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# Medium Term Financial Strategy 2024/25 – 2029/30

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**Elmbridge**  
Borough Council

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# 1. Executive Summary

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The Medium-Term Financial Strategy (MTFS) provides a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's Vision, key strategic outcomes, priorities and sustainable services.

It is central to the delivery of the Council's priorities in an affordable and sustainable way over the medium term. It aids robust and methodical planning as it forecasts the Council's financial position, taking into account known pressures, major factors affecting council finances, including external economic influences as well as local priorities and factors. It helps the Council to respond, in a considered manner, to pressures and changes as a result of many internal and external influences. This is particularly important during a period when the Council faces considerable pressures and challenges, such as those relating to the continuing impact of the pandemic, the cost of living crisis and the outlook for the economy.

The MTFS recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management and delivery of services. The approach concentrates on the principles that will provide a strong direction for the medium term. The key overriding aim of the MTFS is therefore: to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the Council's key strategic priorities and sustainable services.

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.

It has been necessary to plan for real term reductions in the Council's net expenditure. These reductions are delivered through a combination of reductions in expenditure, increases in income and through the Councils Transformation programme. The Transformation programme aims to reshape service delivery in the medium term with the focus on outcomes in the delivery of services for residents and communities as well as improving the value for money in delivering services.

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

There remain significant uncertainty and risk to the current MTFS, for example:

- Inflationary pressure on the Council expenditure including the impact of cost of living and homelessness
- The ongoing impact of the conflict in Ukraine
- The impact of Covid-19 appears to now be embedded in the behaviour of businesses and the general public, while it continues to have an impact in particular on the Council's income streams, for 2024/25 we should consider the budget to be the post covid baseline.
- Uncertainty on the timing of the next general election and the Policies of any new government on the Council's operation and finances.

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 strategy brings together the key issues affecting the:

- Revenue Budget
- Capital Programme
- Treasury Management Strategy
- Capital Strategy
- Risk Management Strategy

With local authorities across the country facing the challenges of reduced funding and increasing demand for services, the need for robust financial management has never been more important. To be truly effective, financial planning needs to balance the immediate service needs and pressures against the long-term financial resilience and sustainability of the Council.

A key part of this strategy is therefore to forecast the key budget issues that will need to be addressed by the Council over the coming financial years by estimating the level of funding available and the potential costs, both in terms of revenue and capital spending.

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.

With local authorities across the country facing the challenges of reduced funding and increasing demand on services, the need for robust financial management has never been more important. To be truly effective, financial planning needs to balance the immediate service needs and pressures against the long-term financial resilience and sustainability of the council. A key part of this strategy is therefore to forecast the key budget issues that will need to be addressed by the Council over the coming financial years by estimating the level of available funding and the potential costs, both in terms of revenue and capital expenditure.

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.

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 2024/25 provided the savings and income included in the budget are delivered. In addition, the elimination of the reliance of reserves to balance the budget will help us to remain financially resilient.

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 over the term of the MTFs.

Although progress continues to be made as part of the Transformation Programme, it’s imperative that plans are progressed to deliver the agreed outcomes.

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## 2. Council Vision 2030 and Delivering the Council's Priorities

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In November 2022, Cabinet noted a statement made on the Vision 2030, which outlined the intent behind the vision and has helped to shape the strategic direction.

Our Vision for 2030 is A sustainable, thriving Elmbridge driven by the power of our community.

To deliver our Vision, the Transformation 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 role of the Council's financial planning process is to support the achievement of the Council's Strategic Priorities and Council Plan.

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## Our Vision for Elmbridge

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### Vision statement

A sustainable, thriving Elmbridge driven by the power of our community.

### To deliver this Vision,

Elmbridge Borough Council will be a high performing, environmentally and financially sustainable organisation.

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# Transformation: our 3-year focus

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In order to reach our 2030 goals, we know that a rethink and period of transformation is necessary to develop the Elmbridge of the future. We can achieve this through driving change and reconfiguring our service offer for residents.

Here's what you can expect to see us achieve in the first three years of our vision:



We will have launched our package of community initiatives on climate change, implemented a Green Fleet Strategy and be on our way to decarbonising our fleet



We will have undertaken our digital first approach to improve processes and customer access to services



We will have maximised our open spaces; increasing use and income from use, and achieved our developmental plan for Hurst Pool



We will have assessed parking income following the pandemic and subsequent behaviour change, seeing our new strategy in action



Our Local Plan will be in place, outlining our commitments for how the communities and places in the borough will develop



We will use the Housing Enabling fund to increase homes in Elmbridge that meet temporary accommodation needs.



