

General Fund Estimates 2018/19

Summary

To consider and recommend to Council the General Fund Revenue Estimates for the Financial Year 2018/19.

Portfolio - Finance

Date Signed Off: 24 January 2018

Wards Affected - All

RECOMMENDATION

The Executive is advised to RECOMMEND to Council that

- (i) the 2018/19 General Fund Revenue Budget of £11,058,933 as set out in Annex A to this report, be approved;
- (ii) the support grant for parishes to compensate them for the effects of the local council tax support scheme be unchanged for 2018/19 compared to 2017/18;

The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of the level of Council Tax to be set for 2018/19.

The Executive is asked to NOTE

- (iii) That the budget contains £816,390 per paragraph 10 chargeable to reserves;
- (iv) That a minimum revenue provision of £1.353m is required to repay debt;
- (v) There is no Revenue Support Grant from Government to support services;
- (vi) The inclusion of £200,000 for a pay increase within the budget;
- (vii) The provisional NNDR baseline of £1,508,666 and the final settlement will be reported to Council at its meeting on 21st February 2018;
- (viii) That the Council is a member of the Surrey Business Rates pilot consisting of Surrey County Council and all Surrey Districts;
- (ix) That a full report, setting out Council Tax proposals for 2018/19 will be presented to Council on 21st February 2018;
- (x) That further savings and income generation through investment will be required as a result of anticipated reductions in Government funding and funding the capital programme in the future; and

- (xi) The increase in the tax base from new housing which delivers an extra £47,000 a year in Council Tax.

1. Resource Implications

2018/19 Budget

- 1.1 The budget has been prepared on the assumption that Council Tax will be increased by 2.97% being just under the maximum permitted without requiring a referendum. Should this not be the case then other options can be considered at the meeting.
- 1.2 **It is a matter for Full Council to decide upon the level of Council Tax set however Executive can make a recommendation.**
- 1.3 In 2016/17 the Council lost the remaining £357k Revenue Support Grant and will receive nothing in 2018/19. The Council is due to have to pay £933k of “negative grant” back to the Government in 2019/20, however the Minister announced that this is being reviewed.
- 1.4 The Net Cost of Services for 2018/19 as presented has increased compared to last year. This is due in part to one off items such as grounds maintenance funded from commuted sums and the implementation of the waste contract funded from reserves. However there are also been increases in payroll and contract costs due to the high level of inflation. The Council is still able to have a balanced budget due to higher income from Council Tax and Business Rates and an increase in income from the Council’s property investments.
- 1.5 Wages and salaries have increased this year due to not only investment in staffing as the Council moves in to new areas, but also pressures driven by inflation on wages costs and recruitment. An amount has also been included within the budget to for an annual pay increase.
- 1.6 The summary budget is shown in Annex A. A full set of budget pages detailing each service are available on the Escene and in the member’s room.
- 1.7 A number of fees and charges have been increased and have been approved in accordance with financial regulations. These changes are reflected within the budget. The Government has announced that they will approve an increase in planning fees in 2018/19, if not sooner, but has not been reflected in the budget.
- 1.8 2018/19 marks the 3rd year of the 4 year local Government Settlement announced in 2015. Based on past experience it is likely that the settlement for 2018/19 will be in line with this Settlement. This contentious issue of a “Negative Tariff” for 2019/20, where effectively Surrey Heath pays money back to the Government, has been recognised as an issue by the Minister and will be looked at in the coming year. The Government has also announced a

technical consultation “Fair Funding” which may impact future Council funding as it seeks to redistribute Government funding across the country.

- 1.9 This figures provisional figures announced on the 19th December 2017 have been used in this budget. These are expected to be confirmed early in the new year.
- 1.10 The Government consulted again during the year on making further changes to the New Homes Bonus (NHB). This included increasing the “floor”, for which no bonus is paid, from 0.4% and further restricting payments on houses granted on appeal or without a local plan. The Government announced on the 19th December 2017 that in order to provide certainty no changes would be made for 2018/19. That said the changes already made, such as reducing payments from 6 to 4 years and the 0.4% floor, is making NHB a less attractive incentive for housing delivery. It is worth stating again that NHB is not new money but rather top sliced business rates which are then redistributed to those Councils which build the most houses.
- 1.11 Expenses totalling £816k are being charged directly to reserves and this is explained in more detail later in this paper. The General fund is estimated to be at least £2m at the end of 2018/19 if the budget is delivered as shown.

Future Resource Implications

- 1.12 The Department for Communities and Local Government (DCLG) as part of the Autumn settlement in 2016 published a “multi-year settlement” so that Councils would know the amount of funding they can expect up to 2019/20. The Government announced on the 19th December 2017 that it would be running a consultation on “Fairer funding” which will look at how funding is distributed across the sector as well as the implications of the “negative grant” in 2019/20.
- 1.13 The Government has also signalled its intention to rebase Business Rates in 2020/21 and to move to a system where Councils can retain 75% of any growth. How this interacts with the “fairer funding” remains to be seen. That said Surrey was successful with its application to be a pilot area for business rates which should see significant sums retained within the county rather than being redistributed across the country. The full financial implications of this change are still being considered.
- 1.14 The Government deferred any changes to New Homes Bonus for 2018/19. Information is awaited as to the impact on future years but further reductions can be anticipated.
- 1.15 The Council has over the years made significant internal efficiency savings however it is recognised that the scope for further major reductions is limited. Hence the Council’s strategy is now one of generating income in line with Key Priority 2. A number of property investments were made in 2016/17 and further investments are being sought to generate income. This will need to

continue to ensure that the Council has sufficient resources to maintain services independent of Government funding changes.

