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# Medium Term Financial Strategy 2026/27 – 2030/31

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# Elmbridge Borough Council

*... bridging the communities ...*

## Contents

1.	Executive Summary .....	3
2.	Council Vision 2030 and Delivering the Council's Priorities .....	6
3.	Government Funding and Local Context.....	6
4.	Treasury Management.....	8
5.	Council Tax Levels.....	8
6.	Medium-Term Outlook and the Strategic Review of Services .....	10
7.	Property Portfolio – market update.....	10
8.	Managing Financial Risk and Uncertainty .....	12
9.	Partnerships/Contracts/Trading Companies .....	17
10.	Medium Term Financial Strategy .....	18
11.	The Medium-Term Financial Plan (2026/27 – 2030/31) .....	20
12.	Capital Investment within the Medium-Term Financial Strategy.....	22
13.	Local Government Act 2003: Section 25 Report by The Section 151 Officer .	24

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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 cost-of-living crisis, a fundamental review of government support 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 five 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 ongoing impact of cost of living and homelessness.
- Uncertainty on the level of funding we are to receive from government as a result of the review that will take place in 2025, and the potential impact of the reset of the Business Rates funding.
- Devolution and Local Government Reorganisation

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 MTF5 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 2025/26 provided the savings and income included in the budget are delivered. In addition, the continued elimination on the reliance of reserves to balance the budget (fund on going revenue expenditure) 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.

Reserves are now at a level which provides sufficient cover for an unexpected event. Care will be needed to take when utilising these reserves to ensure that they are used to fund one off expenditure and assist with the identification of future ongoing revenue savings.

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.

The Council's Vision, and Key deliverables are updated on a regular basis and can be found on the Council's website [Elmbridge.gov.uk \( <https://www.elmbridge.gov.uk/your-council/council-plans-policies-and-strategies/vision-2030-document> \)](https://www.elmbridge.gov.uk/your-council/council-plans-policies-and-strategies/vision-2030-document)

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## 3. Government Funding and Local Context

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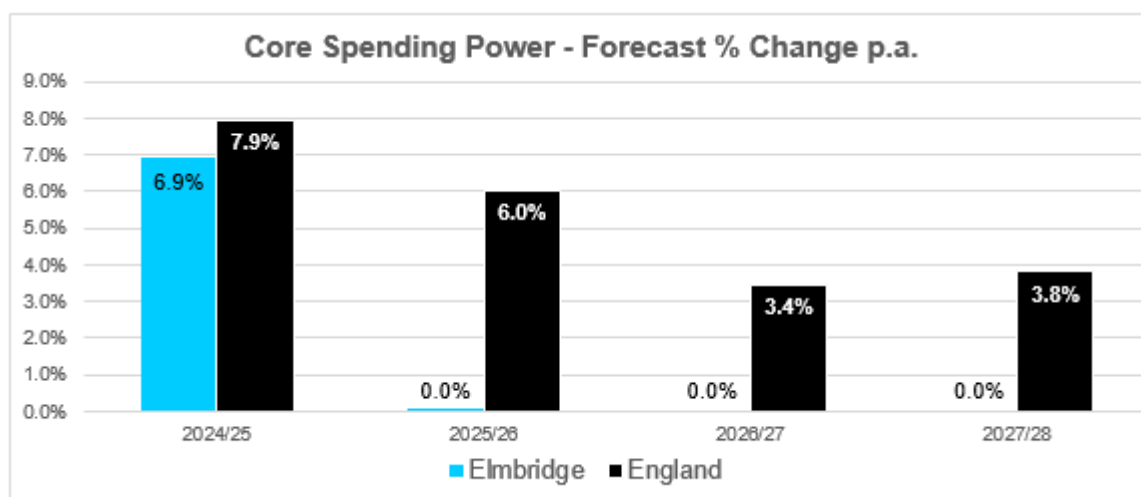
There are concerns over a lack of clarity in the government consultation on funding for local authorities (grants and retained business rates), which will reset the way in which central government funding is allocated. The government have committed to providing local authorities with multiyear settlement starting in 2026/27 which would provide more certainty on the amount of funding available for the first time since the pandemic. This will enable the Council to plan effectively in the medium term. Should this commitment not be achieved, the year-on-year approach to budgeting would continue to be a major risk to the financial stability of the authority.