We will have significantly progressed the Lower Green regeneration project, with the aim of increased connectivity with surrounding communities



We will have reviewed our approach to our Community Support Services offer to ensure it meets local need and is financially sustainable



We will have completed and implemented our asset strategy review to balance operational, strategic and commercial outcomes



We will have developed and implemented our new Housing & Homelessness strategy to address the housing challenges out community faces

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### 3. Government Funding and Local Context

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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.

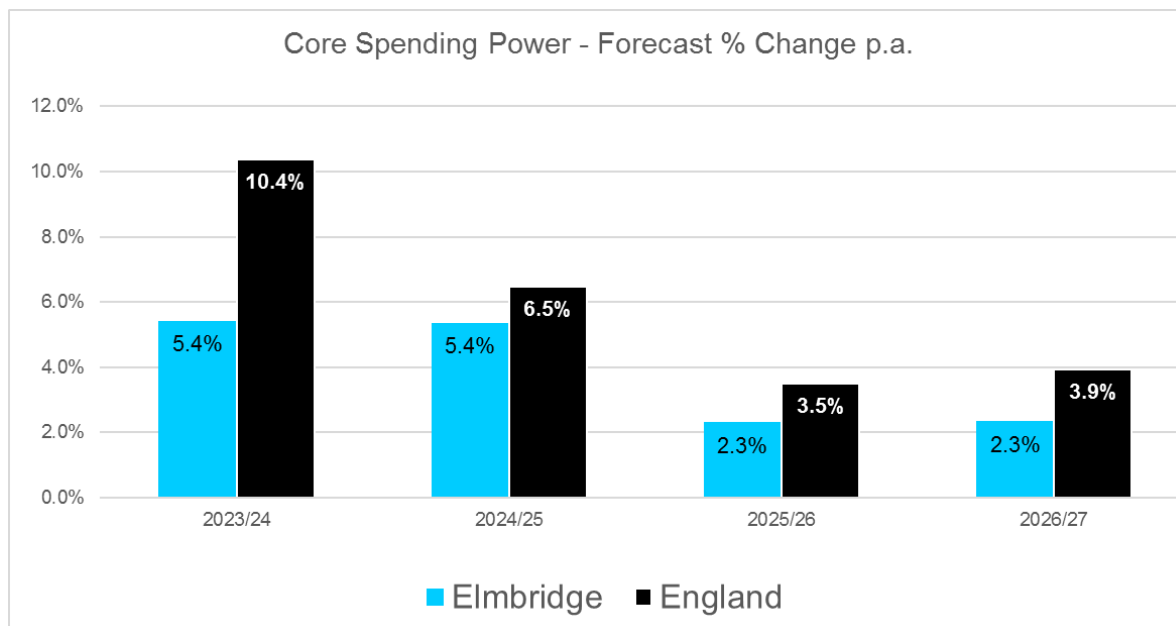
As expected, a multi-year spending review did not materialise during the 2024/25 provisional settlement for the government. This means since 2019 councils have had the challenging task of setting strategic plans over the medium-term, with little certainty about the funding available over that period. This does not provide a firm foundation for efficient financial planning and the case for multi-year settlement has never been more compelling. As evidenced by the number of Councils issuing S114 notices, the financial burden on Councils is escalating, and while a multi-year settlement would probably not reduce the burden, at least it would give Councils a firmer foundation on which to plan in the medium term.

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 exact timing of the finance reforms covering the Fair Funding Review, a Business Rates reset and New Homes Bonus, however it is clear that this will not take place until after the next General Election.

Over 85% of the Councils gross expenditure is funded by a combination of Council Tax (£16.7 million), various fees & charges, Property rental and Interest Income.

Annual funding from Revenue Support grant/business rates retention has been assumed throughout the MTFS period but only 2024/25 has been confirmed in December 2023 (provisional settlement). 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 6.5% in England, compared to the England average the CSP increase for Elmbridge is 5.4%, attributable mainly to the funding guarantee grant and one-off grants.





The Council receives New Homes Bonus (NHB) as an incentive for housing growth and over the years the Council has relied heavily on New Homes Bonus receipts to fund Capital Projects and Council initiatives such as Climate Change. The amount received for New Homes Bonus has reduced significantly from £1 million in 2022/23 to £0.131 million in 2024/25. It is unclear if Councils will receive any NHB funding in 2025/26, however if NHB does continue the amount is likely to be similar to the 2024/25 award.

