

General Fund Estimates 2015/16

Summary

To consider and recommend to Council the General Fund Revenue Estimates for the financial year 2015/16.

Portfolio - Finance

Date Signed Off: 6 February 2015

Wards Affected

All

Recommendation

The Executive is advised to RECOMMEND to Council that:

- (i) the 2015/16 General Fund Revenue Budget of £10,225,700 as set out in Annex A be approved; and
- (ii) the support grant for parishes to compensate them for the effects of the local council tax support scheme be unchanged for 2015/16 compared to 2014/15.

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 2015/16.

The Executive is asked to NOTE

- (i) that the budget contains £693,850 per paragraph 11 chargeable to reserves;
- (ii) the savings required depending on the level of Council Tax set;
- (iii) the provisional Revenue Support Grant & NNDR allocation of £2,518,370 and the final allocation will be reported to Council at its meeting on 25th February 2015;
- (iv) the use of £600,000 of the New Homes Bonus to support the budget;
- (v) the additional pension payment of £338,000 for 2015/16 to contribute to the deficit and;
- (vi) that a full report, setting out Council Tax proposals for 2015/16 will be presented to Council on 25th February 2015.

1. Resource Implications

2015/16 Budget

- 1.1 The budget has been prepared on two different bases set out in Appendix A as follows:
 - a) Freezing Council tax for 2015/16 and accepting the compensatory special grant or
 - b) Increasing the Council Tax by 1.94% and rejecting the grant

These options have been presented as it has been assumed that the referendum limit of 2% announced by Government as part of the settlement consultation will be confirmed. Should this not be the case then other options will be presented 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.** This will depend on the setting of the referendum limit, the conditions attached to the freeze grant and the longer term financial implications.
- 1.3 The revenue support grant the Council receives to pay for services has been reduced by £476k or 33% and is now £965k. This includes £419k for the Council tax support scheme leaving £546k for services.
- 1.4 The net cost of Services for 2015/16 as presented shows a reduction of £150k compared to the previous year. The Council has had to absorb a further £169k in pension deficit payments (in addition to the £169k last year) together with £113k of pay increments. This has been achieved through increases in income, in particular in planning and business, and reduction in expenditure through better contracting and staff efficiencies.
- 1.5 The total budget is attached as Annex A and a full set of budget pages detailing each service are available on the Escene and in the Members' Room.
- 1.6 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. A list of these can be found on the internet under finance.

- 1.7 The table below shows the movement in wages and salaries between 2014/15 and 2015/16.

Wages and Salaries movement

	2015/16	2014/15	Movement
	Exc FRS17	Exc FRS 17	
Service	£	£	£
Business	1,131,644	1,131,644	-
Corporate inc CEX	1,315,807	1,315,807	-
Regulatory	1,354,129	1,297,193	56,936
Community	1,482,078	1,407,874	74,204
Finance	1,412,594	1,412,594	-
Transformation	1,272,252	1,272,252	-
Legal	898,025	898,025	-
	8,866,529	8,735,389	131,140

Notes

Most services have kept within budget with the exception of Regulatory and Community although a number do have in year savings to make in addition to the 3% vacancy margin. Regulatory wages have risen as a result of more staff being required to deal with an increase in planning applications. Community are investing in staff to deliver more services and generate income. They have also been particularly hit by the new regulations requiring all staff to be automatically enrolled in the pension scheme. It should be noted that the table above does not include wages paid for family support as these are externally funded. In addition no pay increase for 2015/16 is included above as this is still to be agreed.

- 1.8 The Chancellor announced in his Autumn Statement that the overall funding for Local Authorities would not be reduced any further other than the reduction already announced earlier in the year. In the settlement given for 2014/15, it was made clear that there would be a further cut of 33% or £476k for 2015/16 compared to the previous year and this has been reflected in the settlement given. No figures are available for 2016/17 or beyond however more cuts can be expected. Members may be interested to note that the revenue support grant for 2015/16 is now under £1m and 40% of this is to pay for the Local Council Tax Support Scheme.
- 1.9 Total Government funding to the Council or “Revenue Spending Power”, which includes New Homes Bonus and other grants, has actually only fallen by 0.7%. This is because money saved from the reduction in formula grant is recycled as New Homes Bonus. This implies that the Government views the New Homes Bonus not so much as additional money to deliver infrastructure but rather as

funds to maintain services. That said, there is a risk that even this funding may be removed after the election.

