Democratic Services

FINANCIAL STRATEGY ADVISORY GROUP

Friday 26 January 2024 at 2.00 pm

Place: Council Chamber - Epsom Town Hall

The members listed below are summoned to attend the Financial Strategy Advisory Group meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

Councillor Neil Dallen (Chair)
Councillor John Beckett
Councillor Hannah Dalton
Councillor Alison Kelly
Councillor Steven McCormick
Councillor Clive Woodbridge

Yours sincerely

Chief Executive

For further information, please contact democraticservices@epsom-ewell.gov.uk or tel: 01372 732000

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Exclusion of the Press and the Public

There are no matters scheduled to be discussed at this meeting that would appear to disclose confidential or exempt information under the provisions Schedule 12A of the Local Government Act 1972 (as amended). Should any such matters arise during the course of discussion of the below items or should the Chair agree to discuss any other such matters on the grounds of urgency, the Committee may wish to resolve to exclude the press and public by virtue of the private nature of the business to be transacted.

Questions and statements from the Public

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AGENDA

1. DECLARATIONS OF INTEREST

Members are asked to declare the existence and nature of any Disclosable Pecuniary Interests in respect of any item of business to be considered at the meeting

2. MINUTES OF THE PREVIOUS MEETING (Pages 5 - 8)

The Group is asked to confirm as a true record the Minutes of the Meeting of the Group held on 24 November 2023 (attached) and to authorise the Chair to sign them.

3. TREASURY MANAGEMENT STRATEGY 2024/25 (Pages 9 - 50)

This report outlines the treasury management strategy for 2024/25, which includes prudential indicators for 2024/25 to 2026/27, the minimum revenue provision (MRP) policy, and the investment and borrowing strategy. It is a legislative requirement that these items be approved by Full Council.

4. 2024/25 BUDGET AND MEDIUM TERM FINANCIAL PLAN 2024-2028 (Pages 51 - 110)

This report provides an update on the preparation of the budget for 2024/25. The report seeks any final guidance from the Group prior to the preparation of the Budget and Council Tax report for the Council on 14 February 2023. The report also seeks final guidance on the Medium-Term Financial Plan for 2024-2028.

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Minutes of the Meeting of the FINANCIAL STRATEGY ADVISORY GROUP held at the Council Chamber, Epsom Town Hall on 24 November 2023

PRESENT -

Councillor Neil Dallen (Chair); Councillors John Beckett, Alison Kelly, Robert Leach (as nominated substitute for Councillor Hannah Dalton) and Steven McCormick

Absent: Councillor Hannah Dalton and Councillor Clive Woodbridge

Officers present: Brendan Bradley (Head of Finance) and Tony Foxwell (Senior Surveyor) (Agenda Item 5)

7 DECLARATIONS OF INTEREST

No declarations of interest were made by Members regarding items on the agenda for the meeting.

8 MINUTES OF THE PREVIOUS MEETING

The Group confirmed as a true record the minutes of the Financial Strategy Advisory Group meeting held on 29 September 2023 and authorised the Chair to sign them.

9 PRINCIPLES FOR NEW MEDIUM TERM FINANCIAL STRATEGY

Following consideration of the report's contents, the Group agreed that the proposed wording for the sixth principle in the 'Investment In Services' section should be changed to:

"Aim to maintain a minimum of £0.5m annual funding from revenue to fund the annual capital programme".

Subject to this amendment, the group moved to consider the report recommendation, which was agreed as follows:

(1) To support the principles to be used in producing the new Medium Term Financial Strategy.

10 TREASURY MANAGEMENT - INTERIM REPORT 2023/24

Following consideration of the report's contents including options for Environmental, Governance and Sustainability (ESG) investment, the average duration of fixed term deposits, and the Council's cash balances, the Group moved to consider the report recommendations, which were agreed as follows:

(1) Receive the presentation from Link Asset Services – Treasury Solutions;

(2) Note the performance on return of investments for the first six months of 2023/24;

(3) Note the current investment decisions being made within the terms set out in the Treasury Management Strategy;

(4) Note that 2024/25's Treasury Management Strategy, due to be presented to Financial Strategy Advisory Group in January 2024, will continue to be based on the local government template provided by sector specialist Link Asset Solutions.

11 FINAL CAPITAL PROPOSALS - 2024/25

The Group considered the report contents and requested that a future meeting be set-up between the Senior Building Surveyor, Head of Property & Regeneration and Financial Strategy Advisory Group Members to discuss the Council's approach to its Asset Management Plan.

Members provided the following feedback on each individual proposal:

<u>Strategy & Resources 2 – Longmead Depot Contamination Works</u>

The proposal was approved for progression to the relevant policy committee in January 2024.

<u>Environment 1 – Ashley Centre Barriers Replacement</u>

The proposal was approved for progression to the relevant policy committee in January 2024. Members asked to be emailed clarification on whether a scheme could be considered whereby retailers could validate a shopper's purchase to secure a reduced parking fee.

<u>Environment 5 – Streetlamps Replacement</u>

The proposal was approved for progression to the relevant policy committee in January 2024, subject to the Senior Building Surveyor investigating whether grant funding could be secured from any Police Safety Grant sources. The proposal should also clarify that Community Infrastructure Levy funding may be available, but should that not be the case and grant funding is unavailable, then capital receipts would be the expected funding source. Replacement of Town Hall lights be on hold until the outcome of the Town Hall Review is concluded.

<u>Community & Wellbeing 1 – Bourne Hall Roof Replacement & Solar Panel Installation</u>

The proposal was approved for progression to the relevant policy committee in January 2024.

Community & Wellbeing 2 – Community & Wellbeing Centre Solar Panel Installation

The proposal was approved for progression to the relevant policy committee in January 2024, but before works are actually commissioned, officers should await the outcome of any discretionary service review.

Community & Wellbeing 3 – Community & Wellbeing Centre Windows Replacement

The proposal was approved for progression to the relevant policy committee in January 2024. However, before works are actually commissioned, officers should await the outcome of any discretionary service review in 2024/25. Furthermore, the final proposal to Community & Wellbeing Committee should confirm a final cost estimate.

Community & Wellbeing 4 – Disabled Facilities Grant

The proposal was approved for progression to the relevant policy committee in January 2024.

Following consideration of the above matters and the report's contents, the Group moved to consider the report recommendations, which were agreed as follows:

(1) Provide guidance on which of the final proposals should be taken to the relevant policy committee in January 2024 to seek support for inclusion within the 2024/25 Capital Programme.

The meeting began at 2.00 pm and ended at 3.15 pm

COUNCILLOR NEIL DALLEN (CHAIR)

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TREASURY MANAGEMENT STRATEGY 2024/25

Head of Service: Brendan Bradley, Head of Finance

Wards affected: (All Wards);

Appendices (attached): Appendix 1: Treasury Management Strategy 2024/25

Summary

This report outlines the treasury management strategy for 2024/25, which includes prudential indicators for 2024/25 to 2026/27, the minimum revenue provision (MRP) policy, and the investment and borrowing strategy. It is a legislative requirement that these items be approved by Full Council.

Recommendation (s)

The Panel is asked to:

(1) Recommend to Full Council that the treasury management strategy, which includes the following, be approved:

1.1 the treasury management strategy and the treasury prudential indicators contained therein;

1.2 the capital prudential indicators and limits;

1.3 the borrowing strategy contained within the treasury management statement;

1.4 the annual investment strategy;

1.5 the minimum revenue provision policy statement;

1.6 the treasury management practices.

(2) Advise whether any countries should be removed from the list of approved investable countries at section 7 of the treasury management strategy.

1 Reason for Recommendation

1.1 The treasury management strategy and accompanying items have in previous years been presented directly to Full Council for approval. Following the LGA peer review, it was agreed that the strategy should be presented to Financial Strategy Advisory Group (formerly Financial Policy Panel) for review, prior to Full Council approval. It is a legal requirement that the items be approved at Full Council.

2 Background

2.1 The Council's treasury management strategy supports the achievement of the Council's Medium Term Financial Strategy.

2.2 The Council typically holds average cash balances of around £25m-£30m, but this fluctuates depending upon the level of reserves and changes in working capital balances. For 2024/25, the Council expects to generate £1,125,000 of investment income interest to finance Council services to the public.

2.3 An interim report on the performance of treasury investments for 2023/24 was presented to this Group on 24 November 2023, with treasury management training offered to all members on the same date.

2.4 The November report also asked Members to note that the Council uses a recommended treasury management strategy template provided by Link Asset Services – Treasury Solutions, considered to be appropriate for local authorities, and that this template will continue to be used for the 2024/25 Treasury Management Strategy.

2.5 The Council expects to continue to utilise a range of fixed term deposits, money market funds and interest-bearing accounts, all with highly credit-rated institutions to ensure security of public funds. Money market funds are essential for liquidity, as cash can be withdrawn within hours to fund daily cash requirements (i.e. payments to suppliers etc).

2.6 The Council does not currently anticipate any new borrowing needs for the forthcoming year, however, if a borrowing need did arise, this would be managed in accordance with the Treasury Management Strategy.

2.7 The Council follows treasury management practices recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Minimum Revenue Provision (MRP) Policy

2.8 MRP is an annual charge made against the revenue budget to set-aside funds (in the capital adjustment account reserve) to eventually repay the principal element of borrowing incurred when previously acquiring commercial properties. MRP is largely defined by regulation and aims to ensure that councils do not have fully utilised/depreciated assets that have associated debt outstanding.

2.9 The MRP policy determines the method used by councils to set-aside these statutory sums from the revenue budget. There are two main methods available;

2.9.1 Straight line method– the same fixed MRP charge is made each year over the estimated asset life (typically 50 years).

2.9.2 Asset life annuity method - MRP is calculated in a similar way as the capital element of a fixed rate repayment mortgage, i.e. the repayment is lower in early years, but steadily increases over the asset life (also typically 50 years).

2.10 At EEBC, the Council has adopted the annuity method to align asset financing costs with the expected benefits generated by the assets. That is to say, rental income from properties should on average gradually increase by inflation over 50 years and be sufficient to fund an increasing MRP charge over the same period.

3 Proposals

3.1 The Panel is asked to recommend for approval each of the key elements of this report:

3.1.1 The capital prudential indicators and limits contained within the treasury management strategy;

3.1.2 The treasury management strategy and the treasury prudential indicators contained therein;

3.1.3 The borrowing strategy contained within the treasury management statement;

3.1.4 The annual investment strategy;

3.1.5 The minimum revenue provision (MRP) policy statement;

3.1.6 The treasury management practices.

4 Risk Assessment

Legal or other duties

4.1 Equality Impact Assessment

4.1.1 None arising from the contents of this report.

4.2 Crime & Disorder

4.2.1 None arising from the contents of this report.

4.3 Safeguarding

4.3.1 None arising from the contents of this report.

4.4 Dependencies

4.4.1 None arising from the contents of this report.

4.5 Other

4.5.1 There is always an element of risk in investment, which is limited by applying stringent criteria to counterparty selection.

5 Financial Implications

5.1 **Section 151 Officer's comments**: Income earned by investing cash balances makes a significant contribution towards funding services. In 2024/25, the Council has budgeted to generate £1,125,000 investment income to fund services; the treasury management strategy supports the achievement of this income target, while managing investment risks to ensure security of the Council's funds.

6 Legal Implications

6.1 It is a requirement that the items in this report be approved by Full Council.

6.2 **Legal Officer's comments**: As above.

7 Policies, Plans & Partnerships

7.1 **Council's Key Priorities**: The following Key Priorities are engaged:

- Effective Council.

7.2 **Service Plans**: The matter is included within the current Service Delivery Plan.

7.3 **Climate & Environmental Impact of recommendations**: No direct implications arising from the contents of this report.

7.4 **Sustainability Policy & Community Safety Implications**: No direct implications arising from the contents of this report.

7.5 **Partnerships**: No direct implications arising from the contents of this report.

8 Background papers

8.1 The documents referred to in compiling this report are as follows:

Previous reports:

- Budget Report 2023/24 – Full Council, 14 February 2023

Other papers:

- Treasury Management Interim Report 2023/24 – Financial Strategy Advisory Group, 26 November 2023.

Treasury Management Strategy Statement

Minimum Revenue Provision Policy Statement and Annual Investment Strategy

2024/25

1.INTRODUCTION

1.1 Background

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA 2021 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level, long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

The capital strategy is reported separately from this Treasury Management Strategy Statement.

1.2.2 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);
   - a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
   - an annual investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** (presented to Audit & Scrutiny Committee) – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** (presented to Audit and Scrutiny Committee) – This is a backward-looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

Scrutiny
It is the responsibility of Full Council to approve the Treasury Management Strategy, following consideration of the strategy by Financial Strategy Advisory Group.
The Council has delegated responsibility for monitoring treasury management performance (the mid-year and annual performance reports above) and policies to Audit & Scrutiny Committee.

1.3 Treasury Management Strategy for 2024/25

The strategy for 2024/25 covers two main areas:

Capital issues
- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues
- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, DLUHC MRP Guidance, the CIPFA Treasury Management Code and DLUHC Investment Guidance.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny. In order to meet this requirement, during the last year, all members including Audit & Scrutiny have had the opportunity to receive a training presentation from the Council's external treasury management advisors, Link Group Treasury Solutions and further training will be arranged as required.

The training needs of treasury management officers are periodically reviewed.

1.5 Treasury management consultants

The Council uses Link Treasury Services Limited as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2024/25 – 2026/27

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital expenditure	2022/23	2023/24	2024/25	2025/26	2026/27
£000	**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Strategy & Resources	572	1,359	300	180	50
Environment	561	847	440	175	40
Community & Wellbeing	799	2,304	1,771*	885	855
Licensing & Planning Policy	0	0	0	0	0
Total services	**1,932**	**4,510**	**2,511**	**1,240**	**945**
Residential property fund	39	0	978	0	0
Commercial property fund**	0	0	49,569	0	0
Total	**1,971**	**4,510**	**53,058**	**1,240**	**945**

* This figure comprises the core programme of £1,211k and two schemes separately approved by Strategy & Resources Committee to be funded by S106 Affordable Housing contributions - £435k for temporary accommodation at Fairview Road; and £125k for converting Ewell Court House Flat 1 for use as temporary accommodation.

** The Council retains the in-Borough commercial property investment fund – for regeneration purposes – which has a remaining balance available for investment of £49.6m, from the original fund balance of £80m. The fund was established by the Council across 2016/17 and 2017/18 and can be financed from prudential borrowing.

For the purposes of forecasting, the full £49.6m balance is projected to be spent in 2024/25, however, actual expenditure will depend on the timing of when suitable acquisitions are identified. It is possible that should a suitable property be identified in the current financial year, expenditure will be incurred in 2023/24. This possibility is reflected in the prudential indicators for the operational boundary and authorised debt limit.

Other long-term liabilities - The above financing need excludes other long-term liabilities, such as leasing arrangements that already include borrowing instruments.

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital expenditure	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Core capital programme	1,932	4,510	2,511	1,240	945
Residential property fund	39	0	978	0	0
Commercial property fund	0	0	49,569	0	0
Total Expenditure	**1,971**	**4,510**	**53,058**	**1,240**	**945**
Financed by:					
Capital receipts	270	709	666	0	0
Capital grants (inc DFG)	616	1,743	785	785	785
S106 and CIL	469	1,491	560	0	0
Revenue	602	567	1,478	455	160
Total Financing	**1,958**	**4,510**	**3,489**	**1,240**	**945**
Net financing need for the year	**13**	**0**	**49,569**	**0**	**0**

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long-term liabilities (e.g. finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility by the lease provider and so the Council is not required to separately borrow for these schemes. The Council currently has £1.461m of such assets within the CFR. The Council is asked to approve the CFR projections below:

Capital Financing Requirement	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Opening CFR	88,998	87,551	86,089	133,903	132,077
Unfinanced capex - commercial properties	0	0	49,569	0	0
Finance Leases	13	0	0	0	0
Less MRP	(1,460)	(1,462)	(1,754)	(1,826)	(1,866)
Closing CFR	**87,551**	**86,089**	**133,903**	**132,077**	**130,211**
Movement in CFR	**(1,447)**	**(1,462)**	**47,815**	**(1,826)**	**(1,866)**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

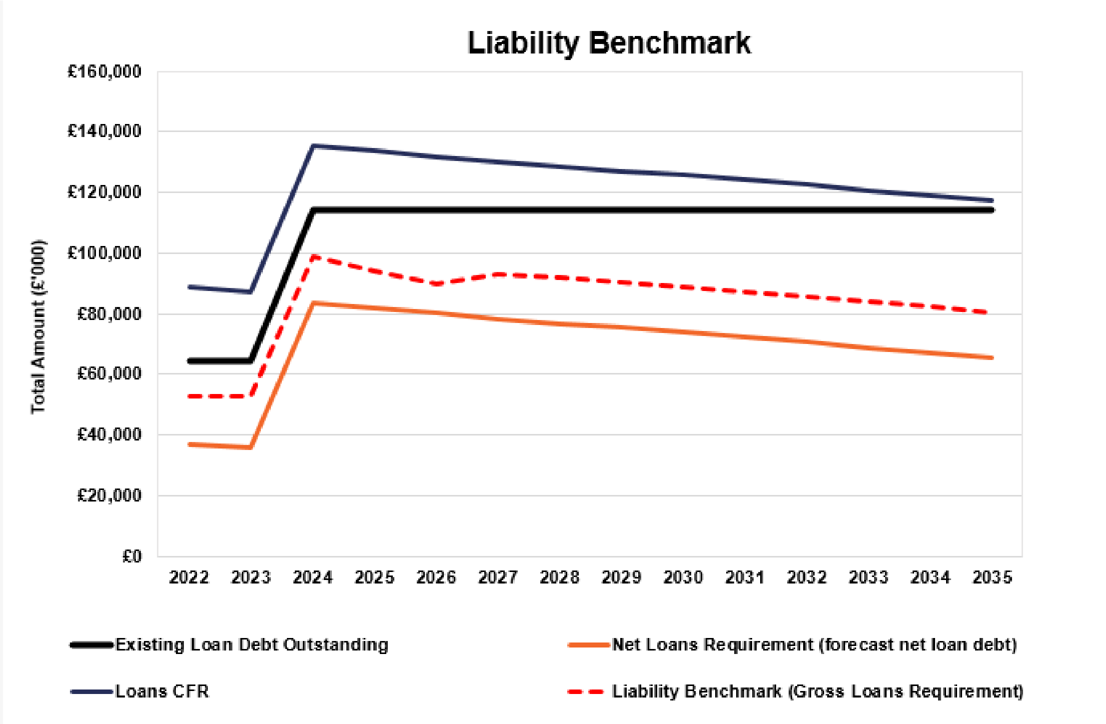
2.3 Liability Benchmark

A third prudential indicator, introduced in 2023/24, is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum.

There are four components to the LB: -

1. **Existing loan debt outstanding**: the Authority's existing loans that are still outstanding in future years.
2. **Loans CFR**: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. **Net loans requirement**: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. **Liability benchmark** (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

This Council's forecast liability benchmark is shown for the next ten years in the following chart:



2.4 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Year End Resources	2022/23	2023/24	2024/25	2025/26	2026/27
£'000	**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Fund balances / reserves	3,117	2,974	2,974	2,974	2,974
Capital receipts	3,940	2,872	2,206	2,206	2,206
Earmarked revenue reserves	24,699	13,145	13,145	13,145	13,145
CIL	9,320	8,075	9,375	10,675	11,975
S106 funds	2,311	1,842	1,282	1,282	1,282
Total core funds	**43,387**	**28,908**	**28,982**	**30,282**	**31,582**
Working capital*	16,000	17,000	15,000	12,000	10,000
(Under)/over borrowing	(20,837)	(20,200)	(18,882)	(17,527)	(16,134)
Expected investments	**38,550**	**25,708**	**25,100**	**24,755**	**25,448**

*Working capital balances shown are estimated year-end; these may vary.

2.5 Minimum revenue provision (MRP) policy statement

The Council is required to pay off an element of the accumulated General Fund capital spend each year (the CFR) through a revenue charge (the minimum revenue provision - MRP), although it is also allowed to undertake additional voluntary payments if required (voluntary revenue provision - VRP).

DLUCH regulations have been issued which require the full Council to approve **an MRP Statement** in advance of each year. A variety of options are provided to councils, so long as there is a prudent provision. The Council is recommended to approve the following MRP Statement:

For all unsupported borrowing (including finance leases) the MRP policy will be*:*

- **Asset life method** – MRP will be based on the estimated life of the assets, in accordance with the regulations.