## 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 in recent years had been the low-level of interest on short-term deposits and the significant difference between short term investment rates and long-term borrowing rates. The pandemic and the war in Ukraine have disrupted global supply chains leading to increased inflation, driving Central Banks to increase bank rates in the short term. This has increased the return on investments, with the gap between short term investment and long-term borrowing rates narrowing. Inflation is expected to continue to fall over

the next two years and bank rates will decrease, although expected to remain at the current level for some months before decreasing.

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, sacrificing a margin of return by focusing on low risk, although due to global events, interest rates are currently at their highest levels since 2008. The Strategy continues to support a policy of limiting the need for external borrowing by the utilisation of internal funds.

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## 5. Council Tax Levels

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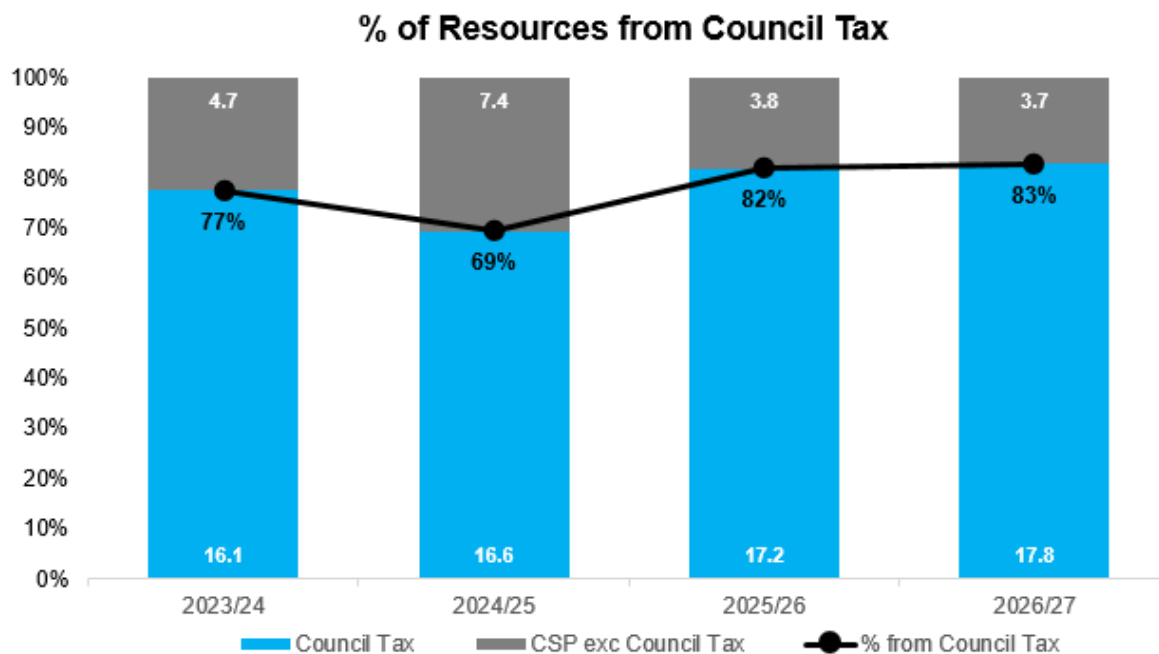
The Budget has taken into consideration the administration's desire to continue the policy of moderating the increase in its Council Tax where this can be managed prudently. The Council's approach is to deliver an affordable but realistic level of Council Tax over the period of the MTFS. The Council 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 3%, whichever is the greater for 2024/25. Additional freedoms to increase Council Tax levels have been allowed for some authorities, who have issued S114 notices, of 8% and 10% (Woking B.C.).

Taking all relevant considerations into account, the Administration has decided to recommend to Council that the increase in Council Tax for the year 2024/25 should be 2.99%, taking the annual total to £250.63 for a Band D equivalent. The provisional settlement in December gave no indication that this flexibility is likely to continue beyond 2024/25. For planning purposes, a 2% increase is assumed in the MTFS for 2025/26 and the following years.

With continued reduction in Government funding the reliance on funding raised locally will increase with Council Tax income being the significant proportion of the council's net expenditure.

The graph below shows the reliance on Council Tax income for the Council. The % reduction in 2024/25 is due to the Funding Guarantee grant and the increase to over 80% from 2025/26 is due to a forecast reduction funding guarantee.



## 6. Medium-Term Outlook and the Strategic Review of Services

The development of the new Vision 2030 for the Borough and the drive to making the Council financially sustainable provided the backdrop for modernisation and service transformation.