- 1.10 The Council is due to receive £1.270m in New Homes Bonus in 2015/16 compared to £918k in the previous year. This is as a result of new homes being built in the borough increasing the tax base. However the rate of building in Surrey Heath is still one of the lowest in the Surrey and the south east. Guildford for example is due to receive almost £1.8m and Elmbridge £2.5m. It is proposed that £600k is used to support the budget in this financial year. This funding is not guaranteed indefinitely and there is a risk that additional savings will have to be found if it is taken away.
- 1.11 Savings of between £257k and £326k will be needed for 2015/16 depending on the level of Council Tax set with additional amounts in later years.
- 1.12 Expenses totalling £694k 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 £1m at the end of 2015/16 if the savings and budget are delivered as shown.

Future Resource Implications

- 1.13 Local Government has already contributed over £10bn to the austerity savings so far. Due to the ring fencing of a significant proportion of the national budget it is clear that Local Government will bear a large proportion of the savings required after the election in May 2015. Surrey Heath's revenue support grant is already under £1m and it is likely that this will reduce further within the next Parliament after the election. This is against a backdrop of improvement in the private sector which is adding pressure on wages and services.
- 1.14 The Council has made significant internal efficiency savings and increased income to meet the reduction in funding so far without any detrimental effect on services to the public. Staff have worked hard to minimise the effect of Government cuts on the community but this has been at the expense of reducing resilience and capacity in many areas. The financial projection shows that further savings will be required and the Council is working on ways to deliver these. It is likely though that most internal efficiencies have already been realised and so more emphasis is going to have to be put in to the way services are delivered be that by shared services, joint working, joint contracting, outsourcing and demand management. Investment in income generating assets will also be another important source of finance. The Council will need to change radically the way it operates, is structured and the services it provides if it is to meet the financial challenges that are coming.

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:

- 3.1.1 reviews the current year's budget position;
 - 3.1.2 recommends to Executive for recommendation to Council the Budget for 2015/16;
 - 3.1.3 gives details of the provisional Government grant settlement for 2015/16; and
 - 3.1.4 includes a financial projection for 5 years going forward.
- 3.2 This year's budget is prepared against a background of further reductions in public expenditure, the financial volatility of Business Rates and increasing demand for service driven by an aging population and economic factors. These factors combined will make it increasingly difficult for the Council to continue to deliver all its services in their current form in the medium term.
4. General Fund Estimates 2015/16
- 4.1 This year services were asked to prepare their budget using the following parameters:
- 4.1.1 No growth unless contractual and even then to be absorbed by compensatory savings;
 - 4.1.2 No inflationary uplift; and
 - 4.1.3 Base Wages and salaries to keep at least to the 2014/15 cash limited total. i.e. increases in NI, pensions and increments to be absorbed by each service. An exception to this was where in order to generate additional income extra staffing was required.
- 4.2 Management Board in 'Star Chamber' review workshops examined and challenged the draft estimates in some detail and checked that the budget parameters above had been complied with.
- 4.3 A summary of the budgetary position is as follows:

	Note	£000	£000
2014/15 Base budget approved by Council			11,286
Variations to Original Estimate:			
Management Charges	a	3	
Savings	b	-260	
Income Changes	c	-503	
Expeniture changes	d	402	
Change in portfolios			-358
			10,928
Pay provision and vacancy margin (Note g)	e	69	
Pension adjustment (Note h)	f	-273	
Internal asset charges (Note i)	g	369	
Pension fund contribution	h	169	
Expenditure funded from reserves	i	-136	
Non portfolio changes			198
2015/16 Net Cost of Services			11,126

4.4 The table above gives reconciliation between this year's budget and last years. A more detailed breakdown of the budget movement is shown in Annex B.

4.5 The notes for the table above are as follows. It should be noted that a minus "-" indicates a decrease in the budget and a plus "+" an increase.

- a. This relates to a movement between asset charges and management charges for accounting purposes
- b. These are savings offered as part of the budget process
- c. This is income offered as part of the budget process
- d. This relates to increased expenditure through volume and prices
- e. This includes a provision for a pay increase and the vacancy margin. The 3% vacancy margin assumes that the actual staff costs will be less than the budgeted cost due to vacancies arising in the year. This has been exceeded every year on a corporate basis but is becoming more of a challenge as the number of staff reduces.
- f. These are accounting adjustments. The pension adjustment arises because the cost of services includes the actuarial cost of pension provision whereas the Council is only allowed to charge to Council tax payers the actual contributions made.