This method provides for a reduction in the borrowing need over approximately the asset's life.

Repayments included in annual finance leases are applied as MRP.

3 BORROWING

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity and the Council's capital strategy. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Current portfolio position

The overall treasury management portfolio as at 31 March 2023 and the position as at 30 November 2023 are shown below for both borrowing and investments.

	Actual at 31 March 2023		**At 30 November 2023**	
Treasury Portfolio	£000	%	£000	%
Treasury Investments				
Banks & Building Societies	20,000	73%	20,000	62%
Money Market Funds	7,400	27%	12,300	38%
Total Managed In House	**27,400**	**100%**	**32,300**	**100%**
Aberdeen Asset Management Fund	0	0%	0	0%
Total Managed Externally	**0**	**0%**	**0**	**0%**
Total Treasury Investments	**27,400**	**100%**	**32,300**	**100%**
Treasury External Borrowing				
PWLB	64,427	100%	64,427	100%
Total External Borrowing	**64,427**	**100%**	**64,427**	**100%**
Net treasury investments / (borrowing)	**-37,027**	**-**	**-32,127**	**-**

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

£'000	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
External Debt					
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Debt at 1 April	88,998	87,551	86,089	133,903	132,077
Expected change in debt	0	0	49,569	0	0
Other long-term liabilities	0	0	0	0	0
Less MRP	(1,460)	(1,462)	(1,754)	(1,826)	(1,866)
Less use of internal funds	(20,837)	(20,201)	(18,883)	(17,527)	(16,134)
Actual gross debt at 31 March including finance leases	**66,714**	**65,888**	**115,020**	**114,550**	**114,077**
The Capital Financing Requirement	**87,551**	**86,089**	**133,903**	**132,077**	**130,211**
(Under)/over borrowing**	**(20,837)**	**(20,200)**	**(18,882)**	**(17,527)**	**(16,134)**

Within the above figures the level of debt relating to commercial activities / non-financial investment is:

	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
External Debt for commercial property fund (I.e. excluding finance lease debt)					
Actual debt at 31 March £m	64,427	64,427	113,996	113,996	113,996
Percentage of total external debt %	97	98	99	100	100

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Chief Finance Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

Operational boundary £'000	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
Debt relating to commercial property fund	88,998	87,551	135,658	133,903	132,077
Other long term liabilities	2,287	1,855	1,447	1,010	540
Total	**91,285**	**89,406**	**137,105**	**134,914**	**132,618**

The operational boundary and authorised debt limits provide for the possibility that the remaining £49.6m balance within the Council's Commercial Property Acquisition Fund could be spent in 2024/25 if suitable properties are identified.

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Authorised limit £'000	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	Estimate	Estimate	Estimate	Estimate
Debt relating to commercial property fund	88,998	145,000	145,000	145,000	145,000
Other long term liabilities	2,287	3,000	3,000	3,000	3,000
Total	**91,285**	**148,000**	**148,000**	**148,000**	**148,000**

3.3 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 08 January 2024. These are forecasts for Bank Rate, average earnings and PWLB certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

3.4 Borrowing strategy

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as medium and longer dated borrowing rates are expected to fall from their current levels once prevailing inflation concerns are addressed by tighter near-term monetary policy. In addition, counterparty risk is an issue that needs to be considered.

Against this background and the risks within the economic forecast, caution will be adopted with the 2024/25 treasury operations. The Chief Finance Officer will monitor interest rates in financial markets and adopt a pragmatic approach to changing circumstances:

* *if it was felt that there was a significant risk of a sharp FALL in borrowing rates,* (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then borrowing would be postponed.

* *if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast,* perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Most likely, fixed rate funding will be drawn whilst interest rates are lower than they are projected to be in the next few years.

Any decisions will be reported to the appropriate decision-making body at the next available opportunity.

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a large difference between premature redemption rates and new borrowing rates.

If rescheduling was done, it would be reported to the appropriate Committee at the earliest meeting

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy – management of risk

The Department of Levelling Up, Housing and Communities (DLUHC) and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with treasury (financial) investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy, (Appendix 10).

The Council's investment policy has regard to the following: -

- DLUHC's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2021 ("the Code")
- CIPFA Treasury Management Guidance Notes 2021

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with regard to the Council's risk appetite. In the current economic climate, it is considered appropriate to maintain a degree of liquidity to cover cash flow needs but to also consider "laddering" investments for periods up to 12 months with high credit rated financial institutions, whilst investment rates remain elevated, as well as wider range fund options.

The above guidance from the DLUHC and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. The Council has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in appendix 5.4 under the categories of 'specified' and 'non-specified' investments.

    - **Specified investments** are those with a high level of credit quality and subject to a maturity limit of one year or have less than a year left to run to maturity if originally they were originally classified as being non-specified investments solely due to the maturity period exceeding one year.
    - **Non-specified investments** are those with less high credit quality, may be for periods in excess of one year, and/or are more complex instruments which require greater consideration by members and officers before being authorised for use.

5. **Non-specified and loan investment limits.** The Council has determined that it will set a limit to the maximum exposure of the total treasury management investment portfolio to non-specified treasury management investments of 50%

6. **Lending limits**, (amounts and maturity), for each counterparty will be set through applying the matrix table in paragraph 4.2.

7. **Transaction limits** are set for each type of investment in 4.2.

8. This authority will set a limit for its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

9. Investments will only be placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

10. This Authority has engaged **external specialists** to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this Authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in **sterling**.,

12. As a result of the change in accounting standards for 2023/24 under IFRS 9, this Authority will consider the implications of investment instruments which could result in an adverse movement in the value of the amount invested and resultant charges at the end of the year to the General Fund. (In November 2018, the MHCLG, concluded a consultation for a temporary override to allow English local authorities time to adjust their portfolio of all pooled investments by announcing a statutory override to delay implementation of IFRS 9 for five years ending 31.3.23. More recently, a further extension to the over-ride to 31.3.25 has been agreed by Government.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

This Authority applies the creditworthiness service provided by the Link Group. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard & Poor's. The credit ratings of counterparties are supplemented with the following overlays: -

1. "watches" and "outlooks" from credit rating agencies;
2. CDS spreads that may give early warning of changes in credit ratings;
3. sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, and any assigned Watches and Outlooks, in a weighted scoring system which is then combined with an overlay of CDS spreads. The end-product of this is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Authority to determine the suggested duration for investments. The Authority will, therefore, use counterparties within the following durational bands

- Yellow 5 years
- Dark pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.25
- Light pink 5 years for Ultra-Short Dated Bond Funds with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)

- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

The Link creditworthiness service uses a wider array of information other than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically, the minimum credit ratings criteria the Authority uses will be a short-term rating (Fitch or equivalents) of F1 and a long-term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored. The Authority is alerted to changes to ratings of all three agencies through its use of the Link creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Authority's minimum criteria, its further use as a new investment will be withdrawn immediately.
- in addition to the use of credit ratings the Authority will be advised of information in movements in Credit Default Swap spreads against the iTraxx European Senior Financials benchmark and other market data on a daily basis via its Passport website, provided exclusively to it by Link. Extreme market movements may result in downgrade of an institution or removal from the Authority's lending list.

Sole reliance will not be placed on the use of this external service. In addition, this Authority will also use market data and market information, as well as information on any external support for banks to help support its decision-making process.

Y	Pi1	Pi2	P	B	O	R	G	N/C
1	1.25	1.5	2	3	4	5	6	7
Up to 5yrs	Up to 5yrs	Up to 5yrs	Up to 2yrs	Up to 1yr	Up to 1yr	Up to 6mths	Up to 100days	No Colour

	Colour (and long-term rating where applicable)	**Money limit**	**Transaction limit**	**Time limit**
Banks	**Yellow**	**£5m**	**£5m**	**5 yrs**
Banks	**Purple**	**£5m**	**£5m**	**2 yrs**
Banks	**Orange**	**£5m**	**£5m**	**1 yr**
Banks – part nationalised	**Blue**	**£5m**	**£5m**	**1 yr**
Banks	**Red**	**£5m**	**£5m**	**6 mths**
Banks	**Green**	**£5m**	**£5m**	**100 days**
Banks	**No Colour**	**Not to be used**	**Not to be used**	
Limit 3 category – Authority's banker (where "No Colour")	**Natwest**	**£5m**	**£5m**	**1 day**
Other institutions limit – Building Societies	**-**	**£5m**	**£5m**	**1 yr**

DMADF	**UK sovereign rating**	**unlimited**	**£5m**	**6 mths**
Local authorities	**n/a**	**£5m**	**£5m**	**1 yr**
Housing associations	**Colour bands**	**£5m**	**£5m**	**As per colour band**
	Fund rating	**Money Limit**		**Time Limit**
Money Market Funds CNAV	**AAA**	**£5m**	**£5m**	**liquid**
Money Market Funds LVNAV	**AAA**	**£5m**	**£5m**	**liquid**
Money Market Funds VNAV	**AAA**	**£5m**	**£5m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.25	**Dark Pink / AAA**	**£5m**	**£5m**	**liquid**
Ultra-Short Dated Bond Funds with a credit score of 1.50	**Light Pink / AAA**	**£5m**	**£5m**	**liquid**

Creditworthiness.
Significant levels of downgrades to Short and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. Nonetheless, when setting minimum sovereign debt ratings, this Authority will not set a minimum rating for the UK.

CDS prices
Although bank CDS prices, (these are market indicators of credit risk), spiked upwards during the days of the Truss/Kwarteng government in the autumn of 2022, they have returned to more average levels since then. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances. Link monitor CDS prices as part of their creditworthiness service to local authorities and the Authority has access to this information via its Link-provided Passport portal.

4.3 Other limits

Due care will be taken to consider the exposure of the Council’s total investment portfolio to non-specified investments, countries, groups and sectors.

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure of treasury management investments to non-specified treasury management investments as being 50% of the total treasury management investment portfolio.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit rating of *AA-*** from Fitch or equivalent. The list of countries that qualify using this credit criteria as at the date of this report are shown in section 7. This list may be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Other limits.** In addition:

- no more than 50% will be placed with any non-UK country at any time;
- limits in place above will apply to a group of companies;

- sector limits will be monitored regularly for appropriateness.

4.4 Investment strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e., rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. The current shape of the yield curve suggests that is the case at present, but there is the prospect of Bank Rate having peaked in the second half of 2023 and possibly reducing as early as the second half of 2024 so an agile investment strategy would be appropriate to optimise returns.

Accordingly, while most cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer-term investments will be carefully assessed.

Investment returns expectations.
The current forecast shown in paragraph 3.3, includes a forecast for Bank Rate to have peaked at 5.25%.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows: -

Average earnings in each year	
2023/24 (residual)	5.30%
2024/25	4.55%
2025/26	3.10%
2026/27	3.00%
2027/28	3.25%
Years 6 to 10	3.25%
Years 10+	3.25%

As there are so many variables at this time, caution must be exercised in respect of all interest rate forecasts.
For its cash flow generated balances, the Council will seek to utilise its business reserve instant access and notice accounts, money market funds and short-dated deposits, in order to benefit from the compounding of interest

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment and are based on the availability of funds after each year-end.

The Council is asked to approve the following treasury indicator and limit:

Upper limit for principal sums invested for longer than 365 days			
£m	**2024/25**	**2025/26**	**2026/27**
Principal sums invested for longer than 365 days	£10m	£10m	£10m
Current investments as at 31/12/23 in excess of 1 year maturing in each year	£0m	£0m	£0m

4.5 Investment performance

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of overnight, 7 day, 1, 3, 6 or 12 month compounded / SONIA (Sterling Overnight Index Average) rate.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Management Performance report to Audit & Scrutiny Committee, in line with the Constitution.

4.7 External fund managers

Currently (31/12/23) the Council has no funds deposited with its external fund manager, Aberdeen Asset Management. However, when the external fund manager is utilised, they will comply with the Annual Investment Strategy. The agreement between the Council and the fund manager additionally stipulates guidelines on duration and other limits to contain and control risk.

5.1 THE CAPITAL PRUDENTIAL AND TREASURY INDICATORS 2024/25 – 2026/27

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

5.1.1 Capital expenditure

Capital expenditure	2022/23	2023/24	2024/25	2025/26	2026/27
£000	**Actual**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Strategy & Resources	572	1,359	300	180	50
Environment	561	847	440	175	40
Community & Wellbeing	799	2,304	1,771	885	855
Licensing & Planning Policy	0	0	0	0	0
Total services	**1,932**	**4,510**	**2,511**	**1,240**	**945**
Residential property fund	39	0	978	0	0
Commercial property fund	0	0	49,569	0	0
Total	**1,971**	**4,510**	**53,058**	**1,240**	**945**

5.1.2 Affordability prudential indicators

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

Ratio of financing costs to net revenue stream

This indicator identifies the trend in the cost of capital, (borrowing and other long-term obligation costs net of investment income), against the net revenue stream.

%	2022/23	2023/24	2024/25	2025/26	2026/27
	Actual	**Estimate**	**Estimate**	**Estimate**	**Estimate**
Ratio	12%	7%	0%	16%	24%

The estimates of financing costs include current commitments and the proposals in this budget report.

5.1.3 Maturity structure of borrowing

Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Maturity structure of fixed interest rate borrowing 2024/25		
	Lower	**Upper**
Under 12 months	0%	20%
12 months to 2 years	0%	20%
2 years to 5 years	0%	20%
5 years to 10 years	0%	20%
10 years to 20 years	0%	20%
20 years to 30 years	0%	20%
30 years to 40 years	0%	20%
40 years to 50 years	0%	100%
Maturity structure of variable interest rate borrowing 2024/25		
	Lower	Upper
Under 12 months	0%	0%
12 months to 2 years	0%	0%
2 years to 5 years	0%	0%
5 years to 10 years	0%	0%
10 years to 20 years	0%	0%
20 years to 30 years	0%	0%
30 years to 40 years	0%	0%
40 years to 50 years	0%	0%

5.1.4. Control of interest rate exposure

Please see paragraphs 3.3, 3.4 and 4.4.

5.2 INTEREST RATE FORECASTS 2023-2026

Link Group Interest Rate View 08.01.24													
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

5.3 ECONOMIC BACKGROUND

- The third quarter of 2023/24 saw:
  - A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;
  - A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS "experimental" rate of unemployment has remained low at 4.2%;
  - CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
  - Core CPI inflation decreasing from April and May's 31 years' high of 7.1% to 5.1% in November, the lowest rate since January 2022;

- The Bank of England holding Bank Rate at 5.25% in November and December;
- A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

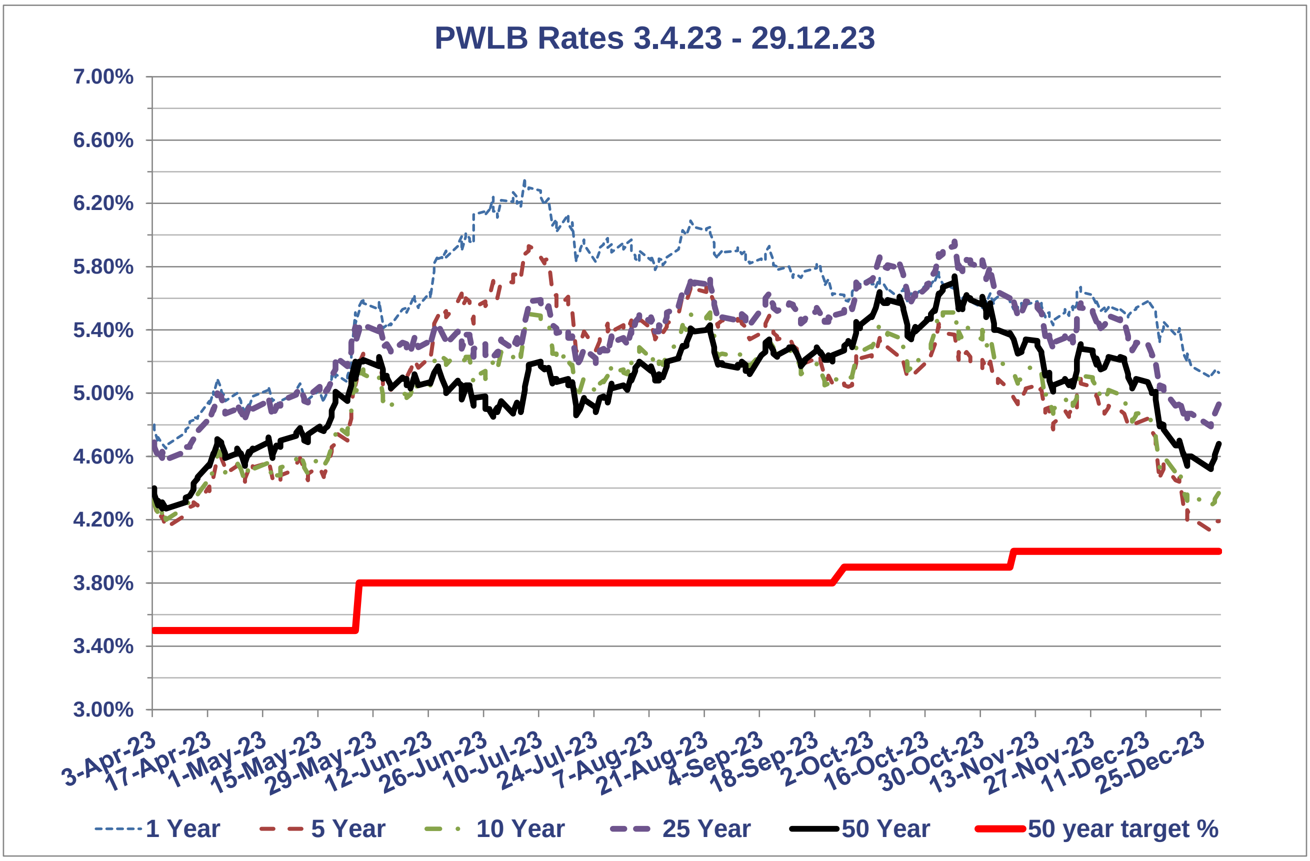
- The revision of GDP data in Q2 to a 0.1% q/q fall may mean the mildest of mild recessions has begun. Indeed, real GDP in October fell 0.3% m/m which does suggest that the economy may stagnate again in Q3. The weakness in October may partly be due to the unseasonably wet weather. That said, as the weakness was broad based it may also be the case that the ongoing drag from higher interest rates is more than offsetting any boost from the rise in real wages.
- However, the rise in the flash composite activity Purchasing Managers Index, from 50.7 in November to 51.7 in December, did increase the chances of the economy avoiding a contraction in Q3. The improvement was entirely driven by the increase in the services activity balance from 50.9 to 52.7. (Scores above 50 point to expansion in the economy, although only tepid in this instance.) The press release noted that this was primarily driven by a revival in consumer demand in the technological and financial services sectors. This chimes with the further improvement in the GfK measure of consumer confidence in December, from -24 to -22. The services PMI is now consistent with non-retail services output growing by 0.5% q/q in Q3, but this is in stark contrast to the manufacturing sector where the output balance slumped from 49.2 to 45.9 and, at face value, the output balance is consistent with a 1.5% q/q fall in manufacturing output in Q3.
- The 0.3% m/m fall in retail sales volumes in October means that after contracting by 1.0% q/q (which was downwardly revised from -0.8% q/q) in Q2, retail activity remained weak at the start of Q3. That suggests higher interest rates are taking a bigger toll on real consumer spending.
- Higher interest rates have filtered through the financial channels and weakened the housing market but, overall, it remains surprisingly resilient with the Halifax house price index recently pointing to a 1.7% year on year increase whilst Nationwide's December data pointed to a -1.8% year on year decrease. However, the full weakness in real consumer spending and real business investment has yet to come as currently it is estimated that around two thirds to a half of the impact of higher interest rates on household interest payments has yet to be felt.
- Overall, we expect real GDP growth to remain subdued throughout 2024 as the drag from higher interest rates is protracted but a fading of the cost-of-living crisis and interest rate cuts in the second half of 2024 will support a recovery in GDP growth in 2025.
- The labour market remains tight by historical standards, but the sharp fall in wage growth seen in October will reinforce the growing belief in markets that interest rates will be cut mid-2024. Wage growth eased in October much faster than the consensus expected. Total earnings fell by 1.6% m/m, which meant the headline 3myy rate eased from 8.0% in September to 7.2% in October. This news will be welcomed by the Bank of England. Indeed, the timelier three-month annualised rate of average earnings growth fell from +2.4% to -1.2%. Excluding bonuses, it fell from 5.3% to 2.0%. Furthermore, one of the Bank's key barometers of inflation persistence, regular private sector pay growth, dropped from 7.9% 3myy to 7.3%, which leaves it comfortably on track to fall to 7.2% by December, as predicted by the Bank in November.
- The fall in wage growth occurred despite labour demand being stronger in October than expected. The three-month change in employment eased only a touch from +52,000 in