2. **Key Issues**

3. Introduction

3.1 The level of budget set and the allocation of resources fundamentally impacts across all the Council's services. This report:

- reviews the current year's budget position
- recommends to Executive for recommendation to Council the Budget for 2018/19
- gives details of the Government grant settlement for 2018/19
- includes a financial projection going forward

3.2 2018/19 marks the second year that the Council receives no Government Grant for its services. All the Council's services are now paid for by local taxpayers through Council Tax and Business Rates as well as any income the Council can generate itself.

4. General Fund Estimates 2018/19

4.1 This year a different approach has been taken to presenting the budget with the aim of making it clearer and easier to understand. Under previous CIPFA rules all support costs, such as finance, legal, ICT, contact centre etc had to be allocated to front facing services. This was done by a series of complicated formulas which resulted in a number of recharges being made to each budget page. Following a change in the rules this is no longer required and the "support" services now have their own pages and no recharges are made. This has the advantage of:

- Service budget pages only show costs the manager can control
- Showing how much each support service costs in its entirety
- Reduces the need for complicated calculations to allocate costs – that said allocations will still be needed for Government returns but can be much simpler

4.2 As 2018/19 is the first year this change has been made it has created variances on a service level when compared with 2017/18 which was done on the old basis. This will resolve itself in 2019/20.

4.3 The budget has increased due to a number of factors such as :

- one off costs funded from reserves such as the implementation of the waste contract etc, which are included in the net cost of services;
- Increase in staffing costs driven by investment in additional staff and increases costs driven by inflation
- Reduction in grants from Surrey County Council particularly in recycling;

- Increased costs driven by the high rate of inflation and the fall in the value of sterling.
- The Council's income not keeping pace with inflation

A detailed budget book which includes details for every service is published on the website.

5. Funding from Business Rates

- 5.1 The Government invited applications last autumn for Councils to participate in a business rates pilot for 2018/19. Councils selected would be able to retain 100% of any growth generated in their local area rather than it being shared with Government. Surrey Heath was part of a joint Surrey bid and it was announced on December 19th that the application had been successful. This will result in more business rates being retained within Surrey with an element coming to Surrey Heath. As the announcement was only made recently and the final figures have not been released no uplift in respect of the pilot has been included within the budget. It was a condition of the application that any additional income received by Districts as a result of the pilot has to be used on economic development.
- 5.2 Under the current arrangements for each additional £1 collected above the initial baseline 50p goes to Government, to be redistributed as grants such as New Homes Bonus etc, 10p goes to Surrey CC, 20p goes to fund a safety net for areas suffering large reductions in rateable income and 20p remains in Surrey Heath. As a result of being in a pilot no levy is applied on growth above the baseline meaning it is all retained within Surrey and shared between the County and Districts in the ratio 70:30. However being a pilot does not mean that ALL business rates collected in Surrey remain in Surrey – a tariff will still be applied to redistribute Business Rates across the country leaving Councils with identical baselines to those they would have had they not been in the pilot – it is only the growth above this baseline that remains in the county.
- 5.3 Councils in a pilot can only call on the safety net if their Business Rates collectively fall below the safety net threshold. Hence if one Council falls in to the safety net this will be covered by a first call on the gains of the others. That said the Government has promised that no Council will be worse off in the pilot than if they had stayed out.
- 5.4 The table below shows the level of business rates the Government expects Surrey Heath to collect and how this translates in to actual funding:

Total Business Rates and Council Share 2018/19 to 2019/20

	Non-Pilot 2017/18 Actual £000	Pilot 2018/19 Provisional £000	Non-Pilot 2019/20 Assumed £000
Baseline - assumed minimum collected	33,475	33,963	35,723
Less: 50% to Government	-16,738		-17,861
Less: 10% to SCC	-3,348		-3,572
Less: 70% to SCC		-23,774	
Share for SHBC	13,390	10,189	14,289
Less Fixed Tariff	-11,925	-8,680	-12,747
Business Rates for SHBC	1,465	1,509	1,542
Less Tariff Adjustment	0	0	-933
Remining share of Business Rates	1,465	1,509	609
%age share	4.4%	4.4%	1.7%
Safety Net	1,355	1,398	1,448

- 5.5 The above table reflects the figures released in the provisional settlement on the 19th December 2017. It is difficult to predict with any accuracy what will happen beyond 2019/20 and so no details have been included. Factors which will influence this include the introduction of Localisation of Business Rates for the entire sector, impact of changes to the “Fairer funding formula” and in 2020/21 the “baseline reset”. The 2019/20 figures, released with the December settlement, continue to include the “negative tariff” however the Government recently said they would be addressing this issue.
- 5.6 The Council has worked hard to increase economic activity in the borough through hard development. However due to the way the system currently works the amount of benefit the Council actually receives is quite small. If, for example, the Council manages to build a new business premises with an RV of £1m, equivalent roughly to the size of the Waitrose in Bagshot, then this will result in the borough gaining an additional £95k in Business Rates under the current system. That said efforts have also been made to ensure that all properties that attract business rates are placed on the register and billed as quickly as possible, new premises have been built resulting in the fact that the actual income received from business rates is likely to exceed the baseline. It is worth noting though that the way the current system is accounted for any

additional Business Rates collected in say 2017/18 does not actually benefit the Council's income until the following year.

5.7 The Executive approved the application for a Pilot in October 2017 and gave a delegation to the Executive Head of Finance to agree the final terms. It is likely that a Memorandum of Understanding will be agreed shortly between all the Surrey Authorities to put the Pilot in to effect.