As expected, a multi-year spending review did not materialise during the 2025/26 provisional settlement from 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 in funding to the Council's baseline funding level, via the business rates system.

Over 85% of the Council's gross expenditure is funded by a combination of Council Tax (£17.4 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 2025/26 has been confirmed in December 2024 (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 6.0% in England, most of this increase has been allocated to Social Care Grant, Elmbridge is not a recipient of this grant. Compared to the England average the CSP for Elmbridge was the same as 2024/25. Although there was no increase in the CSP, for the first time in 2025/26 the government took into account the increase in council tax in calculating the grant they give to the Council. The assumes 3% increase in Council Tax has in effect been negated by an equivalent decrease in the government grant. For the purpose of the MTFS this has been assumed to continue for the 5-year period.



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 £0.17 million in 2025/26. It is unclear if Councils will receive any NHB funding in 2026/27. As a working assumption we believe that the 2025/26 New Homes Bonus will be the last year, and the grant will end as part of the review of local government funding.

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## 4. Treasury Management

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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, while interest rates continue to be at relatively high level, the assumption is that they will reduce over the next few years, the timing and scale of these reduction remains uncertain. 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



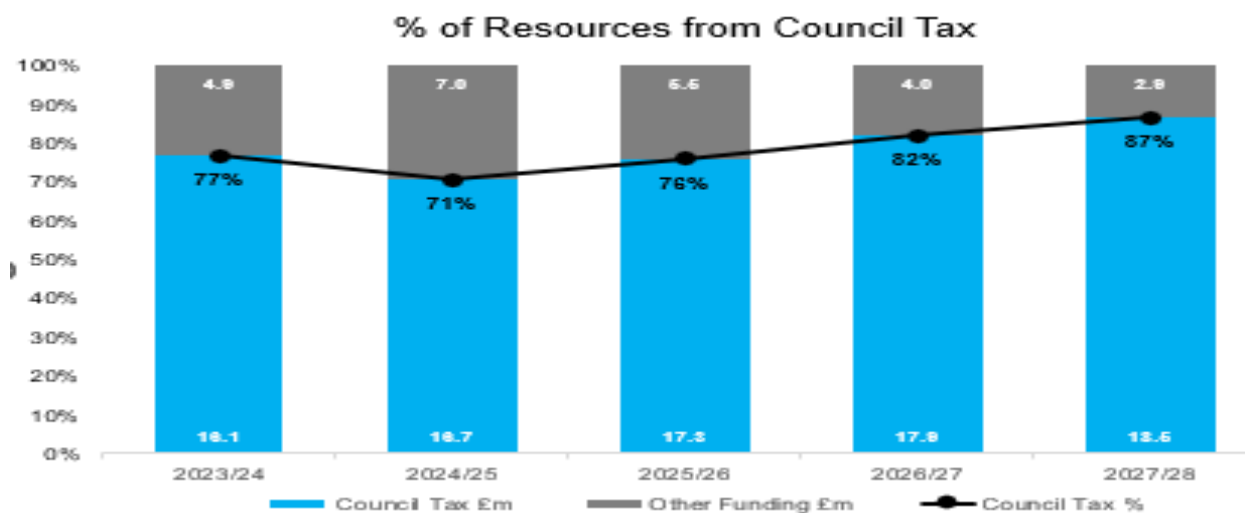
mechanism of a referendum. Boroughs and District Councils had been allowed discretion to increase Council Tax by up to £5 per annum or 3%, whichever is the greater for 2025/26. By reducing the government funding to take account of this increase in Council Tax, for a council to retain the same level of funding they will have to increase Council Tax by 3%

Taking all relevant considerations into account, the Administration has decided to recommend to Council that the increase in Council Tax for the year 2025/26 should be 3.00%, taking the annual total to £258.14 for a Band D equivalent. The provisional settlement in December gave no indication that this flexibility is likely to continue beyond 2025/26. For planning purposes, a 3% increase is assumed in the MTFs for 2025/26 and the following years.

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

A new source of funding for local authorities was announced in 2024. This funding “Extended Producer Responsibilities”, is to compensate councils for the cost of collecting recycling. The £1.35 million is welcome, however the level of funding is dependent upon the amount of money the government collect from producers for the cost of the packaging they use, and our relative performance to a peer group. The working assumption is that funding level will continue at its present level.

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 (now known as the funding floor) and the increase to over 80% from 2027/28 is due to a forecast reduction in the funding floor.