- g. The asset charge depends on the number of assets held, their valuation and the depreciation policy. It is against local government accounting rules to charge this to Council Tax and it is therefore reversed out as an accounting entry.
 - h. This is an additional payment required to contribute to the pension fund deficit as determined by the actuary at the triennial review in 2013. This will increase by a further £169k next year and then be reviewed in the light of the 2016 triennial actuarial review.
 - i. This represents an increase in expenditure funded from reserves
- 4.6 Provided the actual expenditure, including savings, meets the budget the general fund will be over £1m at the end of 2015/16. This is considered to be a prudent level.

5. Localisation of Business Rates (LBR)

- 5.1 LBR gives local authorities a direct financial incentive to increase economic growth activity, as measured by an increase in business rates driven by development, in their local area. Broadly speaking for every additional £1 collected above the initial baseline 50p goes to the Government to be redistributed as grants such as New Homes Bonus, 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. Conversely, a fall in income of £1 will result in a loss of income of 50p to the government, 10p to the county and 40p to Surrey Heath – however this loss is capped at 7.5% of our overall baseline meaning the most Surrey Heath can lose is £106k.

- 5.2 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				
2015/16 Settlement				
		2014/15	2015/16	Change
		Final	Provisional	15/16 to 14/15
		£000	£000	£000
Minimum Collectible Business Rates		33,385	34,025	2%
Less: 50% to Government		-16,693	-17,013	
Less: 10% to SCC		-3,338	-3,402	
Share for SHBC		13,354	13,610	2%
Less Fixed Tariff		-11,958	-12,187	2%
Business Rates for SHBC		1,396	1,423	2%
Safety net		1,292	1,317	

- 5.3 Of the £1.396m allocated above £92k is top sliced to pay for the homelessness and Council tax freeze grant leaving actual amount in the settlement as £1.304m.
- 5.4 Any increase generated through the annual uplift in business rates is clawed back by reducing the revenue support grant by a corresponding amount. Hence although Surrey Heath businesses pay more business rates each year, none of this increase actually comes to the borough to pay for services. However increases and decreases in valuations do affect the level of income the Council receives.
- 5.5 If Surrey Heath collects more than £34.025m then it can retain 20% of any excess. If conversely it collects less then it loses 40% of any loss up to £106k in total. i.e. the Council cannot receive less than £1.317m to pay for its services
- 5.6 Currently the cost of any revaluations, irrespective as to which year they relate, falls on the Council. An announcement was made in the autumn statement that revaluations would be time barred but details are awaited. In the last 2 years the Valuation Office has cleared a significant number of appeals resulting in a large number of refunds and reduction in income. Going forward the level of appeals should reduce and so the income becomes more predictable.
- 5.7 It is anticipated that that there will be a national business rates revaluation in 2017. When this has happened in the past, the business rates multiplier was adjusted to ensure that the level of rates collected nationally remained the

same. How this will affect individual councils under the new system is not clear. There is also likely to be a rebalancing of business rates between authorities in 2020. This ensures that funding for authorities from business rates does not drift too far from need. Hence authorities that have been successful at increasing income through economic development will lose funding to those that have not.

5.8 The Chancellor announced a number of new reliefs for businesses in the Autumn Statement and said that Councils would be compensated for the cost of these as was the case last year. He also announced that there would be a wholesale review of business rates and the way businesses are taxed in 2016. This may have implications for the way local authorities are funded in the future.

5.9 The table below shows estimated direct gains and losses for %age changes in business rates income against the government baseline of £34m.

Table showing effect of changes in Business Rates		
Actual NDR achieved in 2015/16 (relative to NDR Baseline)	Change in Business Rates Required (£000)	Difference in Funding (£000)
Baseline NDR +3%	1,020	204
Baseline NDR +2%	680	136
Baseline NDR +1%	340	68
Baseline NDR	0	0
Baseline NDR - 1%	-340	-107
Baseline NDR - 2%	-680	-107
Baseline NDR - 3%	-1,020	-107

To put this in to perspective the 12th largest rateable property in the borough generates about 1% of the total business rates

5.10 Given the continued uncertainty over the level of revaluations on appeal £1.423m has been put in to the budget representing the level of business rates the Government expects Surrey Heath to collect. Any increase above this will be taken to reserves to offset future losses.