6. Local Government Settlement 2018/19

6.1 As part of the multiyear settlement announced in 2015 the Council was informed that it would receive no grant in 2018/19. This was confirmed when the provisional settlement was announced on the 19th December 2017.

	Final Allocation 2012/13	Final Allocation 2013/14	Final Allocation 2014/15	Final Allocation 2015/16	Final Allocation 2016/17	Final Allocation 2017/18	Provisional Allocation 2018/19	Anticipated Allocation 2019/20
	£0	£0	£0	£0	£0	£0	£0	£0
Core Funding								
Revenue Support Grant	63	1,415	1,441	965	357	0	0	0
Share of Business Rates	3,080	1,370	1,304	1,330	1,435	1,465	1,509	1,542
Transitional Grant					133	84	0	
Tariff adjustment								-933
	3,143	2,785	2,745	2,295	1,925	1,549	1,509	609
Other Grants rolled in:								
Council Tax Freeze Grant	176	176	176	174				
Homelessness Grant		50	50	49				
Returned funding			3	0				
Council Tax Support Funding		419						
	3,319	3,430	2,974	2,518	1,925	1,549	1,509	609

6.2 Members should note that not only has there been a steep reduction in funding over the last 5 years but that this is set to continue going forward. In addition grants given for new responsibilities, such as Council Tax Benefit, have now disappeared completely. This means that it is more important than ever for Councils to generate their own income if services are to be maintained

7. Council Tax

7.1 Council Tax will be set by the Full Council at its meeting on the 21st February 2018.

7.2 The Minister has confirmed that there will be a cap on council tax increases as follows:

- 6.00% - For those Councils with Adult Social Care responsibilities
- £5 or 3% for Shire Districts – whichever is the higher
- £12 for Police commissioners
- No cap for Parishes and towns

7.3 Any Council which sets a precept above the capping limits will have to hold a local referendum on the proposed increase in Council Tax at its own expense.

- 7.4 The budget has been prepared on the assumption that Council Tax will be increased by just under 3%, the maximum allowed, however members can chose any amount up to this level. Any reduction in this increase would have to be covered either by additional income and savings or cuts to services. The increase in the cap by the Government from the previous £5 to 3% has resulted in an additional charge of £1.12 per year for a Band D resident
- 7.5 The current Surrey Heath band D Council Tax is £206.30. An increase of just under 3%, the maximum allowed, to £212.42 coupled with the growth in the tax base will generate an additional £275k for the year.

7.6 **The Council is at liberty to set whatever level of Council Tax it wishes.**

Increases deemed to be “excessive” i.e. over 3% will trigger a local referendum (at the Council’s expense) on the increase requested.

- 7.7 Details of Parish, Surrey County Council and Surrey Police precepts will be included within the paper for Full council. However indications are that Surrey CC will push for the maximum increase allowed, just under 6%, and the Police commissioner likewise, £12.

8. **Tax Base, Parish Support and Collection Fund**

- 8.1 The tax base has risen overall during the year due to the construction of new properties. This can be seen in the table below:

Council Tax Base

	2017/18	2018/19	Change
Bisley	1,566.16	1,587.78	21.62
Chobham	1,960.49	1,969.27	8.78
Frimley and Camberley	23,664.75	23,871.57	206.82
West End	2,027.92	2,020.58	-7.34
Windlesham	8,098.72	8,091.42	-7.30
Total	37,318.03	37,540.62	222.58

- 8.2 Although the overall tax base has risen it has fallen in two Parishes. This is because of a number of downward re-bandings that has reduced the overall base. The overall increase of 222 generates an additional £45k for the borough and shows the value in financial terms of delivering new housing.
- 8.3 The Chancellor of the Exchequer announced in the November Budget that Council’s would be able to charge a 100% supplement on empty properties instead of the current 50%. Although details are awaited if this were to be implemented in Surrey Heath it would increase the tax base by 25.73 and generate an additional £5,300 for the borough. Increasing the charge on

empty properties encourages them to come back in to use more quickly. It is unlikely that legislation will be in place before April 2019

- 8.4 The Council pays a special grant to parishes to compensate them for the change to the tax base due to the introduction of the Local Council Tax support scheme (LCTSS). This grant will remain unchanged from that paid in 2017/18 despite the fact that it is no longer funded by central government. This is shown in the table below:

Support for Parishes due to the LCTSS

Parish/Town	Support given in 2017/18 & 2018/19
Bisley	1,334.30
Chobham	2,962.87
Frimley and Camberley	8,116.98
West End	1,591.65
Windlesham	5,937.64
TOTAL	19,943.44

- 8.5 Due to better than predicted collections and additional properties it is predicted that the collection fund will be in surplus at the end of 2017/18. The Sec 151 officer has therefore determined that a surplus of £3,000,000 can be declared for the year. Of this will £2,242,200 will be paid to Surrey County Council, £378,300 to the Police and the remaining £379,500 to the borough. This will be used to support the budget for 2018/19
9. Investment income and borrowing costs
- 9.1 The 2018/19 estimates include a provision of £160k for investment income to be generated from external investment. This is less than last year due to the fact that investments were sold to repay debt and therefore reduce the Council's borrowings. Services are charged with the full cost of borrowing, be that at the PWLB borrowed rate for long term loans or at notional rate of 2% for short term and internal borrowing. An allowance therefore of £150,000 has been included within the budget representing the lost interest "earned" by using internal rather than external borrowing. The Council may make additional income if it can achieve an interest rate lower than 2% on its borrowings – this is not reflected within the budget.
10. Items funded from reserves
- 10.1 As in previous years £816,390 of expenditure is funded directly from reserves as follows:
- £75,000 of expenditure relating to community grants included in the budget is being funded from the community fund.