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

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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 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 £0.8 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, employers National Insurance, 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, with only a small decrease in value by March 2024, after taking account of the reclassification of some of the investment properties to operational assets when housing property was brought back to the Council operation. 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 believe the market has stabilised however 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 Taxpayers 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 continue to be offices, as the occupational market continues to adjust 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. However, the initial impact from hybrid working appears to be entering a period of realignment with a number of companies requiring workers to return to the office on a more regular basis. 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 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	110
Off street Parking	450
Community Support Services	130
Income from Leisure facilities /Cemeteries	170
Green Waste Income	210
Property Rental Income	520
Business Rates	1,300
A 1% variation on Interest Rates on balances	640
<b>Total</b>	<b>3,530</b>

The Council's gross revenue budget at £77 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, however there are risks associated with other areas of the Council and there is a proposal to include the balance on this reserve into a working balances reserve which will manage these risk in the future. Given our reliance on rental from our Property portfolio, sufficient reserves will need to be maintained to mitigate leases expiring 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. At this time while consideration was given to increasing the general reserve the history of the Council in recent years is the delivery of a balanced budget and also to provide its services each year within budget. At this time given the risks faced and the history of achievement, the establishment of a working balances reserve, the £4 million will be adequate for the Council's future need.

The table below illustrates the risk items in the budget:

Risk Item	Probability	Impact	Overall Risk of budget variance
<p><b>Government Funding</b>            The Government will assess the level of funding required based on its assessment of need and resources. This will coincide with a review of 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 assumed that New Homes Bonus will cease in its current form. This may also have an impact on the Funding Floor, however it is a likely 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 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 progress the Local Plan; 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
<p><b>Efficiency Savings from Transformation and Digitalisation</b> There is 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 increasing and exceeding supply, costs of accommodation are increasing and income (in particular Housing Benefit) is not increasing at the same rate.</p>	High	Medium (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. The impact of the increases in Employers National Insurance will have a significant impact when contracts are re-tendered.</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 2025/26 budget includes a provision of 2.25% plus £350. For planning purposes, a similar amount is included from 2026/27.

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, and the future inflation rates.

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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. The Council will have wound up these companies by the end of the 2024/25 financial year.

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## 10. Medium Term Financial Strategy

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### Financial Context 2025/26

In 2025/26, the Council's net revenue budget requirement is £24.3 million, of which £17.4 million will be met by council taxpayers, £2.7 million of Business Rates +RSG and £3.6 million of Collection Fund, Government Funding Floor and other grant funding and the remainder by reserves (£0.6 million).