6. Local Government Settlement 2015/16

6.1 The Council received notification of an indicative settlement for 2015/16 its rate support grant of £965k on the 19th December representing a reduction of £476k or 33% in cash terms compared with 2014/15. This will confirmed by Parliament in January 2015.

6.2 Rather than looking at the reduction in core grant the Government uses a measure called “Revenue Spending Power”. This includes non-recurrent funding such as the new homes bonus and council tax freeze grants. By this measure funding has fallen by 0.7% in cash terms.

6.3 Surrey Heath’s allocation is as follows:

Central Government Funding

	Provisional Allocation 2015/16 £000	Final Allocation 2014/15 £000	Final Allocation 2013/14 £000	Final Allocation 2012/13 £000
Core Funding				
Revenue Support Grant	965	1,441	1,415	63
Share of Business Rates	1,330	1,304	1,370	3,080
	2,295	2,745	2,785	3,143
Other Grants rolled in:				
Council Tax Freeze Grant	174	176	176	176
Homelessness Grant	49	50	50	
Returned funding	0	3		
Council Tax Support Funding			419	
	2,518	2,974	3,430	3,319

6.4 The funding for the Local Council Tax support scheme is no longer shown separately. The Government has stated that this funding has been maintained within the settlement so this would imply that the actual revenue support grant available for services is now £546k.

6.5 The table above shows that the core grant has been reduced by £456k in 2015/16.

6.6 The Council tax freeze grant agreed in 2011/12 was due to expire in 2015/16 but the Government has indicated that it is their intention that this funding will be maintained.

7. Council Tax and Council Tax Freeze Grant

7.1 Council Tax will be set by the Full Council at its meeting on the 25th February 2015.

7.2 The Minister has confirmed that any Council which sets an increase in excess of 2% will have to hold a referendum. Any Council that decides to freeze its Council Tax will be offered a grant worth the equivalent of a 1% increase in tax. For illustrative purposes two Council Tax scenarios have been modelled in Annex A as follows:

- i) Freezing council Tax for 2015/16 and accepting the grant or
- ii) Increasing the Council Tax by 1.94% and rejecting the grant

7.3 The Government has stated that Councils that freeze will have the freeze grant funding built in to their overall government until the next Comprehensive Spending Review which will be after the election.

7.4 A freeze in 2015/16 would save £3.75 a year for a Band D taxpayer on the Surrey Heath element of the Council Tax bill. Surrey County Council, whose precept makes up 74% of the total bill, has already stated that it intends to increase Council Tax by just under 2%. The Police are considering a larger increase and triggering a referendum. Parishes have been excluded from the referendum legislation.

7.5 The current Surrey Heath Band D Council Tax is £192.56. The table below shows the level of increase for difference percentages:

Council Tax Increases

Percentage	Increase £	SHBC Weekly Increase £	SHBC Weekly Cost £
0%	0	0	3.70
1.94%	3.74	0.07	3.77

*The Table shows the costs for Band D properties only.
 Every 1% increase in Council tax raises approximately £70,500 annually
 The majority of houses in Surrey Heath are higher than Band D meaning the increase for the highest band is double that shown.
 Surrey Heath only gets about 12% of the total Council Tax charged*

7.6 **The Council is at liberty to set whatever level of Council Tax it so wishes.** Increases deemed to be “excessive” will trigger a local referendum (at the Council’s expense) on the increase requested. The Minister has confirmed that any increase over 2% will be deemed “excessive”. This year the referendum, if required, would be held on the same day as the General and Council elections thereby reducing the cost considerably.

8. Tax Base, Parish Support and Collection Fund

8.1 The tax base has risen during the year due to as can be seen in the table below:

Council Tax Base

	2015/16	2014/15	Change
Bisley	1,507.32	1,464.72	42.60
Chobham	1,922.82	1,895.73	27.09
Frimley and Camberley	23,125.93	22,974.07	151.86
West End	1,997.80	1,988.67	9.13
Windlesham	8,046.62	7,913.83	132.79
Total	36,600.49	36,237.02	363.47

8.2 This increase will create additional council tax income of £70,000 and shows the value in financial terms in delivering housing.