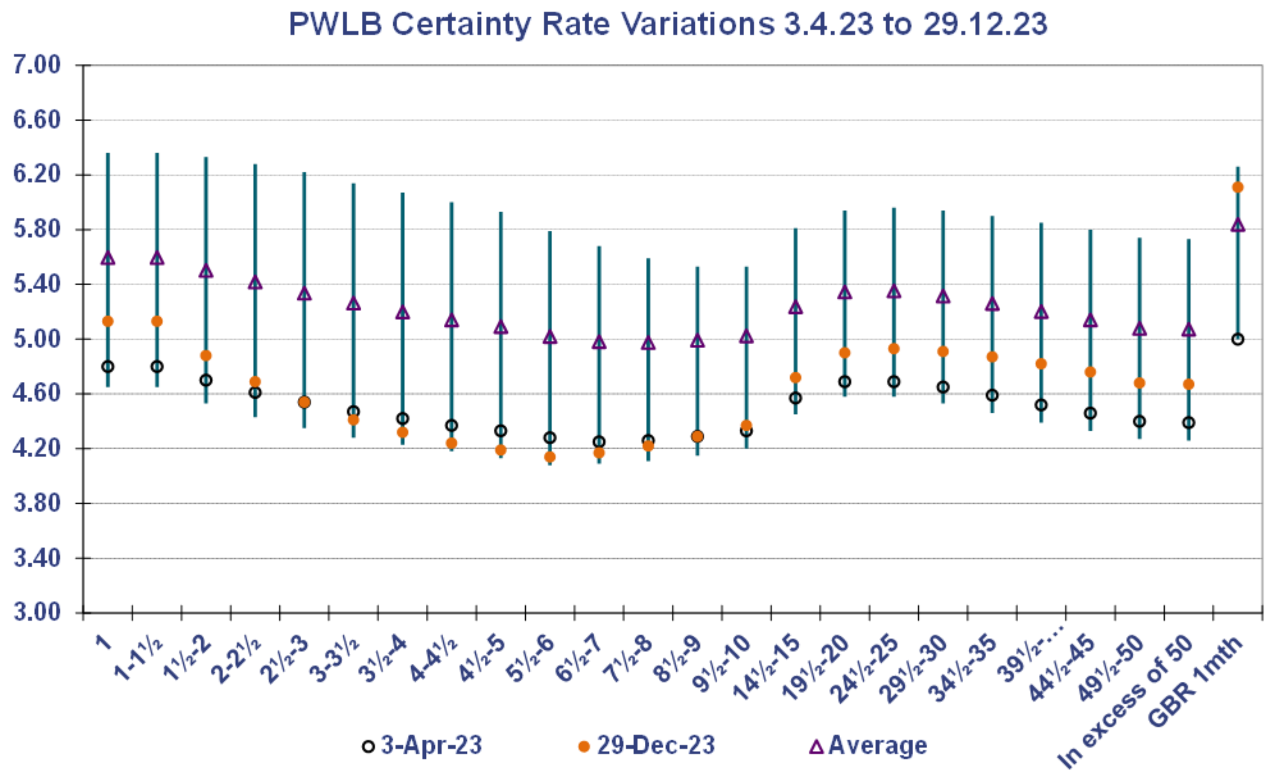
September to +50,000 in October. But resilient labour demand was offset by a further 63,000 rise in the supply of workers in the three months to October. That meant labour supply exceeded its pre-pandemic level for the first time, and the unemployment rate remained at 4.2% in October. In the three months to November, the number of job vacancies fell for the 17th month in a row, from around 959,000 in October to around 949,000. That has reduced the vacancy to unemployment ratio as demand for labour eases relative to supply, which may support a further easing in wage growth in the coming months.

- CPI inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. Both these falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The fall in core CPI inflation from 5.7% to 5.1% in November was bigger than expected (consensus forecast 5.6%). That's the lowest rate since January 2022. Some of the decline in core inflation was due to the global influence of core goods inflation, which slowed from 4.3% to 3.3%. But some of it was due to services inflation falling from 6.6% to 6.3%. The Bank views the latter as a key barometer of the persistence of inflation and it came in further below the Bank's forecast of 6.9% in its November Monetary Policy Report. This will give the Bank more confidence that services inflation is now on a firmly downward path.
- The Bank of England sprung no surprises with its December monetary policy committee (MPC) meeting, leaving interest rates at 5.25% for the third time in a row and pushing back against the prospect of near-term interest rate cuts. The Bank continued to sound hawkish, with the MPC maintaining its tightening bias saying that "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures". And it stuck to the familiar script, saying that policy will be "sufficiently restrictive for sufficiently long" and that "monetary policy is likely to need to be restrictive for an extended period of time". In other words, the message is that the MPC is not yet willing to endorse investors' expectations that rates will be cut as soon as May 2024.
- Looking ahead, our colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why we think the Bank of England won't feel comfortable cutting interest rates until H2 2024.
- The fall in UK market interest rate expectations in December has driven most of the decline in 10-year gilt yields, which have fallen in line with 10-year US Treasury and euro-zone yields. 10-year gilt yields have fallen from 4.68% in October 2023 to around 3.70% in early January, with further declines likely if the falling inflation story is maintained.
- Investors' growing expectations that the Fed will cut interest rates soon has led to an improvement in risk sentiment, which has boosted the pound and other risky assets. In addition, the rise in the pound, from $1.21 in November to $1.27 now, has also been supported by the recent relative decline in UK wholesale gas prices.
- The further fall in 10-year real gilt yields in December has supported the recent rise in the FTSE 100. That said, the index remains 5% below its record high in February 2023. This modest rise in equities appears to have been mostly driven by strong performances in the industrials and rate-sensitive technology sectors. But UK equities have continued to underperform US and euro-zone equities. The FTSE 100 has risen by 2.2% in December, while the S&P 500 has risen by 3.8%. This is partly due to lower energy prices, which have been a relatively bigger drag on the FTSE 100, due to the index's high concentration of energy companies.

In the chart below, the rise in gilt yields across the curve in the first half of 2023/24, and therein PWLB rates, is clear to see, prior to the end of year rally based on a mix of supportive domestic and international factors.

PWLB RATES 3.4.23 - 29.12.23





HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.60%	5.09%	5.03%	5.35%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

MPC meetings 2nd November and 14th December 2023

- On 2nd November, the Bank of England's Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14th December reiterated that view. Both increases reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about "sticky" inflation remained in place.
- Nonetheless, with UK CPI inflation now at 3.9%, and core inflating beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US FOMC has kept short-term rates in the range of 5.25%-5.50%, whilst the ECB has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

6 TREASURY MANAGEMENT PRACTICES (TMPs)

6.1 TMP1 – CREDIT AND COUNTERPARTY RISK MANAGEMENT

The DLUHC issued Investment Guidance in 2018, and this forms the structure of the Council's policy below. These guidelines do not apply to either trust funds or pension funds which operate under a different regulatory regime.

The key intention of the Guidance is to maintain the current requirement for councils to invest prudently, and that priority is given to security and liquidity before yield. In order to facilitate this objective the guidance requires this Council to have regard to the CIPFA publication Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes. This Council adopted the Code on 13/04/2012 and will apply its principles to all investment activity. In accordance with the Code, the Chief Finance Officer has produced its treasury management practices (TMPs). This part, TMP 1(1), covering investment counterparty policy requires approval each year.

Annual investment strategy - The key requirements of both the Code and the investment guidance are for the Council to set an Annual Investment Strategy, as part of its annual treasury strategy for the following year, covering the identification and approval of following:

- The strategy guidelines for choosing and placing investments, particularly non-specified investments.
- The principles to be used to determine the maximum periods for which funds can be committed.
- Specified investments that the Council will use. These are high security and high liquidity investments in sterling and with a maturity of no more than a year.
- Non-specified investments, clarifying the greater risk implications, identifying the general types of investment that may be used and a limit to the overall amount of various categories that can be held at any time.

The investment policy proposed for the Council is:

Strategy guidelines – The main strategy guidelines are contained in the body of the treasury strategy statement.

Specified investments – These investments are sterling investments of not more than one-year maturity, or those which could be for a longer period but where the Council has the right to be repaid within 12 months if it wishes. They also include investments which were originally classed as being non-specified investments, but which would have been classified as specified investments apart from originally being for a period longer than 12 months once the remaining period to maturity falls to under 12 months. These are considered low risk assets where the possibility of loss of principal or investment income is small. These would include sterling investments which would not be defined as capital expenditure with:

1. The UK Government (such as the Debt Management Account deposit facility, UK treasury bills or a gilt with less than one year to maturity).
2. Supranational bonds of less than one year's duration.
3. A local authority, housing association, parish council or community council.
4. Pooled investment vehicles (such as money market funds) that have been awarded a high credit rating by a credit rating agency. For category 4 this covers pooled investment vehicles, such as money market funds, that have been awarded a high credit rating by Standard and Poor's, Moody's and / or Fitch rating agencies.
5. A body that is considered of a high credit quality (such as a bank or building society). For category 5 this covers bodies with a minimum Short Term rating of F1 (or the equivalent) as rated by Standard and Poor's, Moody's and / or Fitch rating agencies.

Within these bodies, and in accordance with the Code, the Council has set additional criteria to set the time and amount of monies which will be invested in these bodies, as disclosed in the investment strategy in section 4.

Non-specified investments – are any other type of investment (i.e. not defined as specified above). The identification and rationale supporting the selection of these other investments and the maximum limits to be applied are set out below.

	Non-Specified Investment Category	Limit (£ or %)
a.	**Supranational bonds greater than 1 year to maturity** **(a) Multilateral development bank bonds** - These are bonds defined as an international financial institution having as one of its objects economic development, either generally or in any region of the world (e.g. European Reconstruction and Development Bank etc.). **(b) A financial institution that is guaranteed by the United Kingdom Government** (e.g. National Rail) The security of interest and principal on maturity is on a par with the Government and so very secure. These bonds usually provide returns above equivalent gilt edged securities. However the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	AAA long term ratings, 50% of money invested through external fund manager. Restriction of 5yrs maximum maturity
b.	**Gilt edged securities** with a maturity of greater than one year. These are Government bonds and so provide the highest security of interest and the repayment of principal on maturity. Similar to category (a) above, the value of the bond may rise or fall before maturity and losses may accrue if the bond is sold before maturity.	50% of money invested through external fund manager. Restriction of 10yrs maximum maturity 50% of money invested through external fund manager. Restriction of 10yrs maximum maturity
c.	**The Council's own banker** if it fails to meet the basic credit criteria. In this instance balances will be minimised as far as is possible.	In this instance balances will be minimised as far as is possible.
d.	**Building societies not meeting the basic security requirements under the specified investments**. The operation of some building societies does not require a credit rating, although	£5m per institution.

	in every other respect the security of the society would match similarly sized societies with ratings. The Council may use such building societies which have a minimum asset size of *£1bn* but will restrict these type of investments to 12 months.	
e.	Any **bank or building society** that has a minimum long term credit rating of A-, for deposits with a maturity of greater than one year (including forward deals in excess of one year from inception to repayment).	Maximum of 50% on investments over 1yr
f.	Any **non-rated subsidiary** of a credit rated institution included in the specified investment category. These institutions will be included as an investment category subject to the parent bank providing an appropriate guarantee and meeting the ratings outlined above.	£5m per institution.
g.	**Share and loan capital** in a body corporate – The use of these instruments will be deemed to be capital expenditure, and as such will be an application (spending) of capital resources. Revenue resources will not be invested in corporate bodies. See note 1 below.	Maximum £5m per institution, subject to minimum rating of AA- (long term). The exception is Epsom & Ewell Property Investment Company Limited (EEPIC) - Council has separately authorised share capital and loans to EEPIC.

NOTE 1. The Council will seek further advice on the appropriateness and associated risks with investments in these categories.

The monitoring of investment counterparties - The credit rating of counterparties will be monitored regularly. The Council receives credit rating information (changes, rating watches and rating outlooks) from Link Asset Services as and when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Finance Officer, and if required new counterparties which meet the criteria will be added to the list.

Use of external fund managers – It is the Council's policy to use external fund managers for part of its investment portfolio when required. The fund managers will use both specified and non-specified investment categories and are contractually committed to keep to the Council's annual investment strategy.

The Council fully appreciates the importance of monitoring the activity and resultant performance of its appointed external fund manager. In order to aid this assessment, the Council is provided with a suite of regular reporting from its manager.

6.2 TMP2 Performance measurement

The Council has a number of approaches to evaluating treasury management decisions: -

a. Monthly reviews carried out by the treasury management team.

b. Reviews with our treasury management consultants & external fund manager.

c. Annual review after the end of the year as reported formerly to Audit & Scrutiny Committee.

d. Half yearly monitoring reported to Audit & Scrutiny Committee.

e. Quarterly budget monitoring reports to Audit & Scrutiny Committee.

The treasury management team holds reviews with our consultants every 6 months to review the performance of the investment and debt portfolios.

An Annual Treasury Report is submitted to Audit & Scrutiny each year after the close of the financial year, which reviews the performance of the investment portfolio. This report contains the following: -

a. average investments held during the financial year and average interest rates

b. investment strategy for the year compared to actual strategy

c. explanations for variance between original strategies and actual

d. comparison of return on investments to the investment benchmark

e. compliance with Prudential and Treasury Indicators

The performance of investment earnings will be measured against the following benchmarks: -

a. In house investments
7 day SONIA

b. External fund manager
7 day SONIA

Epsom & Ewell Borough Council's policy is to appoint external investment fund managers to manage a proportion of its cash and will comply with the Local Authorities (Contracting Out of Investment Functions) Order 1996 [SI 1996 No 1883}.

The delegation of investment management to external managers will entail the following:

- Formal contractual documentation;
- Agreement on terms for early termination of the contract;
- Setting of investment instruments, constraints/parameters/conditions
- Setting of investment counterparty limits;
- Setting a performance measurement benchmark and a performance target;
- Frequency of performance reporting;

- Frequency of meetings with investment managers;

The Code of Practice places an obligation on the Council to monitor the performance of the fund managers. This Council has appointed Link Asset Services to assist in this respect.

6.3 TMP3 Decision – making and analysis

Epsom & Ewell Borough Council will maintain full records of its treasury management decisions, and of the processes and practices applied in reaching those decisions, both for the purposes of learning from the past, and for demonstrating that reasonable steps were taken to ensure that all issues relevant to those decisions were taken into account at the time. The issues to be addressed and processes and practices to be pursued in reaching decisions are detailed in the scheduled to this document."

The Treasury team will ensure that the following records will be retained*:* -

- Daily cash balance forecasts
- Money market rates obtained by telephone from brokers
- Dealing slips for all money market transactions
- Brokers' confirmations for investment transactions
- Confirmations from borrowing institutions where deals are done directly
- Contract notes received from fund manager
- Fund manager valuation statements

Processes to be pursued:

- Cash flow analysis
- Investment maturity analysis
- Ledger reconciliation
- Performance management information

6.4 TMP4 Approved instruments, methods and techniques

Epsom & Ewell Borough Council will undertake its treasury management activities by employing only those instruments, methods and techniques detailed in the Treasury Management Strategy and within the limits and parameters defined.

6.5 TMP5 Organisation, clarity and segregation of responsibilities and dealing arrangements

Allocation of responsibilities

(i) Full Council

- approval of annual treasury management strategy.

(ii) Financial Strategy Advisory Group

- reviewing and advising on the treasury management strategy prior to approval at Full Council

(iii) Audit & Scrutiny Committee

- receiving and reviewing reports on treasury management policies, performance and activities
- approval of amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices
- receiving and reviewing annual monitoring reports and acting on recommendations
- receiving and reviewing half yearly and annual performance monitoring report and acting on recommendations

(iv) Chief Finance Officer

- reviewing the treasury management policy and procedures and making recommendations to the responsible body.

Principles and Practices Concerning Segregation of Duties

The following duties must be undertaken by separate officers: -

Dealing	Negotiation and approval of deal. (Dealer 1) Production of transfer note. (Dealer 1)
Bank	Entry of transaction onto bank (Finance Officer)
Authorisation/Payment of Deal	Approval and payment. (Dealer 2)
Accounting Entry	Processing of accounting entry (Exchequer Team) Reconciliation of cash control account. (Exchequer Team)
Bank	Bank reconciliation (Exchequer Team)

Statement of the treasury management duties/responsibilities of each treasury post

The responsible officer

The responsible officer is the person charged with professional responsibility for the treasury management function and in this Council is the Chief Finance Officer. This person will carry out the following duties: -

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
- submitting regular treasury management policy reports
- submitting budgets and budget variations
- receiving and reviewing management information reports

- reviewing the performance of the treasury management function
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
- ensuring the adequacy of internal audit, and liaising with external audit
- recommending the appointment of external service providers.
- The responsible officer has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments.
- The responsible officer may delegate his power to borrow and invest to members of his staff. The finance must conduct all dealing transactions, or staff authorised by the responsible officer to act as temporary cover for leave/sickness.
- The responsible officer will ensure that Treasury Management Policy is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
- Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the responsible officer to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
- It is also the responsibility of the responsible officer to ensure that the Council complies with the requirements of The Non-Investment Products Code (formerly known as The London Code of Conduct) for principals and broking firms in the wholesale markets.

The Chief Accountant

The responsibilities of this post will be: -

a) execution of transactions

b) adherence to agreed policies and practices on a day-to-day basis

c) maintaining relationships with counterparties and external service providers

d) supervising treasury management staff

e) monitoring performance on a day-to-day basis

f) submitting management information reports to the responsible officer

g) identifying and recommending opportunities for improved practices

The Head of the Paid Service – the Chief Executive

The responsibilities of this post will be: -

a) Ensuring that the system is specified and implemented

b) Ensuring that the responsible officer reports regularly on treasury policy, activity and performance.

The Monitoring Officer

The responsibilities of this post will be: -

a) Ensuring compliance by the responsible officer with the treasury management policy statement and treasury management practices and that they comply with the law.

b) Being satisfied that any proposal to vary treasury policy or practice complies with law or any code of practice.

c) Giving advice to the responsible officer when advice is sought.

Internal Audit

The responsibilities of Internal Audit will be: -

a) Reviewing compliance with approved policy and treasury management practices.

b) Reviewing division of duties and operational practice.

c) Assessing value for money from treasury activities.

d) Undertaking probity audit of treasury function.

Absence Cover Arrangements

Five officers within the Finance Team have the authority to place deals, with a further three officers able to input trades onto the system ready for authorisation.

Dealing

The following posts are authorised to deal and/or input trades: -

- Chief Finance Officer
- Chief Accountant
- 3 Senior Accountants
- 3 Accountants

6.6 TMP6 Reporting requirements and management information arrangements

Epsom & Ewell Borough Council will ensure that regular reports are prepared and considered on the implementation of its treasury managements policies; on the effects of decisions taken and transactions executed in pursuit of those policies; on the implementations of changes, particularly budgetary, resulting from regulatory, economic, market or other factors affecting its treasury management activities; and on the performance of the treasury management function.

As a minimum, members will receive:

- an annual report on the strategy and plan to be pursued in the coming year, to Full Council

- a mid-year review on the current performance of the treasury management function, to Audit & Scrutiny Committee

- an annual report on the performance of the treasury management function, to Audit & Scrutiny Committee, on the effects of the decisions taken and the transactions executed in the past year, and on any circumstances of non-compliance with the organisation's treasury management policy statement and TMPs.

6.7 TMP7 Budgeting, accounting and audit arrangements

The Chief Finance Officer will prepare, and Epsom & Ewell Borough Council will approve and, if necessary, from time to time will amend, an annual budget for treasury management, which will bring together all of the costs involved in running the treasury management functions, together with associated income. The matters to be included in the budget will at minimum be those required by statute or regulation, together with such information as will demonstrate compliance with TMP1 *Risk management*, TMP2 *Best value and performance measurement*, and TMP4 *Approved instruments, methods and techniques*. The responsible officer will exercise effective controls over this budget, and will report upon and recommend any changes required in accordance with TMP6 *Reporting requirements and management information arrangement.*

Epsom & Ewell Borough Council will account for its treasury management activities, for decisions made and transactions executed, in accordance with appropriate accounting practices and standards, and with statutory and regulatory requirements in force for the time being.