It's never been more important for us to continue to strategically review our services and facilities, the needs of our community and how they can be met. The current events including the ongoing effect of energy insecurity and its continued impact on the cost of living crisis all underline the need to for us create a positive sustainable and thriving and caring future for Elmbridge with community at its heart.

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.

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.

The Transformation programme will drive change and reconfigure the organisation's service offering so that it is financially sustainable by maximising income, making efficiencies and savings, ensuring revenue and capital expenditure is proportionate to available funds and rebuilding the Council's reserves over the medium to long term.

The initial work on the Councils Transformation programme was undertaken by Ignite in November 2021. A summary of their areas to explore and the current position is set out below:

Community Support Services	Work continues to explore opportunities in this area and the work is embedded in the transformation programme.
Leisure and Culture (including Open Spaces Income)	A report on the Green Space Opportunities was presented to Cabinet in November 2023, £120,000 has been identified as additional income, and further opportunities will be progressed but that there is no scope to charge for the use of car parks as set out in the report because of the costs and the wider benefit to the residents.
Reprographics	Work continues to reduce the use of paper and engaging with customers to transition to electronic communication and is embedded as part of the work of the Council.
Customer Services, Regulatory and Housing	The transformation programme is an ongoing improvement programme, which includes identifying efficiency from changing the way of working. The Regulatory and Housing Services will be reviewed during 2024/25.
Parking Income	The Council have approved a Parking Strategy and continue to review prices in line with the Strategy and demand.
Housing Enabling Fund	The Council have embarked on a programme of residential purchases for temporary accommodation, while this has been successful there has been an increase in Homelessness, and while not delivering short term savings has reduced the increase in cost.
Asset Strategy and Regeneration	The Councils vision includes the review of assets and work is underway with the preparation of Planning briefs which will form the basis for consultation.
Hurst Pool	Work has been undertaken to review the future of the site and at this stage the most financially viable option would appear to be the refurbishment of the existing facility.

Based on the Ignite report work has progressed on each of the findings of the review, and is now embedded in to the work of the transformation programme , has been reported to Cabinet or has concluded.

The Ignite report provided a review of the operation of the Council and a comparison to other councils, it has been useful to explore the finding and a significant number of the finding continue to be progressed, some have been concluded.

With the work either concluded or built into other programmes of the Council the Ignite report has served its purpose in informing the development of the Council's financial resilience.

The Council is ambitious and wants to review and develop its service model that has at its heart its local communities, places and partnerships. It is on a journey to design a new financially sustainable model with its partners and delivery of this is integral to the Council's MTFS. It is expected that £1.0 million savings/income will be delivered over the medium term from Discretionary services.

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## 7. Property Portfolio – market update

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The uncertainty in the property markets continues to impact values and occupation amongst most sectors of the council's property ownerships. Following swiftly on from 'Brexit' and Covid lockdown measures, the economy has been dealt one blow after another – including events in the Ukraine, and more recently the middle east, rises in interest rates, inflation, rising construction costs and supply chain issues, energy and fuel. All of these factors impact property directly, across the development, investment and occupational markets.

Against this backdrop the Council's assets were valued at the start of the year and generally across our investment (non-operational) portfolio values held reasonably strong, a decrease of around 8% in value on March 2023 values. Unlike our operational portfolio, which provides functional space for community groups and resources, these assets are held to provide rental income to support council expenditure. Looking ahead however, we anticipate a more challenging period as economic pressures continue, and there are ongoing reviews of these properties to ensure that they provide the right portfolio mix and provide value to the Council Tax-payers and where minimise the risk to the Council on its finances.

Whilst our retail and leisure properties are generally performing strongly, our most severely affected sector is offices, as the occupational market adjusts to the changing requirements for the workplace. As part of the strategic review of its assets the Council is in the process of selling one of its investment properties (offices).

The accelerated, by lockdown, move to hybrid working impacts our office assets as businesses consider their staff's occupational requirements. Our serviced offices continue to attract individuals, small businesses, and start-ups, to a more flexible approach to office leasing, whilst our vacant space attracts interest from a range of alternative users. Enquiries from leisure, educational and health industries currently far outweigh interest from traditional office occupiers. It is still too early to assess the impact on value that this change in the direction of the market and security of tenure will have, however we need to re set our expectations along with the evolving workplace.

Meanwhile the industrial and logistics sector continues to grow fuelled by lack of supply together with continued demand across the borough and Surrey. The council's industrial assets have achieved rental and growth exceeding expectations even across our secondary and tertiary properties. The council will continue to manage our assets to minimise voids and maximise growth where possible.