- £250,000 of costs related to Transformation is being financed from the Capital Revenue reserve as it is deemed to be an investment to deliver transformational change to Council services and thus deliver savings in the medium term. This may become an additional budget pressure going forward
- £62,390 for grounds maintenance from the SANGS reserve
- £109,000 for grounds maintenance and playgrounds from commuted sums
- £140,000 from reserves for Family Support.
- £180,000 from Recycling reserve to support the implementation of the new joint waste contract

11. Funding transferred to Reserves

11.1 Unused new homes bonus is budgeted to be transferred to reserves

12. Minimum Revenue Payment (MRP)

12.1 MRP is an amount required under the Prudential Regulations to be charged to revenue to pay back debt. In the budget £1,353,000 has been allowed to meet this requirement in accordance with the Council's MRP policy.

13. New Homes Bonus (NHB)

13.1 In 2010 the Government introduced an incentive to encourage house building. This rewarded local authorities for the number of houses they constructed and also provided an additional payment for any affordable units built. The payment was calculated each year using the tax base growth and was originally paid in the 6 years following the increase in the base. i.e. if a house was completed in year 1 then the council would receive payments in years 2 to 7.

13.2 In December 2016 the Government announced a number of changes to the NHB going forward. These were as follows:

- In 2017/18 the incentive will be paid for 5 years rather than 6;
- In 2018/19 and onwards the incentive will be paid for 4 years rather than 5;
- There will be an assumed housing delivery of 0.4% of the tax base each year For Surrey Heath this is equal to 149 units which will not qualify for NHB. This %age may well increase in the future

Although further changes were expected for 2018/19 these have been deferred by the Government.

13.3 The Settlement announced on the 19th December 2017 has indicated that Surrey heath can expect to receive £863,886 in New Homes Bonus for

2018/19. Of this £251,603 has been generated by the increase in the tax base over 2017/18. The Government has committed to retaining New Homes Bonus as an incentive in the future although its value may well decline over time.

- 13.4 NHB is not “new” money and instead comes out of redistributed local authority funds – mainly by top slicing business rates. However although it was a useful source of revenue and a valuable incentive for housing delivery its effectiveness will decrease as the reward is reduced on future years.
- 13.5 The Government has assumed that New Homes Bonus is there to support on-going services and indeed include it in their calculation of “Core Spending Power” which lists the resources councils have to deliver services. Despite this it has continued to reduce the level of funding payable under this method.

14. Impact of Property Purchase in 2017/18

- 14.1 The Council made substantial investments in property in 2016/17 which have had a positive impact on the budget in 2018/19 as shown in the table below:

Property Investment contribution to General fund 2018/19						
			Albany	Square	St Georges	Total
			£000	£000	£000	£000
Rent			1,077	4,789	511	6,377
Property costs			0		65	65
Professional costs			18		16	34
			18	0	81	99
Profit before interest			1,059	4,789	430	6,278
Interest costs			-314	-2,094	-259	-2,667
Profit after interest			745	2,695	171	3,611
Minimum Revenue Payment						-1,353
Strategic Property costs						-342
Contribution to general fund						1,916

- 14.2 This income has enabled the Council to maintain services whilst covering reductions in grant and increases in costs. More prudent property investment will be required in the coming year if future financial pressures are to be avoided.
- 14.3 Although there are risks around property investment in that rentals can fall, say if units are vacant, it is clear that without this investment being made

services would have had to be cut as a result of funding reductions. That said any significant loss of income would have to be covered by savings or income growth elsewhere in the budget or in the short term from reserves.

15. Overall Budget

15.1 The overall budget taking account of the items above is shown in Appendix A

16. Financial Risks

16.1 There are a number of financial risks contained within the estimates. These are as follows:

Income Projections

16.2 The economic climate continues to affect the income raised from charges and rental income. The estimates used are considered to be prudent based on current knowledge.

Inflation

16.3 There is no general allowance for inflation in this budget. Cost inflation has either been absorbed or budgeted for.

Salaries

16.4 Whilst the Council has tried to limit the growth in wages it finds itself under increasing pressure from what the private sector is prepared to pay. In addition as it takes on new services and responsibilities, which in turn generates income, these need to be adequately staffed thereby increased the overall cost of staffing. The budget assumes a 4% vacancy margin in order to allow for staff turnover during the year and an allowance for a pay increase which is yet to be agreed.

Business Rates Funding

16.5 A change in business rates income has a direct impact on Council funding. This has been explored earlier in this paper

17. Financial Forecast

17.1 Each year as part of the budget process a 5 year financial forecast is prepared which attempts to model the Council's finances over this period. The Government has made no announcement of funding allocations beyond 2019/20 and so this makes it difficult to model the finances beyond this period.

17.2 The forecast assumes that there is no change in services or income. Its purpose is to show the scale of the financial challenge over the next 5 years.

- 17.3 The forecast has used the resource projections provided by the Council's advisors LG Futures. These are a "best guess" but do give some indication as to what the total resources are. It can be seen that as a result of the negative tariff and the business rates rebasing these are forecast to reduce quite sharply over the forecast period.
- 17.4 The forecast takes no account of any significant projects that may arise during the life of the forecast with the exception of Phase 1 of the Square Refurbishment. The London Road Block project, which could have significant financial implications, has been ignored save for the £600k granted this year by Council. The impact of this and other projects on the councils overall budget will form part of the overall consideration by members when these are eventually brought forward.
- 17.5 The Council has invested in property which is reflected in the forecast. It is likely that further investments will be made but these are not included as they cannot be quantified at this time, however they will be one of the ways in which any future funding gap could be addressed

- 17.6 The Financial Forecast is made up of 4 parts as follows:

Revenue fund projection

- 17.7 This rolls forward the current proposed budget, reflecting future changes as agreed by Management Board and the assumptions in the table below

Capital Expenditure forecast

- 17.8 This shows a projection of the level of Capital Reserves based on known "approved" future expenditure. For the purposes of this forecast it has been assumed that significant capital projects will be funded by borrowing and be self-financing.