Epsom & Ewell Borough Council will ensure that its auditors, and those charged with regulatory review, have access to all information and papers supporting the activities of the treasury management function as are necessary for the proper fulfilment of their roles, and that such information and papers demonstrate compliance with external and internal policies and approved practices.

6.8 TMP8 Cash and cash flow management

Cash flow projections are prepared annually and updated daily. The annual cash flow projections are prepared from the previous years' cash flow records, adjusted for known changes in levels of income and expenditure and also changes in payments and receipts dates. These details are supplemented on an ongoing basis by information received of new or revised amounts to be paid or received as and when they are known.

Unless statutory or regulatory requirements demand otherwise, all monies in the hands of this organisation will be under the control of the Chief Finance Officer, and will be aggregated for cash flow and investment management purposes. Cash flow projections will be prepared on a regular and timely basis, and the responsible officer will ensure that these are adequate for the purposes of monitoring.

6.9 TMP9 Money Laundering

Epsom & Ewell Borough Council is alert to the possibility that it may become the subject of an attempt to involve it in a transaction involving the laundering of money. Accordingly, it will maintain procedures for verifying and recording the identity of counterparties and reporting suspicions, and will ensure that staff involved in this are properly trained.

6.10 TMP10 Staff training and qualifications

The Council recognises that relevant individuals will need appropriate levels of training in treasury management due to its increasing complexity. There are two categories of relevant individuals: -

a) Treasury management staff employed by the Council

b) Members charged with governance of the treasury management function

All treasury management staff should receive appropriate training relevant to the requirements of their duties at the appropriate time.

Additionally, training may also be provided on the job and it will be the responsibility of Chief Finance Officer to ensure that all staff under his authority receive the level of training appropriate to their duties. This will also apply to those staff who from time to time cover for absences from the treasury management team.

Details of Approved Training Courses

Treasury management staff and members will go on courses provided by our treasury management consultants, CIPFA, money brokers etc.

Statement of Professional Practice (SOPP)

1. Where the Chief Finance Officer is a member of CIPFA, there is a professional need for them to be seen to be committed to professional responsibilities through both personal compliance and by ensuring that relevant staff are appropriately trained.

2. Other staff involved in treasury management activities who are members of CIPFA must also comply with the SOPP.

Members charged with governance

Members charged with diligence also have a personal responsibility to ensure that they have the appropriate skills and training for their role.

6.11 TMP11 Use of external service providers

Epsom & Ewell Borough Council recognises the potential value of employing external providers of treasury management services, in order to acquire access to specialist skills and resources. When it employs such service providers, it will ensure it does so for reasons which will have been submitted to a full evaluation of the costs and benefits. It will also ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review. And it will ensure, where feasible and necessary, that a spread of service providers is used, to avoid overreliance on one or a small number of companies.

6.12 TMP12 Corporate governance

Epsom & Ewell Borough Council is committed to the principle of openness and transparency in its treasury management function and in all of its functions.

It has adopted the CIPFA Code of Practice on Treasury Management and implemented key recommendations on developing Treasury Management Practices, formulating a Treasury Management Policy Statement and implementing the other principles of the Code.

The following documents are available for public inspection: -

Treasury Management Strategy

Annual Investment Strategy

Minimum Revenue provision policy statement

Annual Treasury Review Report

Treasury Management monitoring reports (e.g. half yearly)

Annual accounts and financial instruments disclosure notes

Annual budget

Capital Strategy

Minutes of Council / committee meetings

7 Approved Countries for Investments

This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- Qatar
- **U.K.**

8 The Treasury Management Role of the Section 151 Officer

The S151 (responsible) officer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed.

9 Summary of Changes to Treasury Management Strategy for 2024/25

A large proportion of the Treasury Management Strategy remains the same as last year but this section highlights any significant changes made on the previous year's Strategy.

The Prudential Indicators in Section 2 of the Strategy have been updated to reflect the latest figures approved by Council.

The Annual Investment Strategy has been updated to reference the latest Link creditworthiness service, which employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poor's – to be used by officers when assessing potential investments.

Section 5 provides an economic update from our independent financial advisors, Link Group.

Section 7 provides a list of approved countries for investment, based on the recommendation of our treasury management advisers. Members of FSAG are asked to advise whether any countries should be removed from the list. (Last year Qatar and Abu Dhabi were removed).

2024/25 BUDGET AND MEDIUM-TERM FINANCIAL PLAN 2024-2028

Head of Service:	Brendan Bradley, Head of Finance
Wards affected:	(All Wards);
Urgent Decision?	No
Appendices (attached):	Appendix 1 - Summary of 2024/25 Estimates Appendix 2 - Draft Medium Term Financial Plan 2024-28 Appendix 3 - Efficiency Plan 2024-28

Summary

This report provides an update on the preparation of the budget for 2024/25. The report seeks any final guidance from the Group prior to the preparation of the Budget and Council Tax report for the Council on 14 February 2023. The report also seeks final guidance on the Medium-Term Financial Plan for 2024-2028.

Recommendation(s)

The Group is asked to:

(1) Provide the Head of Finance with any further feedback needed to finalise the 2024/25 Budget and Council Tax report;

(2) Note the provisional Government financial settlement for 2024/25;

(3) Support that the budget gap for 2024/25 should be funded from the Corporate Projects Reserve, as set-out in Section 6;

(4) Support that any surplus/deficit on 2023/24 business rates income, and any change in projected business rates income for 2024/25, will be offset by a transfer to or from the Collection Fund Equalisation Reserve, as set-out in Section 4;

(5) Support a recommendation to Council of a council tax increase of 2.99% (£6.57 for a Band D equivalent property);

(6) Confirm support for the Medium-Term Financial Plan 2024-28, which includes the Medium-Term Financial Strategy.

1 Reason for Recommendation

1.1 The recommendations will assist the Council to meet its statutory duty to set a balanced budget for 2024/25 and provide a financial planning framework for 2024-2028.

2 Background

2.1 Service estimate reports for 2024/25 have been prepared for each of the four policy committees and circulated to all Councillors, via Members News, in the draft Budget Book 2024/25.

2.2 The estimates have been prepared on the basis of the budget guidelines and targets agreed by Strategy & Resources Committee in July 2023, which included the following:-

2.2.1 That excluding any new growth in expenditure, additional annual income/savings of £1.1 million are projected to be needed to achieve a balance budget for 2024/25, increasing to £2.5m by 2027/28.

2.2.2 Officers to be tasked with identifying further efficiencies if possible, although these are becoming harder to achieve after over a decade of austerity.

2.2.3 A base review, which entails reviewing the year end position for 2022/23, identifying any potential savings, additional cost pressures and areas where savings can be developed.

2.2.4 Service Reviews focusing primarily on discretionary services to be undertaken over the next four years with the aim of increasing efficiencies and effectiveness whilst reducing cost.

2.2.5 Review of existing asset utilisation, aiming to realise cost reductions in Council operational buildings and increased income from investment properties.

2.2.6 Investigate income streams to maximise revenue from new and existing services, such as invest to save opportunities. Ensure any new powers are considered to generate additional income for the Council, such as the pending new charging policy for waste.

2.2.7 Undertake a review of reserves, providing a justification for the level of reserves retained.

2.2.8 A target to increase fees and charges income by 6% in both 2024/25 and 2025/26 (as previously agreed by S&R in July 2022), then by CPI+1% for both 2026/27 and 2027/28. Heads of Service review fees and charges annually to ensure increases are achievable and report fees and charges to policy committees for approval.

2.2.9 To maximise external funding and partnership opportunities (this could include any collaborative working opportunities which would result in cost savings).

2.2.10 That owing to the Council's projected budget deficit, any additional new revenue growth items (i.e. service enhancements resulting in increased net expenditure) supported by Policy Committees will need to be fully funded from existing budgets.

2.3 The figures in this report reflect the latest outcome of the above workstreams, a number of which will continue into future years, and the provisional local government finance settlement for 2024/25.

2.4 The 2024/25 capital programme was considered and supported by Financial Strategy Advisory Group in November, subject to schemes being supported by policy committees in the January committee cycle.

2.5 The general fund summary position as contained in the 2024/25 Budget Book reflects the draft services estimates. There are, however, external financing income levels that still need to be finalised:-

2.5.1 The 2024/25 final local government finance settlement;

2.5.2 The level of business rates income that will be retained;

2.5.3 Revenue from council tax depending on the level of any increase for next year.

2.6 For pay inflation, the budgeted provision is £984,000 to reflect an annual cost-of-living uplift in pay of 6.0%. This is in accordance with the increase agreed at Full Council in December 2023. Members allowance budgets will be updated to reflect the scheme agreed at Full Council.

2.7 This report provides details of the provisional local government finance settlement and seeks guidance from the Group on the presentation of the budget and council tax report for 2024/25.

3 2024/25 Provisional Government Settlement

3.1 Details of the provisional local government finance settlement were sent to all councillors via Members News on 22 December 2023.

3.2 The settlement appears to represent a 'holding position' until the next Parliament. Government has again postponed a business rates baseline reset and the 'Fair Funding Review' until at least 2025/26. The Fair Funding Review is a review of the distribution of government and business rates funding between Councils, and when complete, it is expected to favour unitary and upper tier councils, ahead of districts such as EEBC.

3.3 The following table shows the Department for Levelling Up, Housing and Communities (DLUHC) provisional Core Spending Power grants for EEBC for 2024/25:-

2024/25 Provisional Settlement (Core Spending Power)	2023/24	**2024/25 (Provisional)**	Funding Change since 2023/24
	£'000	**£'000**	£'000
Retained Business Rates - Baseline	1,473	**1,542**	69
Compensation for underindexing the business rates multiplier	251	**292**	41
Funding Guarantee Grant	223	**46**	-177
Services Grant	57	**9**	-48
Revenue Support / Rolled in Grants	53	**56**	3
SubTotal - Recurring Government Funding	**2,057**	**1,945**	**-112**
New Homes Bonus	135	**498**	363
Council Tax*	7,361	**7,618**	257
Total Provisional Core Spending Power	**9,553**	**10,061**	**508 (or 5.3%)**

*In its assessment of core spending power, government assumes that councils should increase council tax by the maximum permissible amount.

3.4 Nationally there is an increase in spending power for 2024/25 of 6.5%, but for Epsom and Ewell Borough Council, core spending power will increase by £508,000 or 5.3%.

3.5 The funding increase of 5.3% compared to 2023/24 remains below the rates of inflation from September (CPI 6.7% and RPI 8.9%), which are commonly used for supplier contract uplifts, and next year's staff pay award of 6%.

3.6 Furthermore, the overall increase in funding is mainly due to an increased New Homes Bonus (NHB) award. NHB is one-off funding that cannot be relied upon in future years and the higher NHB award has caused some compensatory reductions in EEBC's recurring Funding Guarantee and Services Grants.

3.7 The impact of delaying the business rates reset means the Council can retain its surplus business rates income above its baseline for next year at least, which provides a favourable benefit of c.£200,000.

3.8 Should government make any changes to the provisional settlement, it is anticipated these would be reported to Full Council and met by an appropriation to or from the Corporate Projects Reserve.

4 Retained Business Rates

4.1 Government sets a level of business rates that should be collectable by a local authority each year and then, using a national formula, determines how much can be retained by the Council (the funding baseline).

4.2 Should the local collection of business rates exceed the government-set baseline, the Council retains a 50% share of the surplus above the baseline. However, should local collection of business rates fall short of the baseline, the Council is liable for a 50% share of the deficit.

4.3 The 2024/25 government settlement includes £1,542,000 for this Council as a ‘settlement funding assessment’ which is solely from business rates baseline funding.

4.4 The draft Budget Book estimated a retained business rates income for 2024/25 of £1,686,000 based on provisional figures.

4.5 The following table shows that EEBC can now expect to achieve business rates income in 2024/25 of £1,749,000, as the business rates taxbase in recent years has grown ahead of the government baseline, which allows EEBC to retain 50% of the growth (at least until government resets the baseline in future years):

Retained Business Rates	2023/24			2024/25	Description
	Gov’t Baseline	EEBC Budget (NNDR1)	EEBC Latest Forecast	EEBC Budget (NNDR1)	
	£’000	£’000	£’000	£’000	
Rates Collectable	25,607	24,828	23,734	24,117	
Less: payable to central government	(12,803)	(12,414)	(11,867)	(12,058)	50% of total
Less: payable to SCC	(2,561)	(2,483)	(2,373)	(2,412)	20% of local share
NNDR Baseline	**10,243**	**9,931**	**9,494**	**9,647**	-
Less Tariff	(8,770)	(8,770)	(8,770)	(9,333)	Tariff set by govt. to go to 'top-up authorities'
Retained Business Rates	**1,473**	**1,161**	**724**	**303**	-
Less: loss of 50% of underlying growth	-	(181)	(503)	(207)	
Est. of Retained Business Rates	**1,473**	**980**	**221**	**96**	-

Add back: S31 Grants	-	673	1,755	1,653	Specific grant funding for rate reliefs granted
EEBC Income including relief grants	**1,473**	**1,653**	**1,976**	**1,749**	**-**

4.6 The business rates collection fund has a deficit balance brought forward from prior years of £599,152 (EEBC's share); and a projected deficit of £437,457 for 2023/24, resulting in a carried forward deficit of £1,036,609. The deficit on the collection fund is principally due to continued additional mandatory business rates reliefs awarded to eligible businesses during 2023/24, as instructed by central government. The Council should be compensated for these reliefs with additional grant funding from central government to offset a significant element of the deficit incurred on the fund in 2023/24. Any remaining shortfall will be funded in 2024/25 by an appropriation from the Collection Fund Equalisation Reserve.

4.7 The safety net threshold for 2024/25 is set at £1,426,280 compared to £1,749,446 income used for the 2024/25 estimates, this limits the exposure to losses to £322,166.

4.8 The Council holds the Collection Fund Equalisation Reserve to mitigate the impact of changes to planned funding from business rates income. Any compensatory grants from government are set-aside in the Collection Fund Equalisation Reserve and used to fund the deficits that arise due to government business rate reliefs, in accordance with collection fund regulations.

4.9 The funding position on retained business rates income for 2024/25 and the prior year deficit remains provisional, pending submission of statutory collection fund returns to DLUHC at the end of January. Any changes in the overall level of funding will be included in the Final Budget Book and offset by a contribution to or from the Collection Fund Equalisation Reserve.

4.10 The Council has provisionally also been included within the Surrey and Sutton Business Rate Pool for 2024/25, on the terms that this Council gets to retain a share of the levy payments it currently has to pay to Central Government. This is an invitation for 2024/25 only but is expected to benefit this Council by £150,000 in retained business rates income for the year, which has been budgeted for within S&R Committee. However, the actual financial benefit from this pooling arrangement will only be confirmed at the end of 2024/25.

5 New Homes Bonus, Services Grant and Funding Guarantee Grant

5.1 The Council benefits from New Homes Bonus, which is awarded by Government based on the number of new residential properties built in the borough in the preceding year, with a supplement for affordable housing.

5.2 The award methodology means that NHB is volatile and as one-off funding, it cannot be relied upon as a funding source for recurring day-to-day services. Furthermore, government is continuing to review the future of New Homes Bonus, and it is unclear whether this grant will continue in future years.

5.3 As such, since 2019/20, the Council's budget has removed any reliance on New Homes Bonus as a source of funding to support on-going services. Instead, the grant has been transferred to the Corporate Projects Reserve to ensure funding is available for one-off projects and Council initiatives.

5.4 For 2024/25 however, a higher New Homes Bonus award of £498,000 (compared to £135,000 in 2023/24) has resulted in a compensating £225,000 cut to the Council's Funding Guarantee and Services Grants; grants which are used to fund services. As such, it is proposed in the Financial Plan that for 2024/25 only, £225,000 of New Homes Bonus is used to fund services, with the balance transferred to the Corporate Project Reserve to fund one-off projects and initiatives, as previously agreed. This is expected to be a one-off arrangement, and beyond 2024/25 it is expected that all New Homes Bonus will continue to be transferred to the Corporate Projects Reserve, to ensure services are not reliant on an unreliable, volatile funding source.

6 Budget Overview

6.1 The service estimates are contained in the draft Budget Book 2024/25.

6.2 The draft Budget Book currently shows a balanced budget position for next year, however this has been achieved through contributions from the Corporate Projects Reserve of £624,000 within S&R Committee:

General Fund Budget Summary	**2024/25 Draft Budget**
	£'000
Net Cost of Services (as per draft Budget Book)	9,783
Add back contribution from Corporate Projects Reserve	624
Less contribution from Collection Fund Equalisation Reserve	(974)
Updated Net Cost of Services	**9,433**
Funded by:	
Council Tax (based on 2.99% annual increase)	7,636
Retained Business Rates*	1,749
Govt compensation for underindexing the business rates multiplier	292
Revenue Support Grant	56
Minimum Guaranteed Funding Grant	46

Services Grant	9
Surplus on prior year council tax	58
Deficit on prior year business rates*	(1,037)
Sub-Total Funding	**8,809**
Underlying budget deficit in 2024/25	**624**

*See section 4 – Retained Business Rates

6.3 Using the Corporate Projects Reserve as a temporary funding source to meet the budget deficit enables the Council to produce a balanced budget for 2024/25, while it continues to progress a number of strategic reviews, with the aim of delivering a sustainable budget and removing reliance on the use of reserves by 2025/26.

6.4 The Budget Book includes a £500,000 contribution from revenue to assist in funding the annual capital programme and a provision of £500,000 to mitigate the impact of inflation and the cost-of-living crisis on services next year.

6.5 The Strategy and Resources Committee budget currently includes a £100,000 general contingency to mitigate any unforeseen costs in implementing changes to services identified as part of the 2024/25 budget process, or due to unforeseen expenditure on agreed policies and priorities. In addition, the budget includes a provision of £100,000 for unscheduled property related costs or maintenance; these provisions reduce the need for services to hold their own individual contingencies.

6.6 The funding position included within the draft Budget Book reflects a provisional estimate of business rates income and the prior year deficit, which are still being finalised as part of statutory collection fund returns to be completed by 31 January. Any changes in business rates funding will be met by an appropriation from the Collection Fund Equalisation Reserve.

7 Fair Funding Review

7.1 The ongoing Fair Funding Review is a government review of the distribution of government and business rates funding between Councils, and when complete, it is expected to favour unitary and upper tier councils, ahead of districts such as EEBC.

7.2 Government has again postponed implementation of any ‘Fair Funding Review’ until at least 2025/26.

7.3 In 2016, government introduced Negative RSG as part of the Council’s four-year settlement. The settlement identified that in 2019/20 the Council would have to make an on-going payment back to central government of £624,000, known as Negative RSG. However, after significant lobbying from affected councils including EEBC, the Government decided to remove Negative RSG from annual settlements since 2019/20.

7.4 The delay of the Fair Funding Review means that Negative RSG continues to be excluded from 2024/25's settlement, however, the risk still remains that Negative RSG will feature as part of the future Fair Funding Review calculation if this is eventually introduced.

7.5 The Government has provided assurance only for 2024/25 that Negative RSG will not be applied. For Epsom and Ewell Borough Council, if applied, Negative RSG would equate to a potential loss of funding of c£700,000 (taking account of inflation since 2019/20) in future years. It is still unclear whether Negative RSG will be re-introduced in 2025/26, or once Government completes its Fair Funding Review.

7.6 The projections at Appendix 1 assume that Negative RSG will NOT be re-introduced until 2028/29 and that when introduced, a transitional period will be applied. Should the Fair Funding Review result in a funding reduction for EEBC prior to 2028/29, the Council holds the Collection Fund Equalisation Reserve, which can be applied to mitigate this risk and provide time for the Council to adapt to any new funding regime.

7.7 If government makes any changes in the finalised local government finance settlement, these will be communicated to FSAG, or reported to all councillors if not available for the meeting.

8 Funding from Investment / Commercial Property (including EEPIC)

8.1 Epsom & Ewell Property Investment Company Ltd (EEPIC), the Council's wholly-owned subsidiary, holds two commercial properties outside the Borough. The properties were acquired in 2017 to generate additional income for the Council, before the introduction of new statutory guidance in 2018, which restricted the ability to acquire further properties outside the Borough using borrowing.