8.3 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 2014/15 and is shown in the table below:

Support for Parishes due to the LCTSS

Parish/Town	Support given in 2014/15 & 2015/16
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

8.4 The Collection fund shows a projected surplus at the end 2014/15. The Section 151 Officer has determined that a surplus of £1,000,000 can be declared for the year. Of this will £750k will be paid to Surrey County Council, £130k to the police and the remaining £120k to the borough. This will be used to support the budget for 2015/16

9. Investment income

9.1 The 2015/16 estimates include a provision of £300k for investment income. This is an increase of £100k on the previous year as a result of changes made to the Investment Strategy.

10. Pensions

10.1 Surrey Heath along with all the other boroughs and districts, the county, police, a number of parishes and other organisations are members of the Surrey Local Government Pension Scheme. This is managed by Surrey CC and in accordance with regulations a triennial actuarial review was carried out as at the 31st March 2013.

10.2 As a result of this review no increase was implemented in respect of the future service cost of pensions which stayed at 15.7%. However additional contributions were required to address the historic deficit.

10.3 This meant that the £381k Surrey Heath paid in 2013/14 towards the deficit increased to £550k in 2014/15 and will be £719k in 2015/16 and £888k in 2016/17. These are large increases that will need to be funded by from the current budget. It is hoped that the next triennial review in 2016 will show that the deficit has reduced substantially, meaning that contributions can be reduced but there is no certainty of that.

11. One off Items and items funded from reserves

11.1 As in previous years £693,850 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. Typically this budget is under spent.
- £300,000 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.
- £82,900 for community safety using Crime and Disorder Partnership funding.
- £150,000 for property maintenance from reserves.
- £85,950 for Family Support from the Family Support funding reserve which was created when the service was initially set up.

12. New Homes Bonus (NHB)

12.1 In 2010 the Government announced a new 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 bonus is calculated each year and the reward is paid for that year and the 5 years following.

12.2 Amounts received so far are as follows:

Year	2011/12	2012/13	2013/14	2014/15	2015/16
Amount	£69k	£307k	£634k	£918k	£1,271k

12.3 The increasing amount of money paid out as New Homes Bonus rather than general grant reflects the government's policy to reward those Councils that deliver housing development. Surrey Heath has one of the lowest level of new housing in Surrey hence our payment is a lot less than our neighbours.

12.4 NHB is not "new" money and instead comes out of redistributed local authority funds – mainly by top slicing business rates. However it is becoming and increasingly important source of revenue for those areas that want to build housing.

12.5 As has already been stated the Government includes NHB in its "revenue spending power" calculation for local authorities implying it is meant to fund on-going services. With that in mind £600k has been used to support the Council's revenue budget with the remainder being put in to reserves.

12.6 Given that this funding is time limited and it is unclear what will happen when the scheme ends, the Council will need to take steps to reduce its cost base or generate income to cover loss of this funding in the future.

13. Overall Budget

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

14. Financial Risks

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

Income Projections

14.2 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.

Achievement of savings

14.3 There is a savings target included within the budget. There is a risk that this may not be deliverable given the savings already made which will then place more pressure on reserves.

Inflation

14.4 There is general allowance for inflation in this budget. Cost inflation has either been absorbed or budgeted for.

Salaries

14.5 As the Council reduces headcount and churn reduces, achievement of the 3% headcount is becoming more difficult. In addition services have been told to operate within a cash limited envelope for wages. This means absorbing all increments within their spend envelope. This has also meant that there are £100k of savings required in wages which have yet to be identified but have been built in to the budget.

Business Rates Funding

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

Council Tax Support Scheme

14.7 The risk from an increase in claimants, collection costs or bad debts sits with the local authority whereas previously it remained with the Government. So far this has been managed well as steps were taken to mitigate this risk in the design of the new scheme.

15. Financial Forecast

15.1 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 not announced the funding allocations beyond 2015/16 and so our advisers LG futures have modelled the Council's likely funding beyond that which has been used in the forecast. The view taken in that the reductions in grant will continue

15.2 The change to funding of Councils from business rates could lead to variations in income from one year to another. For the purposes of the forecast it has been assumed that there will be no major changes and the potential impact of changes in business rates is highlighted elsewhere in this paper.