Capital and revenue balances

- 17.9 This sets out the predicted use of reserves based on the financial forecast.

Assumptions

- 17.10 The assumptions used in the forecast are set out below. It should be noted that these are only assumptions for the purposes of the financial model and should not be seen as an indication of policy for future years:

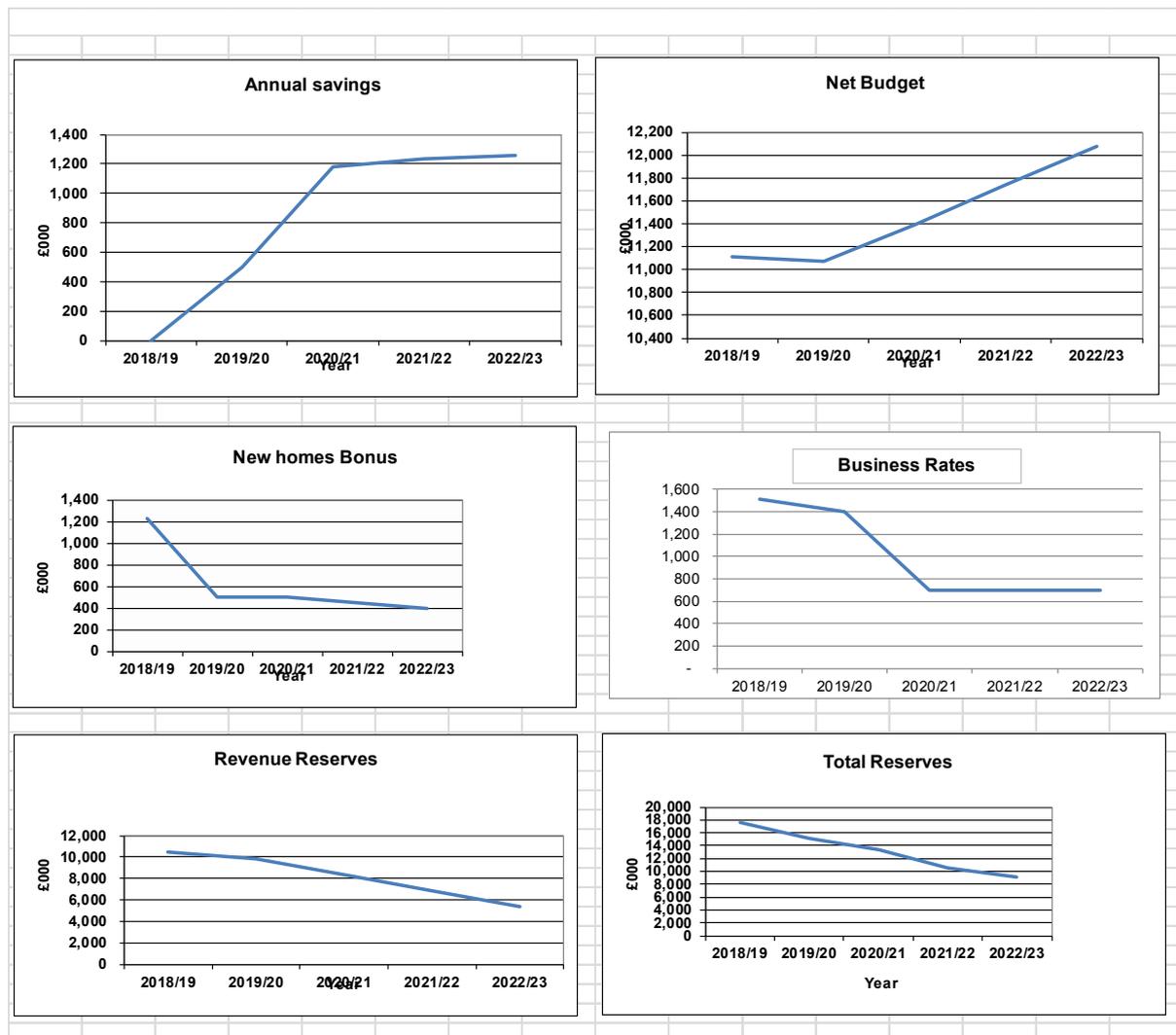
Forecast Assumptions

Category	Assumption
Inflation - wages	2.0%
Inflation - Expenses	1.5%
Investment Returns	1.5% to 2.0%

Government Funding	As per LG futures
Council Tax	3% increase
Fees and Charges	2.0%

18. Financial Projection based on a Council Tax increase in 2018/19

18.1 The graphs show the projected outcomes for 2018/19 to 2022/23. The detailed schedules are in Annex B



18.2 The outcome from this scenario is that savings or income of about £1.3m will be required from 2020/21 to mainly replace funding lost from Business Rates, New Homes Bonus and Surrey CC. It also reflects the cost of having to fund the borrowing to support the capital programme.