8.2 For 2024/25, dividend income from EEPIC is currently expected to be £0.6m, broadly unchanged from 2023/24, as a temporary reduction in rental income from one tenant remains in place until 31 March 2025 (as agreed at S&R Committee in March 2023). Should income from EEPIC fall below budget for any reason, the Council holds the Property Income Equalisation Reserve which can be used to neutralise the impact on the revenue budget in the short term.

8.3 The Council itself owns four other properties in the Borough which were acquired through the use of external borrowing – 64-74 East Street, Emerald House on East Street, 2 Roy Richmond Way and Parkside House. While 64-74 East Street remains vacant and has been identified as a Town Hall relocation site, the other three properties are budgeted to generate net rental income (including borrowing costs) of £0.59m in 2024/25, which makes an important contribution to the funding of services.

9 Council Tax Options

9.1 It was announced as part of government's provisional settlement for 2024/25 that District Councils will be allowed to increase their council tax by either £5 per annum (per Band D equivalent property) or up to 3% (whichever is highest) before needing to hold a referendum.

9.2 For financial planning purposes, the Medium-Term Financial Strategy and Budget Book assumes an annual council tax increase of 2.99%, which equates to an additional £6.57 per annum or 12.6 pence per week for a Band D equivalent property.

9.3 To the average band 'D' council taxpayer (those not receiving discounts or support), the annual charge for borough services would increase from £219.60 to £226.17 per property.

9.4 With CPI inflation at 6.7% (as at September 2023), this still represents a below inflationary increase for residents, and a significant real terms funding cut for the Council.

9.5 For the Council's finances, revenue from council tax provides critical income to pay for services, assisting to replace funding lost from government revenue support grant and new homes bonus.

9.6 The Group may feel it appropriate for options of 0% and 2.99% to be included in the budget report to full Council, as set out in the following table:

Council Tax Change	**0% Freeze**	**2.99% Increase**
Council Tax (Band D)	£219.60	£226.17
Increase per annum	£0	£6.57
Increase per week	0p	12.6p
Additional Income Generated 2023/24	£0	£221,820
Adjustment needed to Draft Budget Book	£221,820 Adverse	£0
On-going Income received in Future Years	£0	£221,820

9.7 **Appendix 1** comprises an overview of the draft budget for 2024/25 showing the impact of levels of council tax options, with proposals shown for a freeze and an increase of 2.99%.

9.8 Surrey County Council has provisionally proposed a 3.99% council tax increase to help their future funding position. However, this may increase when the Surrey County Council and Surrey Police Authority charges (precepts) are confirmed early in February.

10 Capital Programme and Level of Capital Reserves

10.1 The Draft Capital Programme for 2024/25 recommended by Financial Strategy Advisory Group in November totalled £1,851,000 with up to £566,000 funded from usable capital receipts, £785,000 from Disabled Facilities Grants, and £500,000 funded from planned revenue contributions.

10.2 The Council recognises the need to invest in IT systems, and an IT investment strategy was developed and agreed at S&R Committee in September 2023. Financial implications of the IT strategy are included within revenue and capital forecasts.

10.3 Funding the capital programme in this way is expected to maintain the level of uncommitted capital receipts reserves at £2.1 million by the end of 2024/25.

10.4 The Council agreed within its current Medium-Term Financial Strategy to maintain a minimum level of capital reserves of £1 million.

10.5 The draft Financial Plan includes a provision for revenue funding of the capital programme to increase from £500,000 in 2024/25 to £550,000 per annum by 2026/27, to provide ongoing resources for a sustainable capital programme.

11 Medium Term Financial Plan 2024-2028

11.1 The Medium-Term Financial Plan at Appendix 2 has been prepared to provide context for the Medium-Term Financial Strategy (MTFS), which is contained in Section 1 of the Financial Plan.

11.2 In November, Financial Strategy Advisory Group was consulted on the key components and principles within the MTFS, and the Group's feedback has been incorporated into the final draft at Section 1 of the Financial Plan.

11.3 The Group is now asked to recommend the Medium-Term Financial Plan 2024-28 and Medium-Term Financial Strategy for approval by the Council in February.

12 Risk Assessment

Legal or other duties

12.1 Equality Impact Assessment

12.1.1 None arising from the contents of this report.

12.2 Crime & Disorder

12.2.1 None arising from the contents of this report.

12.3 Safeguarding

12.3.1 None arising from the contents of this report.

12.4 Dependencies

12.4.1 None arising from the contents of this report.

12.5 Other

12.5.1 The main financial risks will be presented to Full Council in a corporate budget risk assessment in February.

12.5.2 The highest service financial risks are the impact of the increased cost of living on the Council's costs and income streams, and the potential for increased demands for housing and homelessness prevention next year, and the reliance on commercial property income to fund services.

12.5.3 The Council holds both revenue and capital reserves and has set aside a £500,000 inflation provision in next year's budget, which all act as contingencies against financial risk. Despite these contingencies, the level of overall revenue budget risk in 2024/25 is deemed to be high, due to continuing high levels of economic uncertainty within the UK.

12.5.4 Higher risk also remains for the financial outlook beyond 2024/25, due to the uncertainty on the outcome on the Government's 'Fair Funding Review' and the possibility of cuts in core funding for Epsom and Ewell Borough Council in future settlements.

12.5.5 The 'Fair Funding Review' – the mechanism used to determine individual authority settlements – may be used by Government to reduce funding for District Councils.

13 Financial Implications

13.1 The forecast budget position for 2024/25 is summarised in this report.

13.2 The Council is expected to benefit from additional income of £150,000 from retained business rates as a result of being part of the Surrey Business Rates Pool in 2024/25.

13.3 Council tax is an important and secure source of funding and provides income to support core services delivered by the Council. The referendum limits set by Central Government limits the annual increase that can be made to council tax without requiring a referendum to 3 percent.

13.4 An increase of £6.57 for a Band D property, the maximum permitted without triggering a referendum generates additional income of £221,820.

13.5 The 2024/25 budget includes planned net transfers from strategic reserves of £2,298,000. The significant transfers are as follows:-

13.5.1 The Corporate Projects Reserve is expected to make a net transfer of £351,000 to fund underlying general fund services, £624,000 funding for services offset by £273,000 from New Homes Bonus grant.

13.5.2 A transfer of £700,000 from the Property Income Equalisation Reserve to offset temporarily reduced rental income for the period from an investment property, as previously agreed at S&R Committee.

13.5.3 A provisional transfer of £974,000 from the Collection Fund Equalisation Reserve to fund the prior year deficit on business rates collection and changes to forecast income.

13.6 The reserve transfers are provisional and any further budget changes may need to be offset by an appropriation to/from reserves. For example, any change in business rates funding that may arise from the statutory government return (due by 31 January) would be met by adjusting the appropriation from the Collection Fund Equalisation Reserve.

13.7 Throughout the budget setting process, Policy Chairs were engaged in Autumn 2023 to identify additional income, savings and efficiencies to assist the Council's financial position. These are summarised at Appendix 3 for information and are due to be presented to Policy Committees in the January Committee cycle for approval.

13.8 The draft Budget Book 2024/25 is highly detailed therefore please can any queries be sent to relevant officers in advance of this Committee meeting wherever possible.

13.9 **Section 151 Officer's comments**: As detailed in this report.

14 Legal Implications

14.1 The Council is under a statutory obligation to produce a balanced budget and to comply with its policy on equalities.

14.2 **Legal Officer's comments:** Although there are no new direct legal implications arising from this report, decisions taken about the budget will impact the services which can be delivered. In the event of any impact, there will need to be an equalities impact assessment in relevant cases.

15 Policies, Plans & Partnerships

15.1 **Council's Key Priorities**: The following Key Priorities are engaged: Effective Council.

15.2 **Service Plans**: The matter is included within the current Service Delivery Plan.

15.3 **Climate & Environmental Impact of recommendations**: None arising from the contents of this report.

15.4 **Sustainability Policy & Community Safety Implications**: None arising from the contents of this report.

15.5 **Partnerships**: None arising from the contents of this report.

16 Background papers

16.1 The documents referred to in compiling this report are as follows:

Previous reports:

- Financial Planning for 2024/25 Budget and new Four Year Medium-Term Financial Strategy, Strategy & Resources Committee - 13 July 2023

- Principles for new Medium-Term Financial Strategy, Financial Strategy Advisory Group – 24 November 2023

Other papers:

- Policy Committee 2024/25 Budget Reports (January 2024 Committee Cycle)

- Draft Budget Book 2024/25

BUDGET OVERVIEW FOR 2024/25 *figures may be subject to minor rounding variances*

BASED ON SERVICE ESTIMATES RECOMMENDED TO POLICY COMMITTEES
(policy committee estimates rounded to £000)

		2023/24	2024/25	2024/25
	Illustrated Council Tax Increase:		**0%**	**2.99%**
		£000	*£000*	*£000*
	Strategy & Resources Committee	2,120	1,384	1,384
	Environment Committee	4,573	4,218	4,218
	Community and Wellbeing Committee	4,829	5,509	5,509
	Licensing & Planning Policy Committee	688	1,237	1,237
	Less: Capital Charges	-2,669	-1,941	-1,941
	Policy Committee Net Expenditure	9,541	10,407	10,407
	Contribution from Collection Fund Equalisation Reserve (provisional)	-1,085	-974	-974
	Contribution from Corporate Projects Reserve Reserve	-166	-624	-624
	Use of Working Balance	0	-222	0
	Net Expenditure	**8,290**	**8,587**	**8,809**
	Business Rates Income (provisional)	1,653	1,749	1,749
	Compensation for Underindexing Business Rates	-	292	292
	Revenue Support Grant	53	56	56
	Services Grant	57	9	9
	CSP Mininmum Guarantee Funding	223	46	46
	Council Tax Surplus/(Deficit)	27	58	58
	Business Rates Deficit (provisional)	-1,085	-1,037	-1,037
	Sub-Total	929	1,173	1,173
	Council Tax Income	7,361	7,414	7,636
	External Funding Income	**8,290**	**8,587**	**8,809**
	Council Tax Base (Band D Equiv. Properties) *(reduced due to Localisation of Council Tax Support)*	*33,521.16*	*33,762.43*	*33,762.43*
	Basic Amount of Council Tax	**£219.60**	**£219.60**	**£226.17**
1/9ths	**Valuation Band**			
6	A	£146.40	£146.40	£150.78
7	B	£170.80	£170.80	£175.91
8	C	£195.20	£195.20	£201.04
9	D	£219.60	£219.60	£226.17
11	E	£268.40	£268.40	£276.43
13	F	£317.20	£317.20	£326.69
15	G	£366.00	£366.00	£376.95
18	H	£439.20	£439.20	£452.34
	EPSOM & EWELL BOROUGH COUNCIL - CHANGES			
	2023/24 Council Tax at Band D = £219.60			
	Increase in Council Tax (per annum)	*£0.00*	£0.00	£6.57
	Increase in Council Tax (%)	*0.00%*	0.00%	2.99%
	Increase in Council Tax (per month)	*£0.00*	£0.00	£0.55
	Increase in Council Tax (per week)	*£0.00*	£0.00	£0.13
Income Generated from Council Tax Increase		*£0*	**£0**	**£221,819**
Use of Working Balance		*£0*	-£221,819	£0
Equivalent Council Tax support from use of working balance (per Council Tax payer)		*£0.00*	-£6.57	£0.00
Note:	*Budget Requirement*	*8,290*	*8,587*	*8,809*
	Change		*297*	*519*
	% Change in Budget Requirement		*3.6%*	*6.3%*
Note:	*Council Tax Requirement*	*7,361*	*7,414*	*7,636*
	Change (includes tax increase and property number increase)		*53*	*275*
	% Change in Council Tax Requirement		*0.7%*	*3.7%*

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EPSOM AND EWELL BOROUGH COUNCIL

MEDIUM TERM FINANCIAL PLAN 2024 - 2028

CONTENTS

Section 1: MEDIUM TERM FINANCIAL STRATEGY

Introduction

1.1 The Council's previous Medium Term Financial Strategy was prepared at the start of 2020, just prior to the pandemic, which would subsequently disrupt financial and operational plans across local government.

1.2 Since the last strategy was approved the Council has re-based service budgets both to reflect post-Covid demand levels (Strategy & Resources Committee, July 2022) and to take account of heightened inflationary pressures within the economy.

1.3 In April 2023 the independent auditor Grant Thornton stated that *"the Council continues to operate in a financially and operationally challenging environment. Financial planning both in the short and medium term is on a sound footing with a prudent assumptions being built into both. These challenges will continue so the need for the structured and disciplined approach to managing finances and reserves which the Council has demonstrated to date will need to continue".* Grant Thornton also identified that *"the Council needs to set a timeline for how it will develop longer term saving plans that will ensure reserves are not further depleted".*

1.4 It is anticipated that over the course of this Medium Term Financial Strategy, the Council will need to deliver £1.4m of identified savings, and agree measures to identify a further £0.5m of savings to reduce forecast net expenditure by c.£1.9m per annum in order to deliver sustainable future budgets that do not require the use of reserves to balance.

Public Sector Funding

1.5 With a UK general election due by early 2025, it remains unclear how funding within the public sector is going to be prioritised beyond 2024/25 and from where any additional funding might be obtained for local government.

1.6 Central Government may have to cut public spending again, in real terms, over the coming years if it is to meet its fiscal rules of reducing the national budget deficit, which could adversely impact funding of local government. Furthermore, if a new government proceeds with implementing the Fair Funding Review, which would re-base how local government funding is distributed between individual local authorities, Epsom & Ewell Borough Council may face further annual funding reductions of c.£0.7m from 2028/29 or earlier.

Looking Forward

1.7 Following the local elections in May 2023 the Council is in the process of agreeing new corporate priorities and preparing a new Corporate Plan for 2024-2028.

1.8 The Council's previous Corporate Plan had specific objectives to be an 'Effective Council', a similar objective is expected in the new Plan including a target for reducing projected net expenditure by c.£1.9 million by 31 March 2028.

1.9 This is a challenging environment, with further substantial cuts in government funding possible, as explained above. To meet this challenge, a financial planning framework is essential, not least because:-

- Residents will want to know council tax and service plans and understand the reasons for those plans;

- In making decisions Councillors need to be clear that budget forecasts are based on reasonable resource forecasts;

- Service changes need to be planned and implemented carefully with appropriate lead times;

- Charging decisions should be made against a backdrop of the likely financial position in future years;

- Areas of higher financial risk need to be identified to see how best those risks can be managed.

1.10 The Council must retain a prudent level of reserves, this has become even more critical as financial risks faced by local authorities remain elevated. Reserves enable the Council to manage the changes to services that will be required to deliver the level of savings required over the next four years to achieve a balanced budget.

1.11 The Financial Plan 2024-2028 provides a framework for spending plans over this period.

<u>Key Components of the Medium Term Financial Strategy</u>

1.12 The Council's Medium Term Financial Strategy sets out the approach that the Council has agreed to manage its finances.

1.13 The Council will pursue the following objectives:-

KEY COMPONENTS OF THE MEDIUM TERM FINANCIAL STRATEGY 2024-2028
The Council's Medium Term Financial Strategy sets out the approach by which the Council agrees to manage its finances.

COUNCIL TAX
• Ensure that Council Tax stays below the average of the Surrey Districts

BUDGET POSITION AND REVENUE RESERVE
• Produce a balanced revenue budget each year
• Maintain a prudent level of strategic reserves and a minimum of £1 million in the Corporate Projects Reserve
• Utilise reserves pro-actively to manage major risks to the Council's finances
• Maintain a minimum working balance of £2.5 million at 31 March 2028
• Monitor the potential impact of government's Fair Funding Review and, if necessary when the review outcome is known, work towards reducing reliance on business rates income to fund the delivery of services.

INCOME
• Increase income from fees and charges by 6% per annum in 2024/25 to 2025/26, and then CPI+1% in 2026/27 and 2027/28
• Maintain charging policies for each service
• Manage risks to central government funding and business rate retention
• Maintain high collection rates for council tax and business rates
• Make prudent investment of reserves and cash balances
• Generate increased income from the external use of Council assets
• Optimise the use of Council assets, realise capital receipts from sale of surplus assets
• Identify new opportunities for generating income
• Identify and acquire properties that meet the Council's corporate objectives in accordance with an agreed Property Investment Strategy.

INVESTMENT IN SERVICES
• Use Annual Service Targets to allocate resources to deliver the Council's priorities
• Prioritise capital investment to ensure retained property is fit for purpose
• Maximise the use of external funding opportunities to deliver improvements to community infrastructure, including affordable housing
• Deliver the five year capital programme as recommended to Full Council
• Maintain a minimum uncommitted level of capital receipts reserves of £1 million at 31 March 2028

• Aim to maintain a minimum of £0.5m annual funding from revenue to fund the annual capital programme
• Retain criteria for capital investment to facilitate actions which will positively impact the environment
• Retain criteria for capital investment to facilitate 'invest to save' schemes
• Increase the 'de minimis' level for capital proposals from £20,000 to £50,000.

EFFICIENCY
• Review services and assets to ensure they continue to provide value for money
• Achieve a reduction in operating costs through smarter working, including through the Town Hall review.
• Reduce the subsidy of Council occupied properties
• Increase the efficiency and resilience of the organisation through investment in staff and technology
• Maximise external funding and partnership opportunities
• Deliver savings/additional income so as to improve the forecast annual budget position by £1.9 million by 2027/28

Section 2: CORPORATE PLAN: EFFECTIVE COUNCIL

2.1 The Council is in the progress of agreeing its new Corporate Plan which sets out the context in which the Council delivers services and provides community leadership.

2.2 The Council will prepare service plans and agree annual service targets to deliver its corporate priorities.

2.3 The following strategies provide more analysis on how the Council will manage resources allocated for the delivery of Borough services:-

Supporting Strategies & Plans	Objectives
Financial Plan / Medium Term Financial Strategy	• Maintain sound Council finances. • Allocate resources to Council priorities. • Measure financial performance.
Asset Management Plan	• Ensure that operational property is fit for purpose. • Optimise use of operational property for services to residents. • Increase income generated from commercial property.

Capital Strategy	•	Effective investment of capital resources (reserves and external funding) for the benefit of the community.
	•	Generate savings or income from spend to save projects.
	•	Ensure borrowing is proportionate and sustainable
Procurement Strategy	•	Secure best value in purchasing goods and services.
	•	Realise financial and performance gains from high value procurement.
ICT Strategy	•	Design and implement Information and Communications Technology to increase the effectiveness and efficiency of Councils operations and increase public access.
Treasury Management Strategy	•	Maintain secure investment of reserves and cash balances.
	•	Generate a return on cash investments.
	•	Optimise any borrowing if required.
Climate Change Action Plan	•	Implement actions to deliver reductions in CO_2 where financially cost effective and viable

Section 3: THE COUNCIL'S FINANCIAL STANDING

3.1 The Council finances its expenditure on services from income received during the year. Any shortfalls need to be financed from reserves and any surpluses can be used to strengthen reserves. The Council aims to achieve a balanced budget although the financial strategy should be flexible to allow a planned use of reserves where this is prudent and sensible.

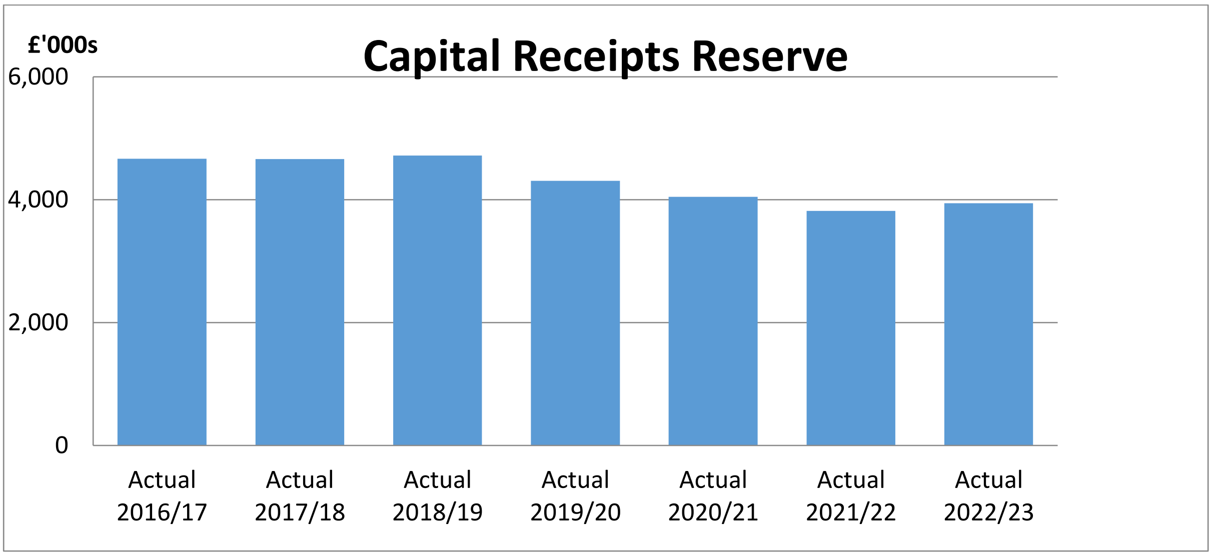
3.2 Under local authority accounting rules expenditure on the delivery of services is charged to the General Fund Revenue Account.