Finally, this year the Council have increased its portfolio of housing stock for temporary accommodation with the purchase of individual flats and houses to support the growing need in the borough. The increase in its portfolio has helped to reduce the costs to the Council of the increase in demand in this area, which even after taking into account the new stock has still resulted in a similar level of use of private sector provision for temporary accommodation. These assets will be a long-term hold and provide accommodation whilst potentially benefitting from capital growth.

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## 8. Managing Financial Risk and Uncertainty

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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 the Performance and Finance Panel, Cabinet, Audit and Standards Committee and the Council.

In the medium term the Council's funding will become increasingly reliant on local sources of income and continues to be exposed to increases in expenditure (and in particular demand led services, housing), it remains important to have appropriate strategies for managing the impact and sufficient reserves to ensure that the Council can maintain its services as a result of an unanticipated event.

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 unforeseen risks. For this reason, a prudent approach to the level of reserves held by the Council remains sensible and necessary. The Head of Finance, 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 reductions in income. The principal assumptions made in formulating the annual budget impact not only the budget itself, but also on the level of general reserves.

The principal demand-led pressures on expenditure are in respect of housing and the potential pressures on income include development activity within the Borough, reflected in income obtained from planning applications, Community Infrastructure Levy (CIL), off-street car parking and recycling services (Garden Waste). In addition, given the Council's Property Portfolio, any variations in rentals, 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:

<b>Services</b>	<b>Impact on income due to a variation of 10% +/- in activity levels £'000</b>
Planning Applications	140
Off street Parking	430
Community Support Services	160
Income from Leisure facilities /Cemeteries	100
Green Waste Income	170
Property Rental Income	550
Business Rates	1,200
A 1% variation on Interest Rates on balances	750
<b>Total</b>	<b>3,500</b>

The Council's gross revenue budget at £78 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. 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 Council's General Reserve currently stands at £4 million and has been at this level for a number of years. While it is still considered sufficient, it should be kept under annual review to ensure it adequately protect the Council from significant unexpected events.

The table below illustrates the risk items in the budget:

Risk Item	Probability	Impact	Overall Risk of budget variance
<p><b>Government Funding</b> Fair Funding Review, which will assess the level of funding required based on the governments assessment of need and resources. This will coincide with the introduction of 75% Business Rates Retention. 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. This may also have an impact on the Funding Guarantee, however as in the past there is a likelihood that Transitional Protection will be provided to phase in reductions over a number of years.</p>	High	High (adverse)	High
<p><b>Waste and Recycling</b> This is a complex area financially and at greatest risk of volatility. Fuel costs and disposal costs, particularly around cost of recycling are variable. The possible retendering of the contract with any new contract coming into operation in 2027 increases the risk of changes in price.</p>	Medium	High (adverse or favourable)	High
<p><b>Local Plan</b> Additional consultancy spends or resources may be needed to finalise the Local Plan process; however, any additional costs are recommended to be funded by Earmarked Reserves.</p>	Medium	Medium (adverse)	Medium
<p><b>Planning Appeals</b> 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.</p>	Medium	Medium (adverse)	Medium



Risk Item	Probability	Impact	Overall Risk of budget variance
<p><b>Efficiency Savings from Transformation and Digitalisation</b>  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 in the medium term, so there is an inherent risk of adverse variances.</p>	Low	High (adverse or favourable)	Medium
<p><b>Income</b>  If economic conditions deteriorate, demand fluctuates or due to external factors such as the cost-of-living crisis there may be unbudgeted loss of income. Planning, car parking, Cemeteries and Property Rentals are all income streams where risk of volatility has been experienced recently (pandemic)</p>	Medium	Medium (adverse or favourable)	Medium
<p><b>Treasury Management</b>  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.</p>	Low	High (adverse)	Medium
<p><b>Homelessness Pressures</b>  While the Council continues to increase its supply of temporary accommodation the demand is exceeding supply, costs of accommodation are increasing and income (in particular Housing Benefit) is not increasing at the same rate.</p>	High	High (adverse)	High
<p><b>Reforms to Housing &amp; Council Tax Benefit &amp; Universal Credit</b>  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.</p>	Medium	Medium (adverse)	Medium

<p><b>Supplies &amp; Services Contracts</b> 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.</p>	High	Medium (adverse or favourable)	Medium
<p><b>Climate Change Commitment</b> The Council committed to become Carbon Neutral by 2030. Any action plan to meet this commitment will have funding implications.</p>	High	Medium (adverse)	Medium
<p><b>Capital Financing Costs</b> These are influenced by variable factors such as cash flow, variations in the Capital Programme and availability of capital receipts.</p>	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.
- 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 remain at a high level. For pay inflation, the 2024/25 budget includes a provision of a flat amount of £2,000 cost of living increase and a provision for pay progression is allowed for, as eligible officers progress along their pay scale. For planning purposes, a similar amount is included in 2025/26 and a modest 2% in 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 uncertainty for energy and utility prices.