19. Risks to be considered in relation to financial forecast
- 19.1 The forecast is based on a set of assumptions that are in reality a “best guess”. This year more than ever there are a number of areas of uncertainty, particularly in relation to the local government finance reforms, which potentially could have a huge effect on forecasts.
- 19.2 Income Projections
It has been assumed that income will not decline and only grow by inflation
- 19.3 Commercial Rental income
It has been assumed that rental income will remain stable over the period. It is anticipated that income will grow over the life of the forecast but there is also a risk it may fall and hence increase the budgetary pressure. A 1% fall in commercial property income equates to about £90k
- 19.4 Local Government Funding
It has been assumed that funding will continue to fall in line with spending review 2015 and continue to fall at the same rate after that.
- 19.5 Council Tax increases
These forecasts assume that Council Tax will be increased by 3% in the future. The Government could reduce the level at which a referendum is triggered thereby limiting the ability of Councils to increase Council Tax.
- 19.6 Pension Deficit payments
It is assumed that no additional payments will be due over the period as the scheme is currently fully funded.
- 19.7 New Homes Bonus
The forecast assumes that this will be retained but reduced over the period
- 19.8 Interest Rates
Assumed to be 2% for debt and 1% for investments.
- 19.9 Inflation
Inflation of 1.5% pa has been built in the forecast for other costs and 2% for wages.. It has been assumed that any increase over this will be absorbed
- 19.10 Legislative changes
Legislative changes could have an impact on the council’s future finances either in a positive or negative way. This has been ignored in the forecast but is a risk
- 19.11 Changes
It has been assumed in the forecast that there will be no changes to services. This assumes that services would be maintained despite the withdrawal of county funding. Transformation of services may be one of the ways that the funding gap is addressed.

20. Conclusions to be drawn from the Financial Forecast

20.1 This year marks the second year with no Government funding. It has been assumed that in future years the Council will become a contributor to Government funds through the negative grant. The council has always pursued a policy of increasing income rather than cutting services to balance the budget. This income could come from increases in charges for existing services, the development of new chargeable services and further investment in income generating assets. If, however this is not possible then service reductions coupled with a cessation of the Council's capital investment programme may be required to ensure that the budget remains in balance.

20.2 Having no capital receipts means that the Council will need to continue to borrow to fund its capital aspirations. If these projects are not in themselves self-financing then the interest and Minimum Revenue Provision have to be covered. For every £1m borrowed about £50k revenue is required per year, assuming the asset has a life of 50 years, and so more income generating investments, or reductions in costs, will be required to cover this cost.

21. The Next stage

21.1 At this stage, the following information is required before details of the level of Council Tax for 2018/19 can be proposed:

- The Revenue Support Grant Settlement and Redistributed Business Rates as detailed at paragraph 6, is still provisional. It is anticipated that the final settlement will be announced in Parliament towards the end of January.
- The County Council needs to determine its precept for the year
- The Police and Crime Commissioner needs to determine his precept for the year.
- Details of all the Parish Precepts.
- Confirmation of the referendum limit of 3%

21.2 All this information should be available in time for the Council Tax setting meeting in February

21.3 The revenue estimates or budget is a fundamental cornerstone of the resourcing of Council services and the delivery of the corporate plan. Members are asked to pay particular attention to:

- The major reductions in Government funding as a result of the 2015 Spending review and its implications for the maintenance of services
- Items financed from reserves
- The use of property income to fund services

- The underlying assumptions in the budget
- The financial forecast and its implications in respect of the need for further savings/income if financial stability is to be achieved and the underlying assumptions in its preparation

22. Options

22.1 The Executive is asked to consider and recommend to Council the 2018/19 Revenue Estimates as set out in this paper including the savings target and amounts chargeable to reserves. It can of course amend or reject any part of the budget as set out as it sees fit.

23. Officer Comments

23.1 The investment in property has enabled the Council to maintain services and a balanced budget for 2018/19. However the financial forecast has identified further challenges in future years driven by Council funding being taken by Government, inflation and the capital programme.

23.2 The Council will need to grow and maximise its income streams, be this by further investment in property or raising charges, if service cuts are to be avoided in the future.

23.3 This includes an increase in Council Tax of just under 3% this year, the maximum permitted. Even at 3% the Surrey Heath increase is likely to be significantly less than both the County and the Police increases. Of all the income streams the Council has Council Tax is least volatile and therefore is the only one that can provide a stable funding base for services.

23.4 Any change relating to 2018/19 budget recommended by Executive will be adjusted for in the budget presented to Full Council on the 21st February 2018. As it is a legal requirement to present a balanced budget any reduction in income, say from a reduction in the increase in Council Tax, will have to be met by equivalent savings elsewhere in the budget.

24. Proposals

24.1 It is proposed that:

- (i) The Executive is advised to RECOMMEND to Council that the 2018/19 General Fund Revenue Budget of £11,058,933 as set out in Annex A be approved;
- (ii) The Executive is advised to RECOMMEND to Council that the support grant for parishes to compensate them for the effects of the local council tax support scheme be unchanged for 2018/19 compared to 2017/18;
- (iii) The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of the level of Council Tax to be set for 2018/19.

(iv) The Executive is asked to NOTE

1. That the budget contains £816,390 per paragraph 11 chargeable to reserves;
 2. That a minimum revenue provision of £1.353m is required to repay debt;
 3. There is no Revenue Support Grant from Government to support services;
 4. The provisional NNDR baseline of £1,508,666 and the final settlement on will be reported to Council at its meeting on 21st February 2018;
 5. The inclusion of £200,000 for a pay increase within the budget;
 6. That the Council is a member of the Surrey Business Rates pilot consisting of Surrey County Council and all Surrey Districts;
 7. That a full report, setting out Council Tax proposals for 2018/19 will be presented to Council on 21st February 2018.
 8. That further savings and income generation through investment will be required as a result of anticipated reductions in Government funding and funding the Capital programme in the future.
9. The increase in the tax base from new housing which delivers an extra £47,000 a year in Council Tax

25. Supporting Information

- 25.1 This is all included in the report and the annexes. A separate booklet showing individual budgets by portfolio is available on the website and a copy has been placed in the member's room.