3.3 Investment in community assets and Council infrastructure is charged to the General Fund Capital Account.

3.4 The level of Council reserves is a key measure of the Council's financial standing and its ability to manage future liabilities and commitments.

<u>Capital Reserves</u>

3.5 The following chart traces the level of capital receipts reserves since 2016/17:

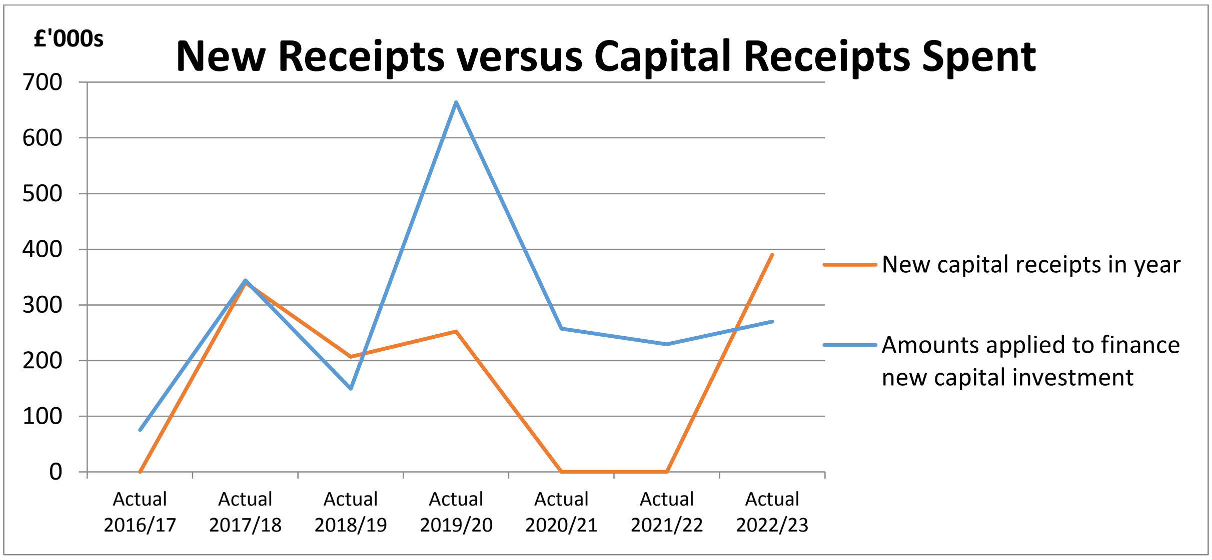


3.6 The Council has managed to limit the decrease in capital receipts reserves to just £0.8m over the last seven years, from a balance of £4.7m in 2016/17 to £3.9m in 2022/23. However, there may be significant pressure on these reserves over the next four years, with over £4.8m provisionally earmarked to be spent on the capital programme by 2027/28. To mitigate this projected reduction in capital reserves, the Council funds £500,000 of the annual capital programme from the revenue budget. In addition, external funding options are utilised where available (e.g Disabled Facilities Grant). However, other funding options may also need to be considered to finance any additional capital spending plans that arise during this period, unless there is a major development or sale of property to generate significant new capital receipts.

3.7 The Council has generated £1.2 million in new capital receipts in the last seven years through the sale of property and land to fund the capital programme, with the largest recent receipt being the £340k sale of properties on South Street to Transform Housing Association in 2022/23. The Council required use of £2.0 million of its capital receipts over the same period to finance its capital programme, resulting in the net £0.8m reduction in capital reserves.

3.8 As well as through the disposal of surplus assets and use of annual revenue contributions, the Council has managed to limit its use of capital reserves during the last seven years through the use of strict qualifying criteria for proposals to be included within the annual capital programme. However, it is likely that pressure will increase to use a higher level of reserves over the next four year period as proposals deferred in previous years become more critical to the organisation.

3.9 The Council also has the capacity to finance affordable housing schemes through the generation of planning gain receipts. These Section 106 funds are expected to be used to fund housing schemes during the four year cycle. Additional funds may be available from Community Infrastructure Levy and New Homes Bonus.

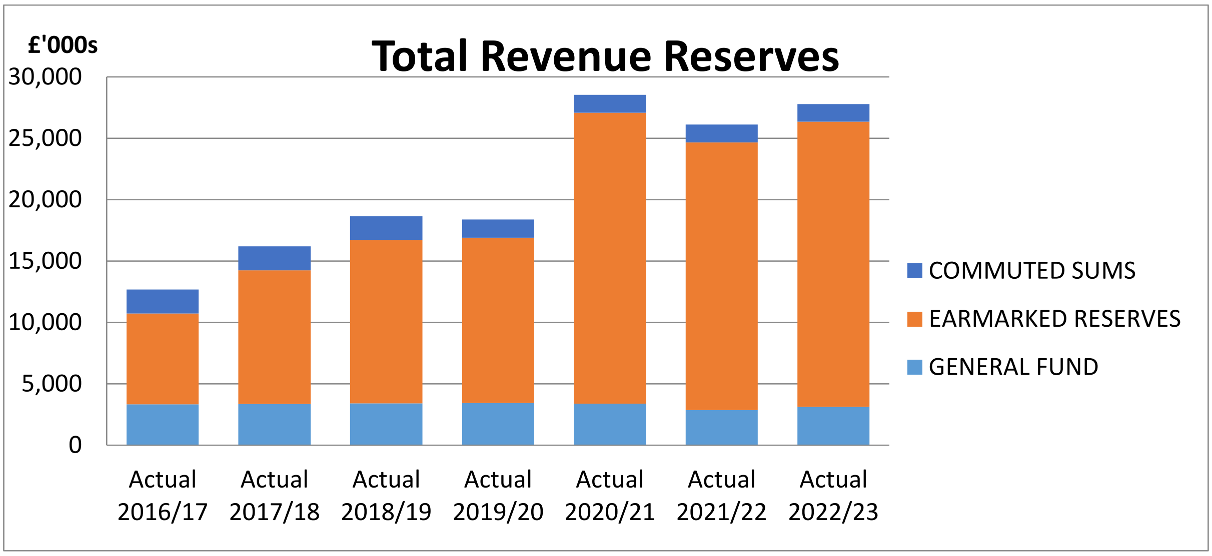


3.10 Since 2016 the Council has acquired a number of commercial properties both within and outside the Borough through borrowing. As at the end of 2022/23 the Council had external debt totalling £64.4 million and the interest paid to service this debt in 2022/23 was £1.6 million.

3.11 These commercial property acquisitions deliver significant income streams for the Council which are used to finance the cost of servicing the debt as well as making a contribution towards overall running costs of the Council, as set-out in section 11.

Revenue Account

3.12 The following chart traces the level of revenue reserves since March 2017.



Revenue Reserves	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
General Fund	3,334	3,348	3,416	3,426	3,383	2,853	3,117
Earmarked Reserves & Contingencies	7,388	10,886	13,289	13,486	23,705	21,816	23,232
Commuted Sums	1,965	1,965	1,941	1,464	1,447	1,439	1,439
Total	**12,687**	**16,199**	**18,646**	**18,376**	**28,535**	**26,108**	**27,788**

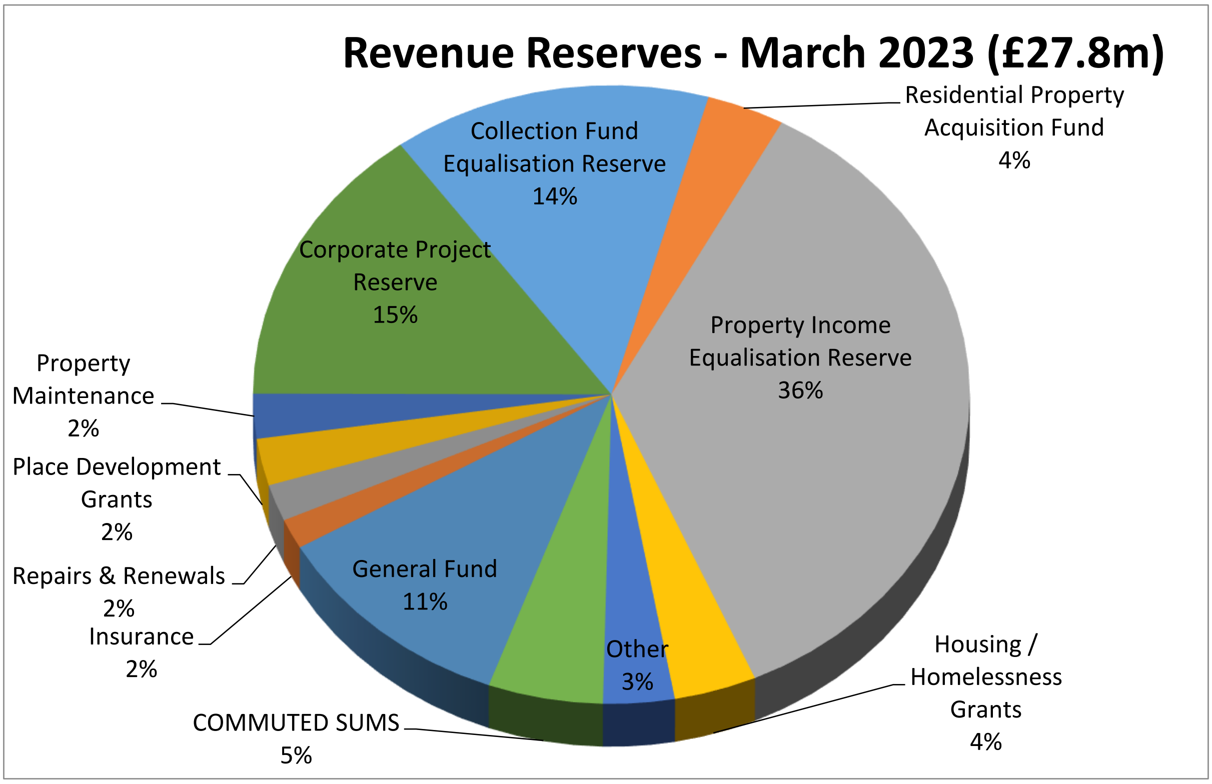
Agenda Item 4
Appendix 2

3.13 The Council has maintained its level of general fund working balances at around £3 million for the last four years despite significant cuts to its core funding from central government.

3.14 Earmarked reserves and contingencies have increased over the same four year period. This is principally because in recent years the Council took on external borrowing to finance the acquisition of several investment properties that provide valuable rental income to support the running of Council services. It was agreed to mitigate risks associated with these acquisitions that funds should be set aside in a Property Income Equalisation Reserve to cover at least one year's rental income for each of the properties. The balance on this reserve as at the end of the financial year 2022/23 was £9.9 million.

3.15 Furthermore, the Council had made gains in previous years from participating in DLUHC's 100% business rates pilot, which are set-aside in the Collection Fund Equalisation Reserve to mitigate the risk of future cuts to the Council's business rates funding from any Fair Funding Review by central government.

3.16 The following chart identifies the significant revenue reserves held as at the end of March 2023.



3.17 The Council reviews its financial reserves annually to:-

- manage financial and service risks
- assist medium term planning and decision making
- help finance services to residents
- provide greater certainty over future investment

3.18 Interest generated on revenue and capital reserves is used to help finance the General Fund Revenue Account provision of services. The following reserves and provisions were held at March 2023:-

Purpose of Reserve	
CAPITAL	
CAPITAL RECEIPTS	Funds raised by the past sale of Council property assets. Used to fund capital programme where external and/or revenue funding not available.
COMMUNITY INFRASTRUCTURE LEVY & SECTION 106	Funds collected from developers to support investment in Borough infrastructure
REVENUE - RESERVES AVAILABLE FOR GENERAL USE	
CORPORATE PROJECT RESERVE	Contingency for unplanned projects, including additional one-off costs. The reserve is also used to finance revenue and capital ‘spend to save’ initiatives.
GENERAL FUND REVENUE ACCOUNT WORKING BALANCE	Provision for unforeseen expenditure and used to support Revenue Budget in the medium term.
REVENUE - CONTINGENCIES UNAVAILABLE FOR GENERAL USE	
PROPERTY MAINTENANCE FUND	Provision for urgent unplanned backlog repairs and maintenance that cannot be funded within annual approved budgeted programme.
REPAIRS & RENEWALS	Provides for the replacement of plant and equipment where no revenue budget is available. Manages the risk of unplanned expenditure at all Council properties, including health and safety expenditures.
INSURANCE	Provision for self-insured liability claims and losses.
VAT RESERVE	Reserve against liabilities for unrecoverable VAT payments including breach of partial exemption rule.
COMMUNITY SAFETY PARTNERSHIP	Support for community safety partnership work in the Borough, domestic homicide reviews and environmental health.
INTEREST EQUALISATION	Contingency provision for interest rate reductions to help manage variations in interest rates each year.

	Purpose of Reserve
COLLECTION FUND EQUALISATION RESERVE	Reserve used to protect funding from the Council's share of localised business rates and council tax, used to smooth out the impact of annual changes in funding
RECREATION COMMUTED SUMS	Transferred payments ring-fenced for investment with returns used to finance grounds maintenance costs following transfer of Hospital Cluster Land
PROPERTY INCOME EQUALISATION RESERVE	The reserve aims to hold sufficient funds to mitigate the risks associated with future rental income streams from properties acquired through borrowing
REVENUE - RINGFENCED GRANTS OR FUNDS FOR SPECIFIC USE	
PREVENTION, PERSONALISATION & PARTNERSHIP FUND	Funding from ring fenced grant for local authorities to undertake their new public health functions. Partnership reserves held to provide funding to support specific partnership initiatives.
HIA HARDSHIP FUND	Fund exists to provide funding for the Home Improvement Agency Service.
SPORTS & LEISURE DEVELOPMENT PROJECTS FUND	External funding set aside to support sports & leisure development projects
PLACE DEVELOPMENT GRANTS	Ringfenced grants related to place development service.
RESIDENTIAL PROPERTY ACQUISITION FUND	Provides funding to acquire residential properties to limit the impact of the cost of homelessness.
HOUSING / HOMELESSNESS SUPPORT GRANTS	Grant funding and reserve used to support homelessness

Section 4: THE STARTING POINT

4.1 The following table summarises estimated income and expenditure for 2024/25:-

	£m	£m	£m
INCOME			
General Grant and Taxes			
Revenue Support Grants	0.1		
Retained share of Business Rates Income	2.0		
Prior year Collection Fund Deficit	(1.0)		
Council Tax Income	7.7		
Sub-Total		8.8	
Service Income			
Fees and Charges	11.2		
Rents	3.8		
Grants and Subsidies	17.2		
Interest on Balances / Reserves	1.1		
Income from EEPIC	2.6		
Net use of Reserves	1.7		
Internal Asset Credits	1.9		
Sub-Total		39.6	
Budgeted Income & Reserve Transfers			**48.4**
EXPENDITURE			
Employee Costs	14.3		
Premises Costs	4.3		
Transport Costs	1.5		
Contracted Services and Supplies (incl. grants)	10.0		
Housing & Council Tax Benefits	13.6		
Interest on Borrowings	1.6		
Minimum Revenue Provision	1.1		
Internal Asset Charges	1.9		
Sub-Total		48.4	
Budgeted Expenditure			**48.4**

Section 5: FOUR YEAR BUDGET FORECAST

5.1 The main focus for budget forecasts is the Council's net budget requirement which comprises service spending less income generated from those services.

5.2 It is a Government requirement that Councils provide residents with spending figures focused on the Council Tax Requirement. This is the amount of spending that will be funded from council tax payments in the Borough.

5.3 For 2024/25 the Council's spending can be analysed as follows:-

		£000	£000
NET EXPENDITURE			
Gross Expenditure on Services		48,383	
Less: Gross Income & Reserve Transfers in Services	-	37,633	
Sub-Total (policy committee net spend)			10,750
Less: Internal recharges (capital charges)			- 1,941
Forecast Net Expenditure			**8,809**
FUNDING			
Retained Business Rates		2,041	
Council Tax		7,636	
Business Rates Prior Year Deficit		(1,037)	
Council Tax Prior Year Surplus		58	
Revenue Support Grants		111	
Aggregate External Finance			**8,809**

5.4 The following table summarises the Council's four year budget forecast prepared in February 2024 for the 2024/25 budget report:-

Budget Forecast	2023/24 Budget	2024/25 Budget	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast
	£000	£000	£000	£000	£000
Net Cost of Service b/f (before interest and planned use of reserves)	10,516	11,393	12,457	12,041	12,118
Pay & Prices Increases	1,260	1,482	699	713	728
Service Changes and Pressures	1,280	394	-476	70	100
Increases in Fees & Charges	-417	-456	-483	-256	-264
Identified savings	-1,246	-356	-156	-450	-430
Forecast Net Cost of Services	**11,393**	**12,457**	**12,041**	**12,118**	**12,252**
Interest on Balances	-720	-1,125	-1,000	-875	-750
Use of New Homes Bonus	0	-225	0	0	0
Transfer from Collection Fund Reserve	-1,090	-974	0	0	0
Contribution from Property Income Equalisation Reserve	-1,127	-700	0	0	0
Contribution from Corporate Projects Reserve	-166	-624	0	0	0
Transfer from Working Balance (-)	0	0	0	0	0
Forecast Net Expenditure	**8,290**	**8,809**	**11,041**	**11,243**	**11,502**
Retained Business Rates Forecast	1,653	1,749	1,784	1,820	1,856
Compensation for underindexing the business rates multiplier	-	292	301	306	312
Council Tax Income Forecast	7,361	7,636	7,904	8,182	8,470
Council Tax Surplus	27	58	0	0	0
Retained Business Rates Surplus	-1,085	-1,037	0	0	0
Revenue Support/Other Grants	333	111	479	415	423
External Funding*	**8,290**	**8,809**	**10,468**	**10,723**	**11,061**
Funding Shortfall / Savings to be Identified	*0*	*0*	*573*	*520*	*440*

*Should central government make any changes to the provisional settlement announced in December 2023, or there are changes to forecast business rates income when statutory returns are submitted to DLUHC at the end of January. any changes in overall funding would be met by an appropriation from the Collection Fund Equalisation Reserve or Corporate Projects Reserve as appropriate.

5.5 The following factors have been used to prepare the forecast.

ASSUMPTIONS USED	***BASE £000***	**2024/25 Budget**	**2025/26 Forecast**	**2026/27 Forecast**	**2027/28 Forecast**
General Inflation - prices	*10,000*	5.0%	2.0%*	2.0%	2.0%
Annual pay award	*13,000*	6.0%	2.0%*	2.0%	2.0%
Fees & Charges allowance: annual increased yield on discretionary charges	*-7,600*	6.0%**	6.0%	3.0%	3.0%
Estimated return on treasury investments		4.5%	4.0%	3.5%	3.0%
Increase in Council Tax income	*-7,400*	Annual increase of 3% for a Band D equivalent property			

** assumes annual pay increases are 2% using the Bank of England CPI inflation target, and allows for unavoidable inflation only*

*** increases to parking charges are applied every 2 years. From 2026/27, the targeted increase is CPI +1%, currently forecast to be 3% using the Bank of England CPI inflation target.*

5.6 The following table shows the financial impact of variations to the assumptions used.

	+ / -	**Impact on Each Year £000**	**Cumulative Impact (4 years) £000**
Price Inflation	1%	100	400
Pay Inflation	1%	130	520
Fees & Charges	1%	76	304
Interest on Balances	0.5%	125	500
Council Tax	1%	74	296

5.7 The General Fund Working Balance was £3.1 million at 31 March 2023 and is forecast to remain at c.£3m by the end of the financial year 2023/24.

