planning. Much like using savings to offset monthly household bills. The use of financial reserves cannot solve a budget problem outright but allows for smoothing of impacts or allows the Council time to ride any short-term situations before returning to normal. Therefore, reserves are mainly used to:

- Manage the impact of funding reductions over a longer period.
- Invest in projects that allow services to be delivered cheaper.
- Take “one-off hits” for the council without the need to further reduce service budgets.
- Provide capacity to absorb any non-achievement of planned budget reductions in each year.
- To temporarily roll over unused portions of grants that can legally be used later.
- To insure against major unexpected events such as the Pandemic.
- To protect against general risk i.e. saving up for unexpected events, Legal claims, Litigation etc.
- To guard against emerging specific risks, such as business rate appeals, council tax support funding cuts and welfare reform. These risks are predicted to continue to increase.

Robustness of Budget Estimates

The S151 Officer’s overall view is that the budget estimates are sufficiently robust, having been prepared following well-established processes and experienced officers’ professional judgement. The aim has been to ensure that the budget is based upon realistic estimates, for example, ensuring that contractual commitments are provided for, salary budgets reflect the approved establishment and current staff in post, and income budgets are based on an assessment of price and demand.

No budget can ever be completely free from risk. Necessarily, assumptions are made which means that the budget will always have an element of uncertainty.

Officers in preparing the budget proposals have considered service budgets, any spending pressures and any saving proposals in detail.

The Council's finances need to be everyone's responsibility, it is not the sole responsibility of the Council's S151 Officer. It should be across the entire Council, the Cabinet, Chief Executive, Directors and their management teams, senior managers and front-line workers.

It is essential that the Council makes best use of its finite resources so that Value for Money is achieved. In simple terms this means evidence-based decision making, testing the market and strong business cases in delivering the Councils objectives.

The budget and service planning cycles are in line, so that resources are aligned with service objectives through the budget setting process, the revenue impact of decisions concerning capital spending is considered and incorporated in the budget proposals and any known risks are considered and appropriately budgeted for.

In order to assess the adequacy of the non-earmarked element of the general reserves when setting the budget, account must be taken of the strategic, operational and financial risks facing the Council. The risk assessment is in two parts. Firstly, an evaluation is made of the short/medium term risks to the Council, which could lead to budget overspends or shortfall in income levels. Secondly, an evaluation is made of factors that could impact on the Council's reserves over the longer term.

Statement on Adequacy of Reserves

Reserves Policy

The Council's policy on reserves is outlined within the MTFS principles as follows:

- The Council will maintain its General Fund Balance at a minimum of £4 million to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFS without reliance on the use of the General Fund reserve.

- The council will maintain earmarked reserves for specific purposes which are consistent with achieving its key priorities. The use and level of earmarked reserves will be reviewed annually.

- Ensure the revenue reserves (GF and non-statutory) do not go below the £12 million level in any one year .

- Steadily increase reserves to pre Covid-19 levels by 2030 so that the Council can respond to any future challenges

A local authority is not permitted to allow its spending to exceed its available resources so that overall it would be in deficit (Sections 32 and 43 of the Local Government Finance Act 1992 require authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement).

The un-earmarked General Fund reserve, often referred to as the GF working balance, is maintained to safeguard the Council against financial risks beyond those for which specific earmarked reserves have been created.

A reserves strategy is very much a local decision to meet local needs, and there is no "one size fits all" strategy which will be suitable for all councils.

The requirement for local authorities to hold financial reserves is acknowledged in statute. Reserves are just one component of an authority's medium-term financial planning – other components include revenue spending plans, income forecasts, potential liabilities, capital investment plans, borrowing and council tax levels. These decisions are inter-linked. This means that, to ensure prudent financial management, some authorities will need to maintain reserves at higher levels than others.

Review of Reserves

Each year as part of closing the accounts a view is taken on maintaining and strengthening, where necessary, those reserves specifically earmarked to support the highest areas of risk resulting in the rationalisation of reserves where possible and in some cases additional funding being set aside.

A review of the level of the major elements of earmarked reserves has been undertaken, from which it is considered that the estimated levels of those reserves are at an appropriate and adequate level especially given the changes in the way Local Government is being funded.