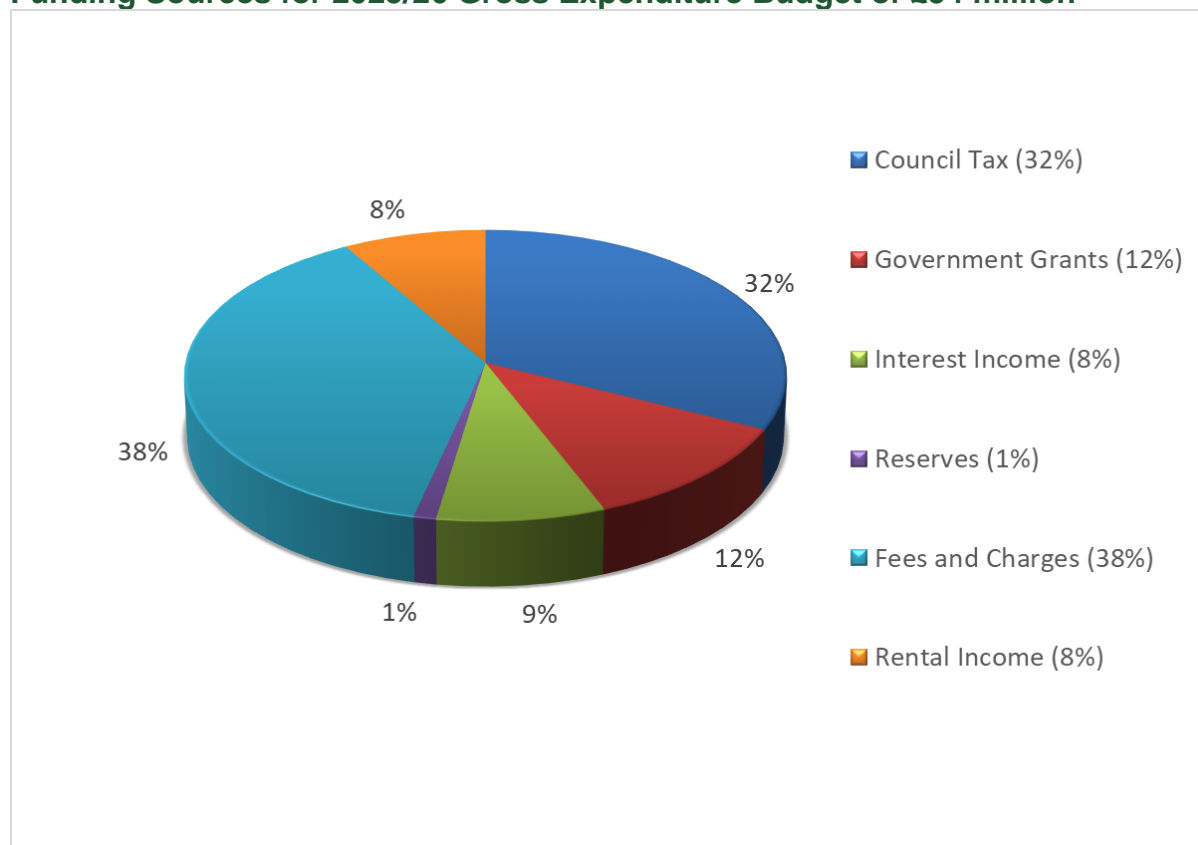
2024/25	Revenue Budget £m	2025/26
78.0	Gross Expenditure	76.3
24.9	Less: Housing Benefit	17.9
3.9	Less: Capital Charges	4.6
<b>49.2</b>	<b>Gross Expenditure Budget</b>	<b>53.8</b>
27.3	Income from Fees & Charges, Rental, Interest and other income	29.5
<b>21.9</b>	<b>Net Expenditure budget</b>	<b>24.3</b>
	<b>Funded by:</b>	
3.4	Business Rates Baseline plus Revenue Support Grant	2.7
nil	Use of Reserves to fund one off expenditure	0.6
1.8	Funding Guarantee +surplus on Collection Fund (Business Rates & Council Tax)	3.6
16.7	Council Tax Income	17.4
<b>21.9</b>	<b>Total Funding</b>	<b>24.3</b>

## Revenue Budget headlines:

The main headlines for the 2025/26 budget are:

- A net budget of £24.3 million, after allowing for interest income on balances.
- Council Tax income - £17.4 million
- Business Rates +RSG +collection fund surplus + funding guarantee – £6.3 million
- Spending pressures of £5.6 million, including
  - Pay and inflation on contract and other
  - Demand and other spending pressures.
  - Rental income changes.
- Interest income of £4.5 million
- Additional Income and budget savings of £1.1 million.
- Council Tax increase of £7.51 per annum for a Band D property.

## Funding Sources for 2025/26 Gross Expenditure Budget of £54 million



The Council's budget position is very sensitive to changes in investment returns, fees & charges, rental income, as experienced in the current year. Over 85% 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 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 ensure that it react to changes in government funding, the economic climate and unexpected events.

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## 11. The Medium-Term Financial Plan (2026/27 – 2030/31)

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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 of the financial impact from the proposed review of local government funding by central government due to place this calendar year. The MTFS projections are only indicative at this stage. Once the government review is completed the Financial Plan will require updating, and this could give a significant impact on the medium term finances of the Council.

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. Without sufficient notice from central government of changes to funding levels, or transition arrangements smoothing the impact there may be a requirement to make difficult decisions in the short term or rely on reserves to mitigate the shorter-term impact of any reductions.