5.8 Subject to delivery of targeted savings to reduce the Council's net expenditure by £1.9m, the working balance would be maintained at this level for the next four years.

5.9 Pending the outcome of government's Fair Funding Review, some flexibility may be required and the Council's policy is to maintain a minimum working balance of £2.5 million at 31 March 2028.

Section 6: ECONOMIC OUTLOOK

6.1 The Office for Budget Responsibility's Economic and Fiscal Outlook in November 2023 provided the following overview:-

UK	2024	2025	2026	2027	2028
Gross Domestic Product	0.7%	1.4%	2.0%	2.0%	1.7%
CPI Inflation	3.6%	1.8%	1.4%	1.7%	2.0%
Average Earnings (all sectors)	3.7%	2.2%	2.0%	2.5%	2.8%
Unemployment	4.6%	4.6%	4.4%	4.2%	4.1%

6.2 The table on the following page provided by the Council's treasury management advisers in November 2023 forecasts future interest rates.

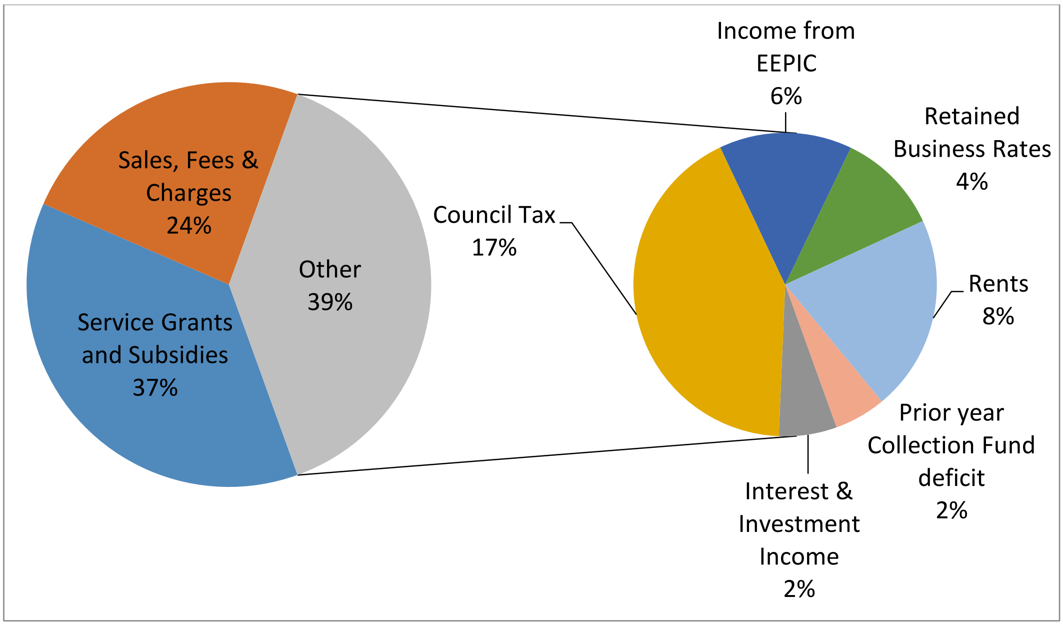
Link Group Interest Rate View 07.11.23													
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

Section 7: RESOURCES

7.1 The Council's budgeted turnover for 2024/25 is £48.4 million.

7.2 The following chart shows the main sources of income to fund the General Fund revenue budget:-

FUNDING SOURCES 2024/25 BUDGET



7.3 The most significant income sources are service specific funding from Central Government (service grants and subsidies), including:-

- Housing Benefits Subsidy is a reimbursement of benefits paid locally
- Homelessness Prevention Grant provides funding for managing homelessness.

7.4 A total of c.£14 million is estimated to be received from these sources and £2 million from retained business rates (including government compensation for under-indexing the business rates multiplier) to help fund the general provision of services.

7.5 The Government's latest provisional funding settlement covered only 2024/25. Due to recent political uncertainty the government's Fair Funding review remains delayed and the outcome for Epsom and Ewell Borough Council is not anticipated to be known before the next general election. As a result the settlement for 2024/25 may not be indicative of the levels of funding that will be available in the future.

7.6 It is anticipated that the outcome of the Fair Funding review will result in a redistribution of retained business rate income from district councils to those councils with social care responsibilities, or located within areas of greater deprivation.

7.7 These changes may have a significant impact on the Council's turnover and have an impact on the Council's resources for providing services to residents.

7.8 Central government specific grants provide reimbursement for services that are determined at a national level. The Council provides a mix of other services which need to be funded locally. This includes those services for which the Council has a statutory duty, such as waste collection and street cleansing, as well as those which the Council decides to do, such as social and leisure venues. The level of local services that the Council can provide depends on the amount of income raised from council tax, fees and charges, rents and retained business rates.

7.9 In 2019/20 Council approved to remove any underlying reliance on New Homes Bonus grant funding to support services and that this funding is set aside in the Corporate Projects Reserve to finance the cost of one-projects and initiatives. However, for 2024/25 only it is anticipated that £225k of New Homes Bonus will be utilised to fund services, to reflect that a higher one-off NHB award in 2024/25 has caused a compensating reduction in other government grants that are required to fund services.

7.10 Resources are considered in more detail in the following sections:-

- Section 8: Government Grants and Business Rates Retention
- Section 9: Council Tax
- Section 10: Fees, Charges, Rents and Interest earned on balances
- Section 11: Property related income, including income from the Property Company (EEPIC)

Section 8: GOVERNMENT FUNDING / BUSINESS RATE RETENTION

8.1 The Funding Settlement typically comprises any Revenue Support Grant, other core grants and the baseline level of funding from retained business rates.

8.2 The headline core funding is used as an equalisation of resources between local authorities and is allocated to councils by the Department of Levelling Up, Housing and Communities (DLUHC).

8.3 DLUHC introduced localisation of business rates in 2013/14 and this represented a significant change in funding for local councils.

8.4 Under the local retention scheme councils retain gains or suffer losses from the variations to the business rates collected, whether that is due to changes in collection rates or more /fewer businesses.

8.5 The Government's provisional funding settlement announced in December 2023 provides the Council with details regarding the potential income from this source of funding for 2024/25. The settlement identified an increase in core funding, including council tax, for this Council next year of £508,000, an increase of 5.3%. However, it provided no concrete confirmation of future settlements for Epsom and Ewell Borough Council beyond 2024/25.

8.6 Excluding council tax and one-off New Homes bonus, the Council's provisional central government funding settlement for 2024/25 is £1.95 million, which is shown in the following table together with the forecasts used for the four year MTFS:-

	2023/24 Actual	***2024/25 Provisional Settlement***	***2025/26 Forecast***	***2026/27 Forecast***	***2027/28 Forecast***
	£'000	***£'000***	***£'000***	***£'000***	***£'000***
Revenue Support Grant	53	56	58	59	60
Services Grant	57	9	9	9	9
Minimum Guaranteed Funding	223	46	412	347	354
Retained Business Rates - Baseline	1,473	1,542	1,573	1,604	1,636
Business Rate Multiplier Underindexation Compensation	251	292	301	306	312
Government Baseline Funding	**2,057**	**1,945**	**2,353**	**2,325**	**2,372**

Surplus retained business rates	**180**	**207**	**211**	**215**	**220**
Total Funding included in Financial Plan	**2,237**	**2,152**	**2,564**	**2,541**	**2,592**

8.7 The Council's underlying position on business rate collection fund is that its share of retained business rates is around £200,000 higher than the income stated in the 'baseline' position. Should the government implement a 'baseline' reset in future years, that could remove the surplus income that the Council currently retains.

NEW HOMES BONUS

8.8 The Council benefits from New Homes Bonus, which is awarded by Government based on the number of new residential properties built in the borough in the preceding year, with a supplement for affordable housing.

8.9 The award methodology means that NHB is volatile and as one-off funding, it cannot be relied upon as a funding source for recurring day-to-day services. Furthermore, government is continuing to review the future of New Homes Bonus, and it is unclear whether this grant will continue in future years.

8.10 As such, since 2019/20, the Council's budget has removed any reliance on New Homes Bonus as a source of funding to support on-going services. Instead, the grant has been transferred to the Corporate Projects Reserve to ensure funding is available for one-off projects and Council initiatives.

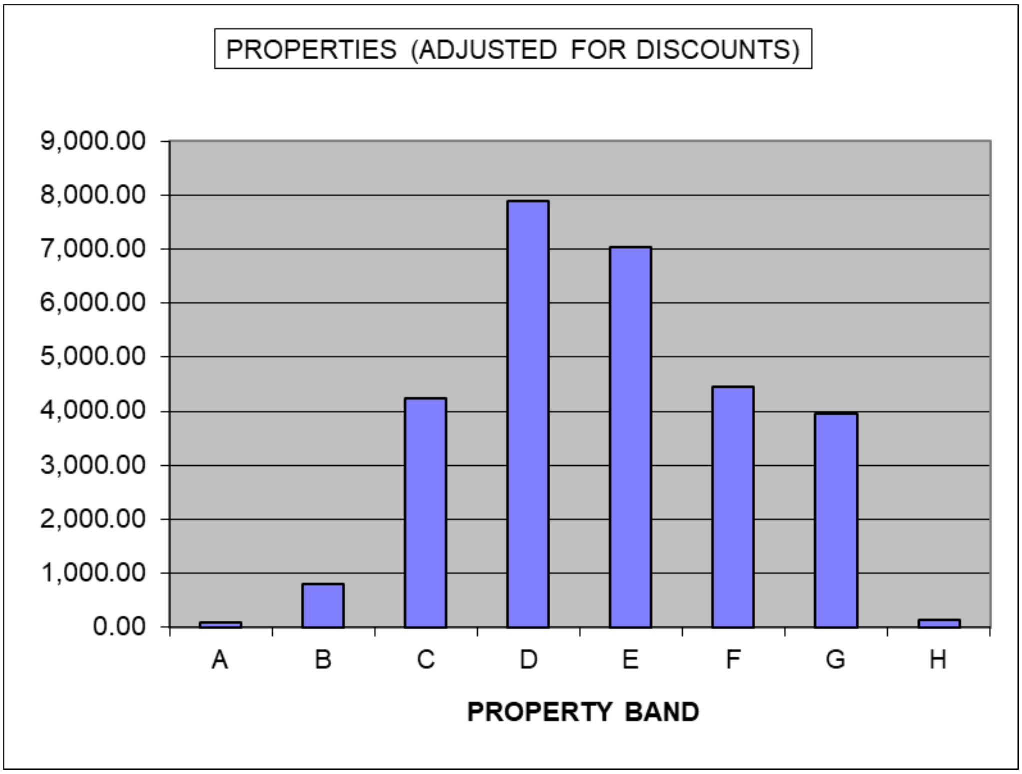
8.11 For 2024/25 however, a higher New Homes Bonus award of £498,000 (compared to £135,000 in 2023/24) has resulted in a compensating £225,000 cut to the Council's Funding Guarantee and Services Grants; grants which are used to fund services. As such, it is proposed in the Financial Plan that for 2024/25 only, £225,000 of New Homes Bonus is used to fund services, with the balance transferred to the Corporate Project Reserve to fund one-off projects and initiatives, as previously agreed. This is expected to be a one-off arrangement, and beyond 2024/25 it is expected that all New Homes Bonus will continue to be transferred to the Corporate Projects Reserve, to ensure services are not reliant on an unreliable, volatile funding source.

Section 9: COUNCIL TAX

9.1 There are over 31,000 domestic properties in the Borough.

9.2 Council Tax levels are based upon the District Valuer's assessment of property bands for each home.

9.3 The Borough's council tax base as at December 2023 is illustrated below:-



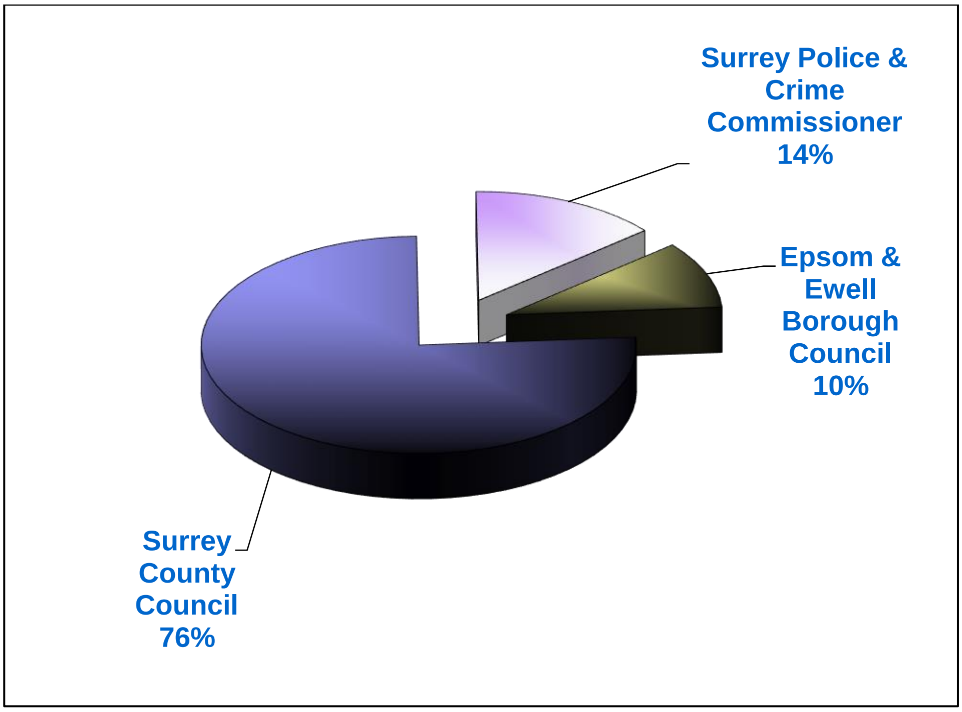
9.4 Allowing for the different amounts payable for each property band, the average amount that is raised from Council Tax is equivalent to more than 33,000 properties at the headline Band 'D' charge.

9.5 Comparative annual council tax charges published for 2023/24 were as follows:-

Council Tax	***Surrey (average)***	***Epsom & Ewell***
Shire District only	£223	**£220**
Shire District including Parishes	£248	**£220**
Total Bill in Two Tier Areas	***£2,234***	***£2,205***

9.6 The Council collects council tax on behalf of Surrey County Council and Surrey Police who levy a precept on the Surrey District Councils (i.e. tell the districts how much they must collect on their behalf).

9.7 The amount of Council Tax due to be collected by Epsom and Ewell Borough Council in 2023/24 was £74 million, split between the three preceptors in the following percentages:-



9.8 The Borough Council can only make decisions on its share of the bill which is expected to raise c.£7.6 million each year for Borough services which is calculated as follows:-

- Council Tax Base (No. of Band 'D' equivalent Properties) x Charge for Band D Properties.

9.9 For 2024/25 the figures are as follows:-

33,762 x £226.17 = £7,636,049

9.10 The Financial Plan for 2024-2028 includes a forecast of an additional yield the equivalent of a 3% per annum increase on a band D property from the Borough's share of Council Tax.

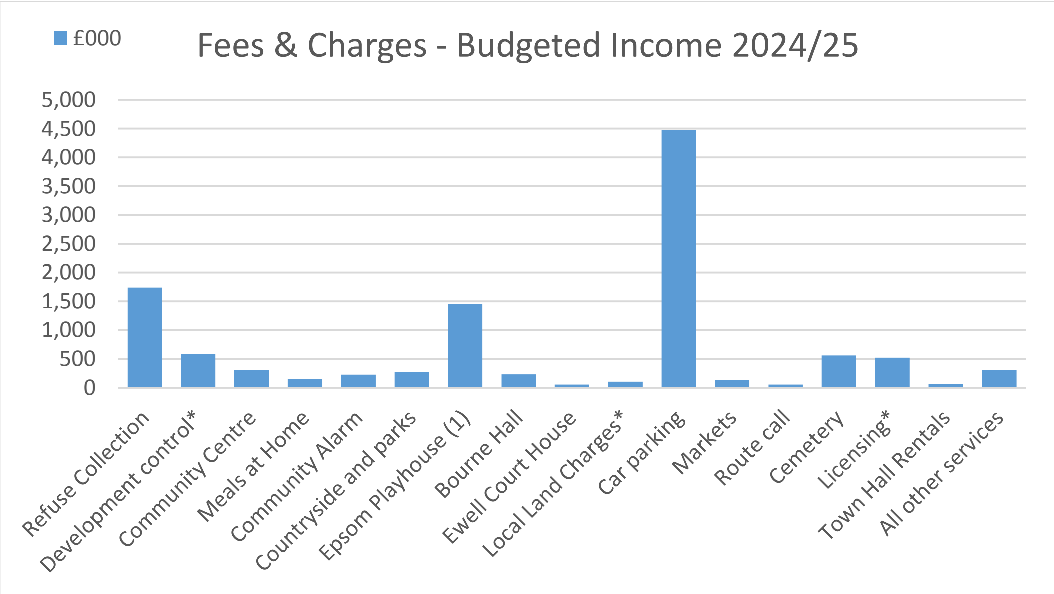
9.11 This will raise an additional c.£220,000 per annum to pay for Borough council services and cost the average Band D taxpayer an extra 13 pence per week. The increases are in line with the Government's capping limits set at the higher of £5 for a Band D property or 3%.

Section 10: INCOME FROM FEES, CHARGES, RENT & INTEREST

Fees and Charges

10.1 At around £11m per annum, the revenue from fees and charges significantly exceeds council tax income.

10.2 Some fees are determined by the Council and others are subject to central government regulation.



* fees subject to regulation

(1) Playhouse income includes Box Office sales which are shared with external productions.

10.3 Fees will be re-assessed annually as part of the budget review process:

- To reduce the subsidy required to provide services and venues
- To generate income to help fund other services
- To recover costs incurred and maintain existing assets

Interest on Balances

10.4 The Council invests its revenue and capital reserves and cash flow balances and uses the interest generated to help fund services.

10.5 Short term cash and treasury investments totalled £28.3m at 31 March 2023.

10.6 All else being equal, the level of investments would be expected to increase gradually in the medium term as the Council sets aside Minimum Revenue Provision each year in preparation for the eventual repayment of its long term debt, the majority of which will mature in 2067.

10.7 Interest rates are expected to remain elevated initially but to then gradually moderate over the next four years.

10.8 The Financial Plan includes a budgeted target to generate £1.125m in interest to fund services in 2024/25.

Section 11: PROPERTY RELATED INCOME, INCLUDING INCOME FROM PROPERTY COMPANY (EEPIC)

Commercial Property Related Income

11.1 Between 2016/27 and 2019/20, the Council acquired four commercial properties within the Borough, and, through its wholly owned subsidiary Epsom & Ewell Property Investment Company Ltd, two commercial properties out of Borough, all financed by prudential borrowing. The main purpose was to generate additional income to address budget deficits arising from central government funding cuts in the 2010s, thereby protecting and enhancing services to residents where possible.

11.2 These acquisitions, after deducting external interest payments and net contributions to/from reserves, will provide a budgeted net annual benefit to the Council's general fund of £2.04m in 2024/25, as set-out in the following table:

Commercial Property Fund Acquisitions	Net Contribution to Council's 2024/25 Budget
In-Borough	
2 Roy Richmond Way	£193,754
Parkside House	£134,338
Emerald House	£257,493
Sub-Total	**£585,585**
Out-of-Borough	
EEPIC Properties	**£1,453,494**
Total Net Contribution to 2024/25 Budget	**£2,039,079**

11.3 It should be noted that under DLUHC's Statutory Guidance introduced in April 2018, there are circumstances where commercial property acquisitions funded by borrowing are still acceptable, provided the main purpose for the investment is not purely for profit, but (for example) for regeneration. This would imply that future acquisitions would have to be within, or very close to, the Council's boundary, in order to demonstrate that they are not purely for profit.

11.4 Should the Council wish to acquire further properties, it is recommended that an updated Property Investment Strategy should first be brought to Council for approval.