If, on the assumption that no savings or additional income were identified and unallocated reserves at 31 March 2022 were used to balance the budget, there would only be enough to do so for another 2 to 3 years, which is clearly not sustainable. It is for this reason that members have agreed to reduce expenditure on Discretionary service areas and a budget reduction target is included in the MTFS Financial Plan.

Revenue Reserves

In summary, the Council's revenue reserves position as at 31 March 2022 is forecast to be £18.7 million excluding the General Fund Balance and the Community Infrastructure Levy.

Projected movement of Revenue Reserves 2021 to 2028

	21/22 £'m	22/23 £'m	23/24 £'m	24/25 £'m	25/26 £'m	26/27 £'m	27/28 £'m
B/forward excl. Statutory Reserves & GF Reserve	18.5	14.7	11.6	10.7	10.1	9.7	10.6
Planned Drawdown (MTFS Feb cabinet)	(3.0)	(1.9)	(1.1)	(0.6)	(0.4)		
Draw down for Capital purposes- already approved	(0.6)	(1.8)	TBC				
Other Movements in Reserves - net (e.g. NHB)	(0.2)	0.6	0.2				
Planned Addition to Reserves (February MTFS)						0.9	1.2
C/forward excluding statutory reserves	**14.7**	**11.6**	**10.7**	**10.1**	**9.7**	**10.6**	**11.8**
General Fund Reserve	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**	**4.0**

Earmarked and Essential Reserves

These balances are not a general resource but earmarked for specific purposes, considered essential, for example, for the following reasons:

The most significant reserves are listed below:

Revenue Contingency and rent risk reserve – covers the risk of not achieving the required amount of rental income supporting the revenue budget. In addition, it provides cover for the increased volatility and financial risk from legislative and statutory changes, economic pressures and delays or failure to achieve future savings or income targets.

Business Rates equalisation reserve – covers the increased risk of volatility from the impact of the localisation of business rates. In recent years this reserve has been used to fund revenue budgets.

Interest equalisation reserve – covers the risk of not achieving the required amount of income supporting the revenue budget. EBC has relied on this reserve in the last 3 to 4 years when interest rates have been unusually low. Now that the interest rates are on the increase, albeit gradually, it is recommended that this reserve is rebuilt for future years.

Grant equalisation reserve – covers the time limited funding relating to council tax freeze instigated by central government. There is only sufficient funding for another 3.5 years.

Capital Expenditure and Repairs & Maintenance Reserve -for renewal of operational assets instead of funding through annual budgets

Elmbridge Civic Improvement Fund, Feasibility studies reserve- to create policy capacity for one-off priority funding

Transformation Programme Reserve – established to assist with the Council's Transformation programme to deliver sustainable budget savings.

Climate Change Initiatives reserve – to create capacity to deliver projects to meet Council commitment to be carbon neutral by 2030

General Fund Balance

Setting the level of the general reserve is one of several related decisions in the formulation of the Medium-Term Financial Strategy and of the budget for a particular year. In broad terms, the annual budget is based on forecasts of pay and price changes, levels of income and the quality and quantity of services to be provided. The existence of a general reserve and working balance provides for unexpected changes to those forecasts, and the provision of an appropriate level of general reserve is a fundamental part of prudent financial management over the medium term.

The 'normal' level of working balance will reflect the long-term needs of the Council and be based on ongoing operational requirements. This will include a number of factors, the main ones being the gross expenditure of the Council and the extent to which long-term contracts reduce Council's flexibility to respond to financial shocks. Previously the Audit Commission had suggested that a yardstick for 'normal' un-earmarked reserves is between 5% and 100% of 'net operating expenditure'. EBC's GF balance at £ 4 million, represents 20% of Council's net budget of £ 20 million or sufficient to meet 10 weeks' worth of net expenditure. This places EBC towards a third of the recommended range. In gross expenditure terms, the level of General Fund Balance at £4 million is now under 10% (excluding Housing Benefits and Capital Charges) and equates to 4.8 weeks of gross expenditure required to provide Council Services

Having regard to the position outlined in this statement and recognising in particular the need for the level of the General Fund Reserve to be sufficiently robust to be able to finance unforeseen one-off events, it is considered that the general reserve at £4 million was set at an adequate level**.**

As Section 151 Officer, I am of the opinion that, because of our record of prudent financial management, careful budgeting and effective budgetary control, and especially because the Administration has agreed that it is willing and capable of taking the necessary actions to reduce the overall net spend on discretionary service areas, the level of general fund reserves are sufficient. The MTFS shows that a contribution to reserves will be made from 2026/27. A Transformation programme has commenced to close the funding gap and it is vital that this programme delivers the required savings as outlined in the MTFS.