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## 9. Partnerships/Contracts/Trading Companies

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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 3, made by the entity was expected to be received when the year 3 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 the decision was taken to wind up the company. Work is ongoing to finalise the details of the winding up.

## 10. Medium Term Financial Strategy

### Financial Context 2024/25

In 2024/25, the Council's net revenue budget requirement is £21.9 million, of which £16.7 million will be met by council taxpayers, £3.4 million of Business Rates +RSG and £1.7 million of Collection Fund and Government Funding Guarantee and the remainder by reserves (£0.1 million).

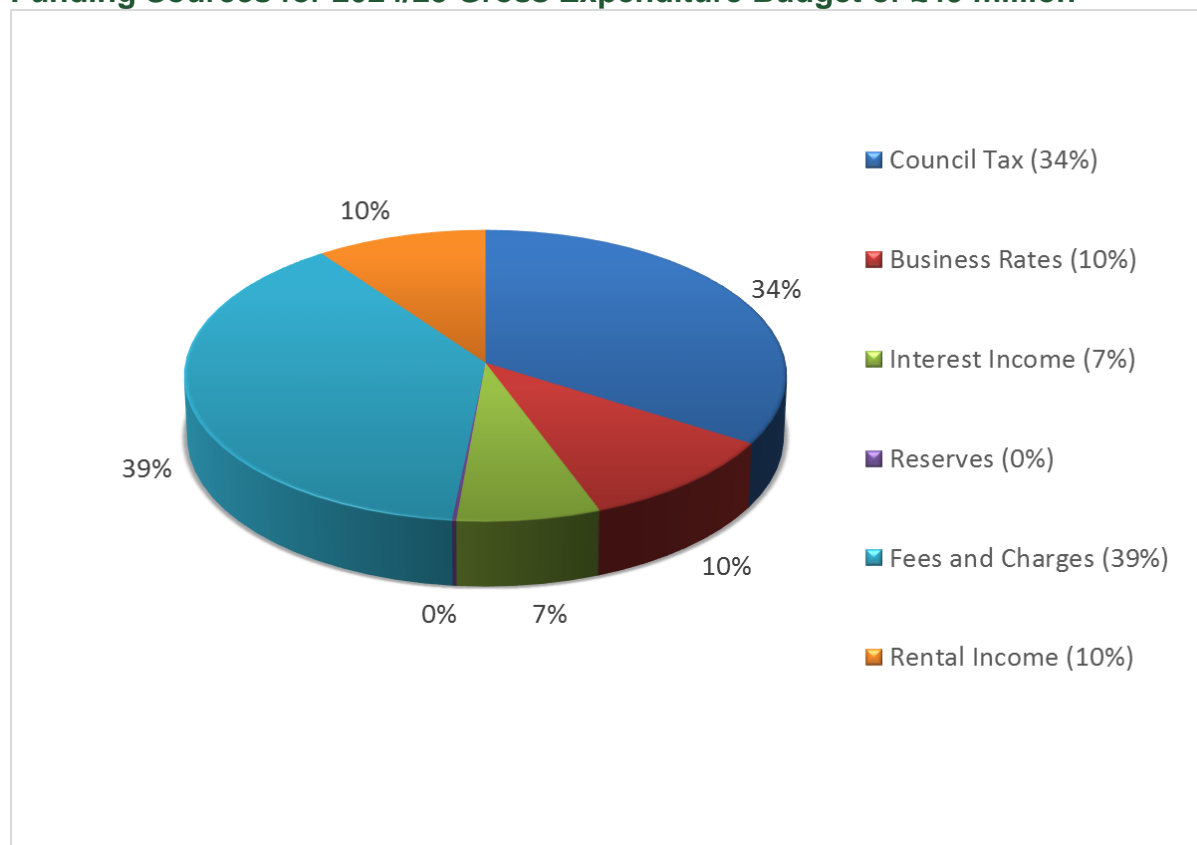
2023/24	Revenue Budget £m	2024/25
76.1	Gross Expenditure	78.0
26.7	Less: Housing Benefit	24.9
3.4	Less: Capital Charges	3.9
<b>46.0</b>	<b>Gross Expenditure Budget</b>	<b>49.2</b>
24.1	Income from Fees & Charges, Rental, Interest and other income	27.3
<b>21.9</b>	<b>Net Expenditure budget</b>	<b>21.9</b>
	<b>Funded by:</b>	
2.5	Business Rates Baseline plus Revenue Support Grant	3.4
1.0	Use of Reserves to balance revenue budgets	nil
2.3	Funding Guarantee +surplus on Collection Fund (Business Rates & Council Tax)	1.8
16.1	Council Tax Income	16.7
<b>21.9</b>	<b>Total Funding</b>	<b>21.9</b>