26. Corporate Objective and Key Priorities

- 26.1 The budget underpins all of the Corporate Objectives and Key Priorities.

27. Legal Issues

- 27.1 The process for setting the budget is outlined in the constitution. The Council does have a legal duty to set a budget and precept for Council Tax.

28. Sustainability

- 28.1 This budget is part of the process to make the Council financially sustainable.

29. Risk Management

29.1 There are a number of risks inherent in the budget and in the financial forecast. These have been outlined in the relevant sections

30. **PR and Marketing**

30.1 The financial standing of the Council is always a matter of interest to local residents and other stakeholders. It is important that the public is informed as to how little Central Government funding the borough receives and how this is to be reduced further in the future.

31. **Equalities**

31.1 The Council recognises that where budgetary proposals are likely to have a significant impact on Council policies or service provision, such changes may have a disproportionate impact on particular sectors or groups within the population. It is thus important to conduct an assessment of such impact, in line with the Council's commitments as set out in our Corporate Equality Plan, and in compliance with our statutory equality duties.

31.2 Where significant service changes are likely to occur as part of proposals included in budgetary proposals, the Council is thus conducting Equality Impact Assessments (EIA) of these proposals. EIAs are all about considering how such proposals may impact, either positively or negatively, on different sectors of the population in different ways. The purpose of such assessments is to

- Identify whether the proposals are likely have a disproportionate impact on any particular group within the population;
- whether such an impact is positive or negative; and
- whether such an impact might constitute unlawful discrimination.

31.3 Where disproportionate negative impact and/or unlawful impact are identified, the assessment provides a means for the Council to take appropriate steps to either avoid such an impact or take appropriate action to mitigate it.

ANNEXES	Annex A – 2018/19 Summary Budget Annex B – Financial Forecast
BACKGROUND PAPERS	Budget Book for 2018/19
AUTHOR/CONTACT DETAILS	Kelvin Menon – Executive Head of Finance Kelvin.menon@surreyheath.gov.uk
HEAD OF SERVICE	Kelvin Menon - Executive Head of Finance

	Required	Consulted	Date
Resources			
Revenue			
Capital			
Human Resources			
Asset Management			
IT			
Other Issues			
Corporate Objectives & Key Priorities			
Policy Framework			
Legal			
Governance			
Sustainability			
Risk Management			
Equalities Impact Assessment			
Community Safety			
Human Rights			
Consultation			
P R & Marketing			

ANNEX A

GENERAL FUND REVENUE ACCOUNT

2017/18 SUMMARY BUDGET

	2017/18	2018/19	Variance
	Budget	Budget	
	£	£	
Business	1,644,978	988,940	-656,038
Community	5,106,533	4,528,940	-577,593
Corporate	1,501,660	1,674,200	172,540
Finance	1,807,400	1,501,060	-306,340
Legal and Property	-719,390	-18,390	701,000
Investment and development	-1,784,860	-1,840,490	-55,630
Regulatory	3,140,899	2,010,950	-1,129,949
Transformation	583,420	3,245,490	2,662,070
	<u>11,280,640</u>	<u>12,090,700</u>	<u>810,060</u>
Staff and Pension amendments	192,906	200,000	7,094
Add: Minimum Revenue Payment	1,389,000	1,353,000	-36,000
Internal asset charges reversed	-2,075,410	-2,294,700	-219,290
NET COST OF SERVICES	<u>10,787,136</u>	<u>11,349,000</u>	<u>561,864</u>
Less: External Interest earned	-300,000	-160,000	
Less: Internal Interest earned	0	-150,000	
Add: Contribution to Parishes	19,943	19,943	
BUDGET REQUIREMENT	<u>10,507,079</u>	<u>11,058,943</u>	
Less: Collection Fund Surplus	-238,258	-379,500	
Less: Business Rates baseline	-1,464,663	-1,508,666	
Less: Additional Business Rates	-200,000	-200,000	
Less: New Homes Bonus	-1,226,266	-863,886	
Less: Other Grants in settlement	-84,448	0	
Add: Tfr to Reserves	1,226,266	863,886	
Less: Funding from Reserves	-645,000	-816,390	
Add: Parish Precepts	557,575		
COUNCIL TAX REQUIREMENT	<u>8,432,285</u>	<u>8,154,387</u>	
Less: Special Expenses	-176,000	-180,000	
Less: Parish Precepts	-557,575		
OWN COUNCIL TAX REQUIREMENT	<u>7,698,710</u>	<u>7,974,387</u>	
<i>Band D equivalent Properties</i>	37,318.03	37,540.62	
<i>Base Council Tax per Band D property</i>	£206.30	£212.42	2.97%