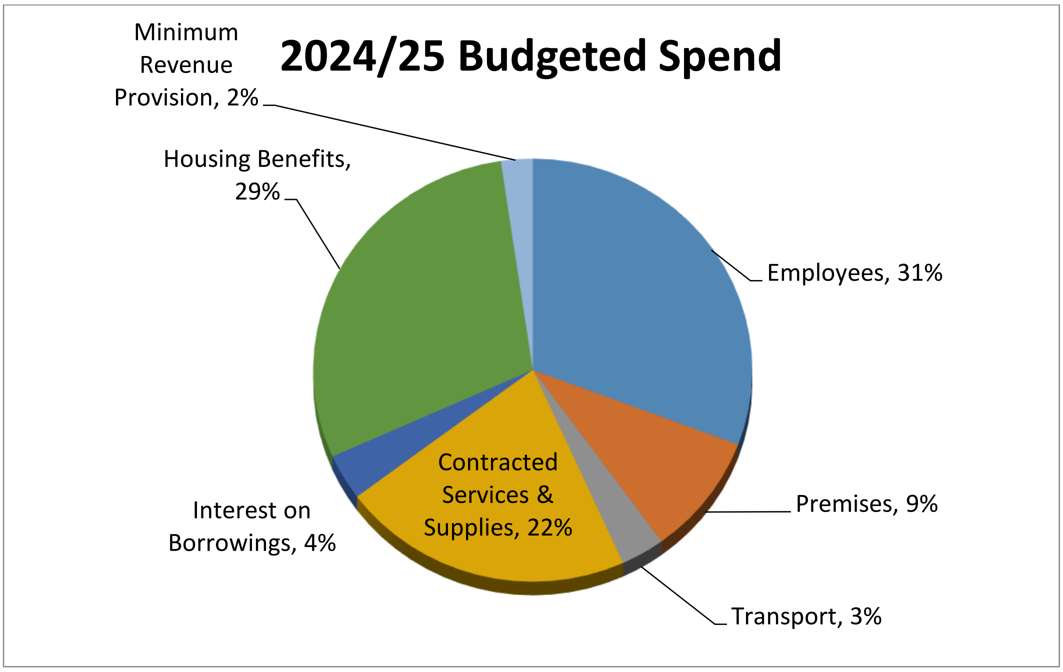
Risk Management

11.5 All commercial property acquisitions funded by borrowing have been governed by the Council's Property Investment Strategy, and robustly assessed by an Investment Property Group consisting of members and senior officers before completion.

11.6 To mitigate risks associated with the Council's reliance on income generated from commercial properties funded by borrowing, the Council holds a Property Income Equalisation Reserve. This reserve aims to hold a balance equivalent to one year's rental income from each property acquired through borrowing. Full risk mitigations are set-out in the Property Investment Strategy.

Section 12: COST ANALYSIS

12.1 The following chart analyses forecast costs for 2024/25:-



12.2 During 2024/25 the main area of expenditure is on employees, and housing benefit payments which are made in accordance with government regulations. The Council effectively acts an administering agent for central government.

12.3 The interest on borrowing of £1.6 million, which has remained stable over the last four years, is as a result of purchasing commercial properties through external borrowing, pre-2020/21. These acquisitions generate rental income for the Council which is used to service the debt and contribute towards the cost of providing services.

Section 13: CONTINGENCIES FOR SERVICE CHANGES

13.1 The following section sets out the main contingencies for services within the financial forecast:

13.2 .

	2024/25	2025/26	2026/27	2027/28
	Budget £000	Forecast £000	Forecast £000	Forecast £000
1. General Contingency	100	100	100	100
2. Provision for major property maintenance / repairs work	100	100	100	100
3. Funding for projects within the capital programme	500	590	550	550
4. Reduced planning fee income	100	100	0	0
5. Increased cost of homelessness	300	300	0	0
6. Contingency for persistent cost of living pressures.	0	100	200	200
Contingencies for Service Changes and Pressures	**1,100**	**1,290**	**950**	**950**

1. General Contingency

The Council has made a provision of £100,000 within the budget to cover unforeseen service pressures or one-off events that may occur each year, that cannot be managed within existing service budgets. The inclusion of a central contingency reduces the need for service-specific contingencies, or for reserves to be drawn down each time an unforeseen event occurs.

2. Provision for major property maintenance / repairs work and running costs

A refresh of the Council's Asset Management Plan may highlight a requirement for additional funds to carry out major repairs or maintenance to Council properties when required. As such, a contingency is included within the budget for increased maintenance and running costs; this contingency is further supported by the Council's revenue and capital reserves.

3. Funding for projects within the capital programme

The Council was made aware of diminishing levels of capital reserves when approving the last Financial Plan in 2020. The reliance on capital receipts being the main source of funding of the annual capital programme was unsustainable without bringing in regular significant new receipts to replenish balances. As part of the 2019/20 budget it was agreed that an additional £100,000 of revenue funding per annum would be used to finance the annual capital programme. The MTFS 2024-28 increases this revenue contribution to £550,000 per annum by 2027/28 to enable funding of the sustainable core capital programme on an on-going basis.

4. Planning fee income

Planning service income budgets have not been achieved for a number of years, in part owing to challenging, post-pandemic economic/development conditions, and the lack of an in-date Local Plan for the Borough. Although central government is expected to increase statutory planning fees from April 2024, it is anticipated that without a Local Plan, an annual planning income shortfall of c.£100k will remain for the next two years. This is because the absence of a Local Plan presents considerable uncertainty for developers in terms of which Borough sites may receive planning permission. This uncertainty can lead to reduced planning applications and corresponding income from developers. As the Local Plan is expected to complete in 2025/26, the service is targeted to return to previous income levels from 2026/27.

5. Increased cost of homelessness

Since the cost of living crisis started in c.2022, the Council has experienced a significant increase in its homelessness numbers and as a result the 2024/25 budget has been increased by £300k to meet the additional demand for this service. The forecast in 2024/25 and 2025/26 anticipates that the Council will need to support an average of 70 households in temporary nightly paid accommodation each year, reducing to 58 households from 2026/27.

6. Cost of Living / Elevated Inflation

From 2025/26, it is anticipated that inflation will return to the Bank of England CPI inflation target of 2%. However, with significant economic and political uncertainty ahead, there remains a risk that inflation and 'cost of living' pressures will remain elevated for longer than currently anticipated or forecast, resulting in additional cost/pay pressures for the Council to manage. As such, the Financial Plan includes a contingency of £100k from 2025/26, rising to £200k from 2026/27, to manage this risk.

Section 14: COST REDUCTION

14.1 The Council is seeking to improve its forecast budget position by £1.9 million by 2027/28.

14.2 A programme has been implemented to deliver the necessary savings over the next four years.

14.3 The key features of the programme comprise:-

- Service Reviews focusing primarily on discretionary services to be undertaken over the next four years with the aim of increasing efficiencies and effectiveness whilst reducing cost.
- Review of existing asset utilisation, to realise cost reductions in Council operational buildings and increased income from investment properties.
- Investigate income streams to maximise revenue from new and existing services, such as invest to save opportunities. Ensure any new powers are considered to generate additional income for the Council, such as the pending new charging policy for waste.
- To maximise external funding and partnership opportunities.

Section 15: CAPITAL INVESTMENT

15.1 The Council's level of financial risk remains high due to the public sector funding constraints, increased economic uncertainty and heightened demands on services and property maintenance.

15.2 Financial Strategy Advisory Group considered a number of capital proposals in Autumn 2023 and has recommended the following summarised programme for approval at Full Council in February 2024:

Committee	Proposed Budget 2024/25 £'000	Indicative Forecast 2025/26 £'000	Indicative Forecast 2026/27 £'000	Indicative Forecast 2027/28 £'000	Indicative Forecast 2028/29 £'000	Deferred from prior years £'000	Total 2024/25-2028/29 £'000
Strategy and Resources	300	180	50	135	50	170	**885**
Environment	440	175	40	40	0	1,505	**2,200**
Community & Wellbeing	1,211	885	855	785	955	1,484	**6,175**
Licensing & Planning Policy	0	0	0	0	0	0	**0**
Total	**1,951**	**1,240**	**945**	**960**	**1,005**	**3,159**	**9,260**

15.3 The programme contains:-

- Core Programme of high priority works (funded by revenue, reserves or grant)
- Schemes to be progressed subject to external funding being achieved
- Spend-to-Save schemes only to be progressed where the business case is demonstrated

15.4 The programme is expected to be funded as follows:-

	Proposed Budget 2024/25 £'000	Indicative Forecast 2025/26 £'000	Indicative Forecast 2026/27 £'000	Indicative Forecast 2027/28 £'000	Indicative Forecast 2028/29 £'000	Deferred from prior years £'000	Total 2024/25-2028/29 £'000
Capital Receipts	666	0	0	0	0	1,929	**2,595**
Planned Revenue Contribution	500	455	160	175	220	1,230	**2,740**
Disabled Facilities Grants	785	785	785	785	785	0	**3,925**
Revenue Reserves	0	0	0	0	0	0	**0**
Community Infrastructure Levy Receipts	0	0	0	0	0	0	**0**
S106 Receipts	0	0	0	0	0	0	**0**
Total	**1,951**	**1,240**	**945**	**960**	**1,005**	**3,159**	**9,260**

15.5 Unlike the revenue account, capital funding is not constrained by financial years. It is likely that schemes will be carried forward into the programme from the 2023/24 budget and there will be rescheduling of the programme throughout the planning period.

15.6 Based on the programme recommended for approval by Council in February 2024, capital reserves are projected at £X.X million at 31 March 2025:-

CAPITAL RESERVES FORECAST	**£m**	**£m**
Capital Reserves 1 April 2023		3.9
New capital receipts		0.0
Estimated use of Capital Reserves for 2023/24		- 1.1
Uncommitted Capital Reserves at 31 March 2024		**2.8**
Capital Programme 2024/25	2.0	
Less: External and Revenue Funding	- 1.3	
Estimated Use of Capital Reserves 2024/25		-0.7
Forecast Balance of Capital Reserves at 31 March 2025		**2.1**
Contingency for additional funding		- 1.1
Minimum Level of Capital Reserves		1.0

15.7 The Council's Asset Management Plan needs to be refreshed and may identify significant future investment within our current properties. The Council will need to identify options on how any future investment can be managed in context of the Council finances.

15.8 The Council's capital programme includes the use of Section 106 and Community Infrastructure Levy (CIL) receipts where agreed. These are earmarked for specific community infrastructure projects.

15.9 The Council's capital programme is reviewed and recommended by Financial Strategy Advisory Group and additional schemes can be brought forward where external funding including Section 106 or CIL funding is received.

15.10 The programme is reviewed and approved annually by Full Council, within the Capital Strategy Statement contained in the Budget and Council Tax Report.

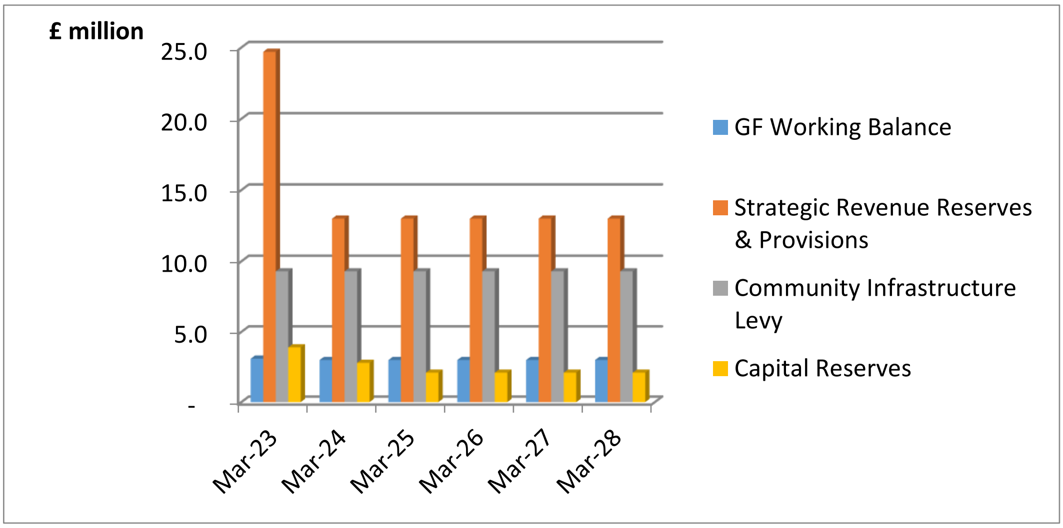
Section 16: RESERVES FORECAST

16.1 The following analysis is covered in this report:-

- Historic Levels of Capital and Revenue Reserves (Section 3)
- Current level of Revenue Reserves and Provisions (Section 3)
- Capital Reserves Forecast (Section 15)

16.2 The following is an overview of the forecast level of reserves and provisions.

Revenue Reserves	Mar-23	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
GF Working Balance	3.1	3.0	3.0	3.0	3.0	3.0
Strategic Revenue Reserves & Provisions	24.7	13.0	13.0	13.0	13.0	13.0
Community Infrastructure Levy	9.3	9.3	9.3	9.3	9.3	9.3
Capital Reserves	3.9	2.8	2.1	2.1	2.1	2.1



16.3 This overview is based on the following assumptions.

- **General Fund Working Balance:** See four year budget forecast (section 5)
- **Strategic Revenue Reserves & Provisions:** The forecast reflects existing agreed commitments, and assumes that levels of each reserve are reviewed annually but overall the Council will maintain its current level of prudence.
- **Community Infrastructure Levy:** The forecast currently assumes that the Council retains a balance of £9 million of unspent CIL receipts.

As with any reserve, the forecast will be updated as and when any new expenditure commitments are agreed.

- **Capital Reserves:** The forecast reflects the approved use of reserves to fund the capital programme for 2024/25 (section 14).

Section 17: RISK MANAGEMENT

17.1 The Council's level of financial risk has increased in the last four years. Due to cuts in government funding since 2010, the Council has needed to secure alternative sources of funding to enable it to maintain services to its residents. These alternative sources of funding are not as secure as previous grant funding and are subject to changes in the economy and risk of default on payment of income.

17.2 With the impending Fair Funding Review the Council anticipates that existing retained business rate income is under threat and there is a possibility of the outcome of the review resulting in a significant reduction in the Council's future funding from retained business rates.

17.3 The Council maintains corporate and operational risk registers.

17.4 A financial risk assessment will be completed annually as part of the Budget and Council Tax report. The assessment will provide the scale of financial risk. The following analysis covers the major funding risk anticipated between 2024 and 2028.

RISKS	CAUSES
Government Funding Cuts	• Reduction in Government funding through retained share of business rates income • Business Rate Negative Growth (appeals, collection rate) • Specific Grants ended/reduced (e.g. discretionary grants)
Income from Fees and Charges below forecast	• Drop in demand for services, local competition • Reduced use of Town Centre (parking) • Planning Fee changes not implemented • New charging regulation (local land charges)
Income from Interest on Balances	• Interest rates fall in future years • Reduced level of Council reserves and cash balances
Commercial Rent loss	• Reduced use of Council (or EEPIC) property by other organisation • Loss of tenants and rental income to support services • Downward rent reviews
Debt financing costs	• Capital resources exhausted requiring long term borrowing • Insufficient income to finance debt repayments
Pension Costs	• Pension Fund performance below forecast • Fall in Equity Market
Homelessness and Housing Support Costs	• Cost of accommodating households • Impact of Welfare Changes • Lack of new affordable housing and temporary accommodation
Failure to deliver savings target	• Planned service changes not implemented • Savings identified not achievable
Housing benefits	• Funding changes during transfer of housing support to Universal Credit • Changes to benefits system create additional burden on council services (e.g. homelessness)
Tax Collection	• Recession / unemployment

(Council Tax and Business Rates)	• Welfare benefit reform • Business contraction
Salaries Expenditure	• Inflation increases higher than expected • Risks on resilience
Maintaining Council Fixed Assets	• Cost of major repairs affecting rent income • Cost of urgent work/replacement or overspends on planned works
Leisure Centre income and management	• Re-tendering of leisure centre management contract due in September 2025 • Risks of major repairs or capital investment needed to secure nev management contract.
Town Hall relocation project	• Cost of relocation increasing/unforeseen costs • Value of existing Town Hall site may be insufficient to fund refurbishment of new Town Hall location.

Section 18: ANNUAL REVIEW AND SUPPORTING INFORMATION

18.1 The following table sets out the annual service and budget review process.

Financial Planning Framework	
Annual Review **May – July**	**Financial Planning** • Financial Review • End of Year Financial Reports • Agree approach for service & financial planning in the annual budget review • Agree year end transfers to/from strategic reserves • Review of reserves
August – December	• Budget Targets for following year • Review of Income and Expenditure • Financial Planning Brief • Capital Appraisals • Capital Finances
January – March	• Service estimates and capital plans to Committees for following year • Determine Budget and Council Tax • Publish Budget
April	Council Tax Information & Billing

18.2 The following updates to the Financial Plan will be prepared each year during the four year period:-

Financial Standing:	Review of Reserves – June
	Financial Statements – July
	Treasury Management – September
Budget Position:	Quarterly Budget Monitoring
	Budget Targets Reports – June to September
	Revenue and Capital Budget – February
Capital Programme:	Quarterly Budget Monitoring
	Annual Capital Programme – February

18.3 The following finance documents are available on the Council's website:-

Document	Contains	Where
The Budget Book	Budget Overview, Revenue Estimates and Capital Programme, Reserves, Performance Targets	Council Finance Documents
Council Tax Guide	Information on council tax charges and discounts	Council Finance Documents
Treasury Management Strategy	Approach to borrowing and investment	Council Finance Documents
Capital Strategy	Agreed Capital Programme and 5 year forecast	Council Finance Documents
Annual Report for Council owned subsidiary	Financial performance and future projections for Council owned Company	Council Finance Documents
Statement of Accounts	Published Financial Statements	Council Finance Documents
External Audit Reports	Audit plan, Annual Auditor's Report, Audit Findings Report	Council Finance Documents
Financial Regulations	Financial rules of procedure	Constitution
Contract Standing Orders	Contract rules of procedure	Constitution

https://www.epsom-ewell.gov.uk/financialreports
https://www.epsom-ewell.gov.uk/residents/council-tax
https://democracy.epsom-ewell.gov.uk/ieListMeetings.aspx?CId=205&info=1&MD=Constitution

FINANCIAL PLAN 2024 - 2028

AND

MEDIUM TERM FINANCIAL STRATEGY

Further Information

Address: Epsom and Ewell Borough Council, Town Hall, The Parade, Epsom, Surrey, KT18 5BY

Telephone: 01372 732000

E-mail: contactus@epsom-ewell.gov.uk

Web Site: www.epsom-ewell.gov.uk

If you require a translation in your language, please contact:

ਜੇਕਰ ਤੁਹਾਨੂੰ ਆਪਣੀ ਜ਼ਬਾਨ 'ਚ ਅਨੁਵਾਦ ਚਾਹੀਦਾ ਹੈ, ਤਾਂ ਕ੍ਰਿਪਾ ਕਰਕੇ ਰਾਬਤਾ ਕਰੋ:

જો તમને પોતાની ભાષામાં ભાષાંતર જોઈએ છે, તો મહેરબાની કરીને સંપર્ક સાધો:

Se necessitar de uma tradução, contacte por favor:

যদি আপনার নিজের ভাষায় অনুবাদ চান তাহলে অনুগ্রহ করে যোগাযোগ করুন:

اگر آپ کو ترجمہ اپنی زبان میں چاہیئے تو برائے مہربانی رابطہ کریں۔

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UPDATED EFFICIENCY PLAN - 2024/25 to 2027/28

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Operational efficiencies and income generation	27	58	50	-	135
Strategy & Resources Committee					
Commercial property rent reviews	249	38	-	-	287
Review of Town Hall	-	-	-	400	400
Environment Committee					
Review of Parks	-	-	-	30	30
Review of Borough Beautification	-	30	-	-	30
Community & Wellbeing Committee					
Reduce level of subsidy for operating the Community & Wellbeing Centre	30	30	-	-	60
Review of homelessness	-	-	300	-	300
Licensing & Planning Policy Comittee					
Additional Licensing Income	50	-	-	-	50
Additional Planning Income	-	-	100	-	100
Total Identified Savings	**356**	**156**	**450**	**430**	**1,392**
Unidentified Savings Target	**624**	**573**	**520**	**440**	
Total Savings to Achieve Balanced Budget	**980**	**729**	**970**	**870**	

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