### Revenue Budget headlines:

The main headlines for the 2024/25 budget are:

- A net budget of £21.9 million, after allowing for interest income on balances.
- Council Tax income - £16.7 million
- Business Rates +RSG +collection fund surplus + funding guarantee – £5.1 million
- Spending pressures of £3.1 million, including
  - Pay and inflation on contract and other
  - Demand and other spending pressures.
  - Rental income changes.
- Increase in interest income of £1.3 million (net of transfer to interest equalisation reserve)
- Additional Income and budget savings of £2.3 million.
- Council Tax increase of £7.28 per annum for a Band D property generating Council Tax income of £16.7 million.
- Reserves used to balance revenue budget £0.1 million
- Contribution to reserves (transfer to Interest Equal Reserve) of £1.8 million

### Funding Sources for 2024/25 Gross Expenditure Budget of £49 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.

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## 11. The Medium-Term Financial Plan (2025/26 – 2029/30)

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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 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.

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

	2025/26 Projection	2026/27 Projection	2027/28 Projection	2028/29 Projection	2029/30 Projection
	£'000	£'000	£'000	£'000	£'000
<b>Net Budget Requirement to Fund Services b/f</b>	25,413	25,798	25,838	26,603	27,208
Cost Pressures	1,725	1,200	1,245	1,295	1,345
Approved Savings/Income identified (November 2021 Cabinet to be delivered in 2024/25)					
Waste and Street Cleaning Contract			580	120	0
Savings Identified (Leisure Contract + Energy)	(690)	(60)	(60)	(60)	(60)
Savings to be identified	(650)	(1,100)	(1,000)	(750)	(750)
<b>Estimated Budget Requirement for Service Expenditure</b>	<b>25,798</b>	<b>25,838</b>	<b>26,603</b>	<b>27,208</b>	<b>27,743</b>
Net Interest on Balances	(4,000)	(3,750)	(3,750)	(3,750)	(3,750)
Government Grants (Funding Guarantee etc)	(2,200)	(1,700)	(1,700)	(1,700)	(1,700)
Total Reserves (used) /set aside	533	190	(66)	(151)	(153)
<b>Net Expenditure Budget after use of Reserves/External Grants</b>	<b>20,131</b>	<b>20,578</b>	<b>21,087</b>	<b>21,607</b>	<b>22,140</b>
<b>Funding:</b>					
Business Rates Retained	2,600	2,750	2,800	2,850	2,900
Revenue Support Grant	150				
Estimated Business Rates Collection Fund Surplus	200	200	200	200	200
Estimated Council Tax Collection Fund Surplus	75	75	75	75	75
Council Tax Income	17,106	17,553	18,012	18,482	18,965
<b>Total Funding available form Collection Fund</b>	<b>20,131</b>	<b>20,578</b>	<b>21,087</b>	<b>21,607</b>	<b>22,140</b>
Council Tax Base (Assumes 0.6% year on year growth)	66,916	67,318	67,722	68,128	68,537
Band D Council Tax (Indicative)	255.64	260.75	265.97	271.29	276.71
% Increase	2.00%	2.00%	2.00%	2.00%	2.00%

	2025/26	2026/27	2027/28	2028/29	2029/30	Total 2024 - 2030 £'000
Action Plan Savings required from Discretionary Services	(250)	(500)	(250)	0	0	(1,000)
Other Savings and Income required	(400)	(600)	(750)	(750)	(750)	(3,250)
Savings to be identified	(650)	(1,100)	(1,000)	(750)	(750)	(4,250)
(Use of Reserves) / Contribution to Reserves	533	190	(66)	(151)	(153)	353
<b>Net Movement in Reserves</b>	<b>533</b>	<b>190</b>	<b>(66)</b>	<b>(151)</b>	<b>(153)</b>	<b>353</b>

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## 12. Capital Investment within the Medium-Term Financial Strategy

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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

### Climate Change commitment

- Green Fleet Strategy
- Carbon Management Reduction Plan

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 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 £2.5 million over a three-year period. It also includes that the balance of capital receipts should not go below £5 million.