ANNEX B

REVENUE FUND PROJECTION 2018/19 to 2022/23

2018/19 £000		2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Budget	Portfolio				
989	Business	989	989	989	989
4,528	Community	4,348	4,348	4,348	4,348
1,674	Corporate	1,674	1,674	1,674	1,674
1,501	Finance	1,501	1,501	1,501	1,501
-1,840	Investment and development	-1,840	-1,840	-1,840	-1,840
-18	Legal and Property	-18	-18	-18	-18
2,010	Regulatory	2,010	2,010	2,010	2,010
3,246	Transformation	3,246	3,246	3,246	3,246
12,090		11,910	11,910	11,910	11,910
	Other items				
(2,295)	Internal Asset charges	-2,295	-2,295	-2,295	-2,295
200	Staff and Pensions amendments	250	300	350	350
20	Contribution to Parishes	20	20	20	20
-310	Investment income	-310	-310	-310	-310
1,353	MRP funding	1,725	1,742	1,750	1,750
864	Tfr to reserves				
(816)	Reserves funding	-636	-636	-636	-636
0	Non recurrent costs	35			
11,106		10,699	10,731	10,789	10,789
	Base budget changes				
	Wages Inflation	200	404	612	824
	contract Inflation	135	272	411	552
	Fees and charges inflation	-130	-263	-398	-536
	Rental growth	-40	-80	-121	-162
	Interest for capital program	70	38	5	-27
	SCC Grant reduction	200	400	600	800
0	Total	435	771	1109	1451
11,106	Total Budget to be funded	11,134	11,502	11,898	12,240
	Financed By				
1,509	Business Rates	1,400	700	700	700
200	Business Rates Pooling				
7,973	Council Tax	8,295	8,629	8,977	9,339
864	New Homes bonus	500	500	450	400
380	Collection Fund Surplus	200	200	200	200
180	Special Expenses	180	180	180	180
11,106	Total Finance	10,575	10,209	10,507	10,819
0	Funding Gap/Savings	559	1,293	1,391	1,422

ANNEX B**CAPITAL EXPENDITURE FORECAST 2018 TO 2023**

	Estimated 2018/19 £'000	Estimated 2019/20 £'000	Estimated 2020/21 £'000	Estimated 2021/22 £'000	Estimated 2022/23 £'000
Disabled Facilities Grants	630	630	630	630	630
Lightwater CP	55				
Refuse trucks	3,200				
Camberley high street	2,500	1,600			
Theatre improvements	137				
IT	22				
community Bus	40	40			
Property acquisition	2,000				
GRAND TOTAL OF ALL SCHEMES	8,584	2,270	630	630	630
CAPITAL RECEIPTS RESERVE B/F	0	0	0	0	0
Add: Funding from Loans	5,434	920	-20	-20	-20
Add: Government Grant	3,130	1,330	630	630	630
Add: Capital Receipts	20	20	20	20	20
Less: Capital Expenditure	(8,584)	(2,270)	(630)	(630)	(630)
CAPITAL RECEIPTS RESERVE C/F	0	0	0	0	0
Borrowing b/f	120,000	124,081	123,501	121,881	120,261
Less Funding Required for Capital	5,434	920	-20	-20	-20
Less MRP	-1,353	(1,500)	(1,600)	(1,600)	(1,600)
Borrowing c/f	124,081	123,501	121,881	120,261	118,641

NB The effect of significant capital purchases has been excluded and is has been assumed that either they will make a positive contribution or be self-financing. Furthermore it has been assumed that all schemes approved in 2017/18, such as the Mall refurbishment, will either be completed or carried forward

ANNEX B

**GENERAL FUND CAPITAL AND REVENUE BALANCES ESTIMATED 2017 TO 2022
WITH £5 COUNCIL TAX INCREASE**

Estimated Balance 31-Mar-18 £000		Estimated Balance 31-Mar-19 £'000	Estimated Balance 31-Mar-20 £000	Estimated Balance 31-Mar-21 £000	Estimated Balance 31-Mar-22 £000	Estimated Balance 31-Mar-23 £000
	Capital Reserves					
0	Capital Receipts	0	0	0	0	0
0	Sub Total Capital Reserves	0	0	0	0	0
	Earmarked Revenue Reserves					
13	Atrium Public Art	11	10	10	9	8
1,051	Affordable housing	600	400	200	200	200
276	Atrium s106	50	0	0	0	0
85	Blackwater Valley & Developer Conts	70	50	30	0	0
6	Gum Machine	4	2	0	0	0
5	Chobham Partnership	5	0	0	0	0
544	CIL	100	200	200	200	200
550	Commuted Sums	441	332	223	114	5
178	Community Fund	128	78	28	0	0
82	Crime and Disorder Partnership	82	60	0	0	0
15	Custom build	15	0	0	0	0
308	Deepcut Commuted Sums	280	250	230	200	180
67	Frimley 3G	90	112	25	50	75
27	Heathside Muga	0	0	0	0	0
203	Insurance	180	160	140	120	100
675	Interest	1,500	1,500	1,500	0	0
384	Land Drainage	330	280	230	180	150
80	new burdens	60	30	0	0	0
10	Old Dean Toddlers Playground	11	12	12	11	9
119	One public estate	50	0	0	0	0
87	Personalisation	50	0	0	0	0
216	Sec 106	70	50	30	10	
635	Planning Tariffs	300	200	200	200	200
1,754	Repairs and Property Fund	1,500	1,300	1,000	800	600
150	Recycling Fund	0	0	0	0	0
0	Remediation Fund	0	0	0	0	0
500	Surrey Family Support	52	0	0	0	0
192	SANGS	1,182	250	1,000	1,500	2,000
8,212	Total Earmarked Revenue Reserves	7,161	5,276	5,058	3,594	3,727
	Other Revenue Reserves					
9,145	Capital Revenue Reserve	8,295	8,045	7,795	7,545	7,295
2,200	General Fund Working Balance	2,200	1,676	383	-1,008	-2,430
11,345	Total Other Revenue Reserves	10,495	9,721	8,178	6,537	4,865
19,557	TOTAL RESERVES	17,656	14,997	13,236	10,131	8,592