The Section 151 Officer confirms that, whilst it might seem that there are sufficient reserves for the period of the MTFS, the Council does only have a finite level of reserves available. Therefore, the Council needs to rebuild its reserves to pre pandemic levels by 2030, as agreed in December 2021.

Financial Sustainability in the Medium Term and the adequacy of reserves and balances

The Council has an ambitious corporate plan and continues to face many challenges over the period of the MTFS. Action needs to be taken now to address this gap in a planned and managed way to avoid further reliance on reserves to balance the budget.

However, in order to maintain our strong financial position and financial stability into the medium to long term and to create some headroom to invest in Regeneration and Initiatives, the Council needs to ensure that savings and efficiencies are identified to have a balanced budget and sufficient levels of reserves are maintained.

The Council has a strong balance sheet, high asset base, good spread of income streams, albeit with risks given the current state of the economy and the effect of the pandemic, significant level of liquidity and a reasonable gearing ratio at <30%.

The Council starts the year with a balanced budget position but due to the wide-ranging long-term impact of the pandemic and the uncertainty over the Local Government Funding Reform, caution needs to be exercised in continuing to rely on reserves to provide Council Services.

Given the reduction in funding that the Council has experienced over recent years, retention of adequate reserves will be essential in order to mitigate risk and future uncertainties. Members have agreed to reduce expenditure to meet the funding available by March 2025 via a Transformation Programme and to rebuild reserves levels to pre pandemic levels by 2030.

CIPFA FM Code of Practice

CIPFA has developed the Financial Management Code (FM Code) designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM code has several components including six principles of Good Financial Management, setting the benchmark against which all financial management should be judged.

The FM code along with findings and actions required to ensure the Council continues to adopt best practice was considered by Cabinet during 2021.

CIPFA Resilience Index

CIPFA’s Financial Resilience Index made publicly available for the first time in 2019, aims to support good practice in the planning of sustainable finance. The index does not have CIPFA’s own scoring, ranking or opinion on the financial resilience of the authority. However, users of the index have the ability to undertake comparator analysis drawing their own conclusions. The financial resilience index developed by CIPFA shows how the Council compares to other similar authorities across basket of financial indicators based on its accounts.

The 2021 index, which will provide the relative position for the 2020/21 financial year has yet to be published. Key determinants of the Council’s position are its level of reserves, a low reliance on Government grant and a high reliance on Council Tax income, net retained Business Rates and other Revenue income to finance service expenditure.

The Council has been financially strong, but it has been recognised that the Council expenditure on Discretionary services will need to be reduced to continue to provide the services our residents need in a post pandemic world. Whilst the Government supported Councils with funding to address the shortfall in income and increased costs during the Pandemic, the on- going impact on income levels will need to be closely managed. We will need to continue to strengthen our resilience as an organisation, including rebuilding our reserves to face the challenges we know the future will bring. At the December Council meeting, members agreed to re-build reserves back to the pre pandemic levels by 2030.

In guidance to councils CIPFA stated: "Balancing the annual budget by drawing on general reserves may be viewed as a legitimate short-term option. However, it is not normally prudent for reserves to be deployed to finance recurrent expenditure.”

It stressed that there may be "good reasons" for councils to have used reserves for planned spending but added that "continued depletion of reserves may be a sign of financial stress and being unable to deliver a balanced budget".

"Emergencies can happen and sudden increases in spending can be needed. Councils need to be resilient or they end up in the position Northamptonshire was in.

In a report on the financial sustainability of councils in 2018 the National Audit Office said: "Reducing reserve levels means that local authorities have less scope to support 'invest to save' programmes, and any delays in delivering savings or unexpected cost pressures have a greater impact on their financial position."

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