The MTFSS 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 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 2024/25, 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.

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

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### **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 Head of Finance, Andrew Cooper.

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 in the short term

- 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 provide resilience against major unexpected events such as the Pandemic.
- To protect against general risk (saving up for unexpected events, Legal claims, Litigation)
- 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, known at the time of compiling the budget.

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. This is particularly relevant when inflation and energy prices are increasing.

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, understanding the need of our communities, testing the market and strong business cases in delivering the Council's 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.
- Given the current economy, inflation and the international situation the Council needs to ensure the revenue reserves (GF and non-statutory) do not go below the £15 million level in any one year. This can be reviewed in a couple of years or earlier, should it be required.
- Continue to increase reserves to pre Covid-19 levels by 2030 so that the Council can respond to any future challenges.
- Reserves should not be relied upon to fund ongoing service expenditure.

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.

## Revenue Reserves

In summary, the Council's revenue reserves position as of 31 March 2024 is forecast to be £25.1 million excluding the General Fund Balance, Community Infrastructure Levy, and Statutory Reserves.

### Projected movement of Revenue Reserves 2024 to 2030

	24/25 £'m	25/26 £'m	26/27 £'m	27/28 £'m	28/29 £'m	29/30 £'m
B/forward excl. Statutory Reserves & GF Reserve	25.1	24.6	25.9	26.5	26.8	27.0
Planned Contribution	4.6	0.8	0.4	0.1	0.0	0.1
Draw down for Capital purposes-already approved	(2.8)	0.2	0.0	TBC		
Use In Year	(2.3)	0.3	0.2	0.2	0.2	0.2
<b>C/forward excluding statutory reserves</b>	<b>24.6</b>	<b>25.9</b>	<b>26.5</b>	<b>26.8</b>	<b>27.0</b>	<b>27.3</b>
<b>General Fund Reserve</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>	<b>4.0</b>
Net Contribution Excluding Capital Expenditure	2.3	1.1	0.6	0.3	0.2	0.3

## 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. Any upside from being part of the Surrey Business Rates pool is added to this reserve. This reserve will be utilised to smooth out any changes as a result of the Fair Funding Review.

**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 past when interest rates have been unusually low. Now that the interest rates are on the increase, contribution to the reserve is included in the medium-term plan, and the 2024/25 budget to increase the reserve to provide funds to release when interest rates decrease.

**Grant equalisation reserve** – covers the time limited funding relating to council tax freeze instigated by central government. This funding runs out part way through 2025/26.

**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 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 £21.9 million or sufficient to meet 9.5 weeks' worth of net expenditure.

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 4.2 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 is set at an adequate level.

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

The MTFS aims to support the delivery of the Council's Vision 2030, deliver a balanced budget and set future year's savings and income targets whilst dealing with the implications of government's plans for the funding reform, the interest rate environment and the Council's structural budget position.

The Council is involved in the delivery of key strategic growth, regeneration and development initiatives in support of the Council Plan that span the MTFS period and beyond. Delivery of these projects requires upfront revenue and capital funding with financial returns generally anticipated outside the MTFS period.

The Budget Strategy provides additional funding for Council priorities and pressures and proposes a multi stranded approach to balancing the future years budgets.

The Council faces challenges in managing the financial risks and in delivering a balanced budget over the MTFS period. The Council has adopted a strategic approach to balancing the longer-term budget via its Transformation Programme. Robust monitoring of the implementation and delivery of the medium-term financial strategy proposals is essential.

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 lasting 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 current state of the economy, cost of living crisis, long lasting impact of the pandemic and the uncertainty over the Local Government Funding Reform, caution needs to be exercised when using reserves. This is a budget that keeps us on track to eliminate our reliance on reserves.

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. Reserves can only be spent once. Retention of adequate reserves will be essential in order to mitigate risk and future uncertainties. As agreed in December 2021, included in the MTFS are planned addition to reserves.

**As Section 151 Officer, I am of the opinion that the level of general fund reserve is sufficient, given our record of prudent financial management, careful budgeting and effective budgetary control, combined with the Council's vision and commitment to deliver the necessary actions to deliver the Transformation programme. This will help reduce the overall net spend on discretionary service areas.**

**It is vital that the required savings as outlined in the MTFS are delivered.**