	2026/27 Projection	2027/28 Projection	2028/29 Projection	2029/30 Projection	2030/31 Projection
	£'000	£'000	£'000	£'000	£'000
<b>Net Budget Requirement to Fund Services b/f (Excluding One of Expenditure Funded from Reserve's)</b>	28,482	28,714	28,586	29,190	29,441
Cost Pressures	1,030	1,060	1,095	1,130	1,150
Savings Discretionary Services	(575)	(250)			
Growth - Other (2027/8 and 2028/29 Waste Contract Renewal)		1,250	250		
Vehicles Waste Contract (Increase Cost - Revenue Impact)		250	250		
Savings to be identified	(223)	(2,439)	(991)	(878)	(972)
<b>Estimated Budget Requirement for Service Expenditure</b>	<b>28,714</b>	<b>28,586</b>	<b>29,190</b>	<b>29,441</b>	<b>29,619</b>
Interest on Balances	(4,500)	(4,000)	(3,750)	(3,500)	(3,000)
Use of Interest Equalisation Reserve		(500)	(750)	(500)	(500)
Government Grants (Funding Floor etc)	(1,293)	(614)	(500)	(500)	(500)
National Insurance Government Contribution	(200)	(200)	(200)	(200)	(200)
Total Reserves (used) /set aside	(200)	(200)	(200)	(200)	(200)
Extended Producer Responsibility (£100,000 for Performance)	(1,350)	(1,350)	(1,350)	(1,350)	(1,350)
<b>Net Expenditure Budget after use of Reserves/External Grants</b>	<b>21,171</b>	<b>21,722</b>	<b>22,440</b>	<b>23,191</b>	<b>23,869</b>
<b>Funding:</b>					
Business Rates Retained	2,762	2,809	2,850	2,900	2,850
Revenue Support Grant	147	150	153	156	160
Estimated Business Rates Collection Fund Surplus	200	50	50	50	50
Estimated Council Tax Collection Fund Surplus	75	75	75	75	75
Council Tax Income	17,987	18,638	19,312	20,010	20,734
<b>Total Funding available form Collection Fund</b>	<b>21,171</b>	<b>21,722</b>	<b>22,440</b>	<b>23,191</b>	<b>23,869</b>
Council Tax Base (Assumes 0.6% year on year growth from 26/27)	67,652	68,058	68,467	68,878	69,291
Band D Council Tax (Indicative)	265.88	273.85	282.06	290.52	299.24
% Increase	3.00%	3.00%	3.00%	3.00%	3.00%

	2026/27 £'000	2027/28 £'000	2028/29 £'000	2029/30 £'000	2030/31 £'000	Total 2026 - 2031 £'000
Action Plan Savings required from Discretionary Services	(575)	(250)	0	0	0	(825)
Other Savings and Income required	(223)	(2,439)	(991)	(878)	(972)	(5,503)
<b>Savings to be identified</b>	<b>(798)</b>	<b>(2,689)</b>	<b>(991)</b>	<b>(878)</b>	<b>(972)</b>	<b>(6,328)</b>
Use of Reserves (For one Off Expenditure)	(200)	(200)	(200)	(200)	(200)	(1,000)
Contribution From Interest Equalisation Reserve	0	(500)	(750)	(500)	(500)	(2,250)
<b>Net Movement in Reserves</b>	<b>(200)</b>	<b>(700)</b>	<b>(950)</b>	<b>(700)</b>	<b>(700)</b>	<b>(3,250)</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 million over a three-year period. It also includes that the balance of capital receipts should not go below £5 million.

The MTFFS 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 2025/26, 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, 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 2025 is forecast to be £27.5 million excluding the General Fund Balance, and Planning related receipts which must be used for the purpose set out in the agreement when they were received, and are not useable for the general fund expenditure of the authority.

### Projected movement of Revenue Reserves 2025 to 2031

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	2029/30 £m	2030/31 £m
General Fund - working balances and Specific Reserves opening balance	27.5	25.4	25.2	25.1	24.9	24.8
Planned Contributions	3.0	1.0	0.5	0.3	0.2	0.1
Used for Capital Expenditure	(3.5)	(0.4)				
Used for one off revenue expenditure	(1.6)	(0.8)	(0.6)	(0.5)	(0.3)	0.0
				TBC		
<b>General Fund - working balances and Specific Reserves closing balance</b>	<b>25.4</b>	<b>25.2</b>	<b>25.1</b>	<b>24.9</b>	<b>24.8</b>	<b>24.9</b>
General Fund Reserve	4.0	4.0	4.0	4.0	4.0	4.0
<b>Net Contribution /(Draw Down) Excluding Capital Expenditure</b>	<b>1.4</b>	<b>0.2</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>0.1</b>

## **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 £20.3 million or sufficient to meet 10 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 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, and the uncertainty over the Local Government Funding, caution needs to be exercised when using reserves. This is a budget that keeps us on track.

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.**