15.3 The introduction of the Council Tax Support scheme transfers financial risk to the Council in terms of increased bad debts and changes in number of claimants. Based on experience so far the risk would appear to be low and so it has been ignored but should still be noted.

15.4 The forecast take no account of any significant projects that may arise during the life of the forecast. Part of the decision process for these projects will be a consideration of their impact on the Council's future funding.

15.5 Each Financial Forecast is made up of 4 parts as follows:

Revenue fund projection

15.6 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

15.7 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

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

Assumptions

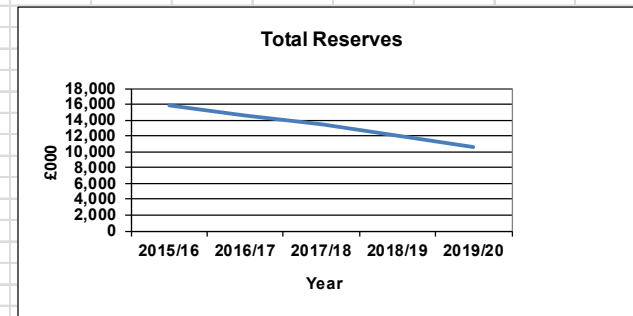
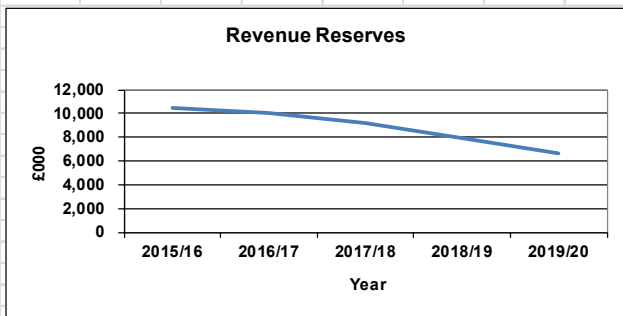
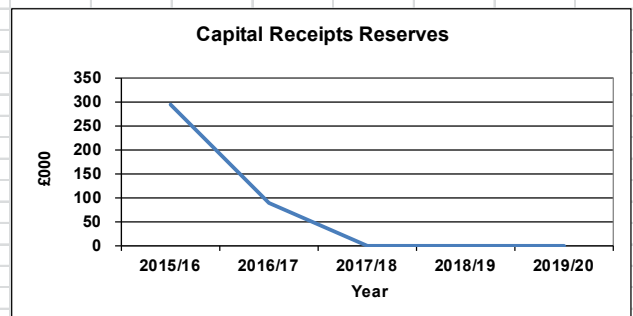
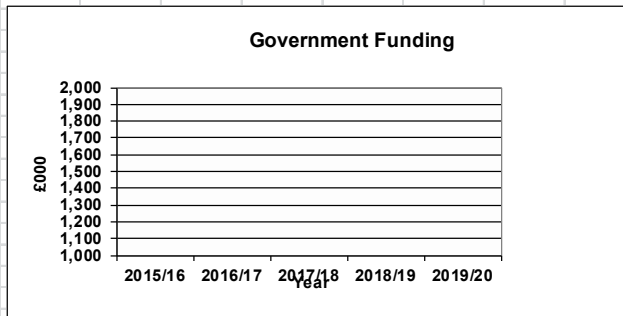
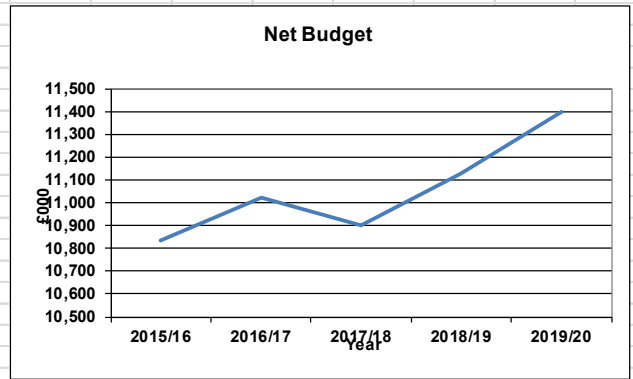
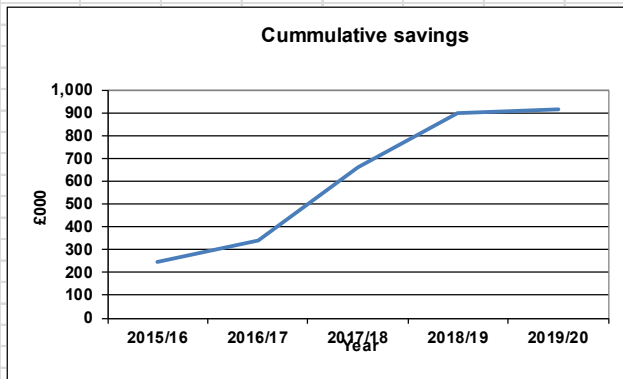
15.9 The assumptions used in the forecast are set out below:

Forecast Assumptions

Category	Assumption
Inflation - wages	1.5% rising to 2%
Inflation - Expenses	1% to 1.5%
Investment Returns	2%
Government Funding	Cuts for entire period
Council Tax	1.94% increase
Fees and Charges	2.0%

16. Prudent scenario without Council Tax increase in 2015/16

16.1 The graphs show the projected outcomes if the freeze is rejected in 2015/16 and a 1.94% increase imposed instead. The detailed schedules are in Annex C.



16.2 The outcome from this scenario is that savings of about £1m will be required by 2019/20.

17. Risks to be considered in relation to financial forecast

17.1 The “prudent” scenario above 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.

17.2 Income Projections

It has been assumed that income will not decline any further as we are now at the bottom of the economic cycle.

17.3 Local Government Funding

It has been assumed that funding will continue to fall until all that remains is funding for the Council Tax Support scheme and Council tax freeze grant. This will mean there will be no additional funding for services.

17.4 Council Tax freezes and increases

These forecasts assume that Council Tax will be increased by 1.94% in the future. However the Government could reduce the level at which a referendum is triggered thereby limiting the ability of Councils to increase Council Tax. In addition further freeze grants may be offered. If the Council were to freeze Council Tax in 2015/16 this would mean that an additional £70k in savings would be required in 2015/16 and in each successive year provided that the freeze grant was maintained. If this was lost after 2015/16 then savings of £140k would be required in 2016/17 and each year onwards compared to the situation if the tax was increased in 2015/16.

17.5 Pension Deficit payments

It is assumed that these payments will reduce to £250k pa after the next revaluation.

17.6 New Homes Bonus

The forecast assumes that this will be phased out over 2 years and hence its removal from the forecast.

17.7 Interest Rates

Interest rates continue to be low reducing investment returns. A 1% rise would generate an additional £150,000 income.

17.8 Inflation

It has been assumed that public sector, in particular wage, inflation will remain low.

17.9 Legislative changes

Legislative changes, such as the transfer of the administration of benefits from the Council to the DWP and the responsibility for Council Tax benefit moving to Councils may have an unpredictable impact financially for the Council.

18. Conclusions to be drawn from the Financial Forecast

- 18.1 The projection assumes that no action is taken to deal with the Council's financial challenges. This is clearly not the case. Work is ongoing in identifying future savings and income streams however the scale of the challenge should not be underestimated especially in the light of the savings already made. The next 5 years will require some more innovative and radical action to be taken if core services are to be maintained..
- 18.2 In all scenarios the funding of capital is a real issue. In the short term capital can be funded from reserves but in the long run it will need to be funded either from revenue or borrowing. Of course capital funded by borrowing needs to be repaid and the interest covered by revenue. The funding of capital expenditure is going to be a present challenges in the medium to long term.
- 18.3 The Medium Term Financial Strategy will be updated in the autumn once the outcome of the general election and the new Government's financial plans are clearer. One thing that is certain is that the reductions to come are probably greater than the one the Council has already suffered.

19. **The Next stage**

- 19.1 At this stage, the following information is required before details of the level of Council Tax for 2015/16 can be proposed:
- 19.1.1 The Revenue Support Grant Settlement and Redistributed Business Rates as detailed at paragraph 7, is still provisional. It is anticipated that the final Settlement will be announced in Parliament towards the end of January;
 - 19.1.2 The County Council needs to determine its precept for the year;
 - 19.1.3 The Police Commissioner needs to determine his precept for the year;
 - 19.1.4 Details of all the Parish Precepts;
 - 19.1.5 Agreement on the Localisation of Council Tax scheme; and
 - 19.1.6 Information from Government as to the arrangements for a Council Tax freeze and compensatory grant.
- 19.2 All this information should be available in time for the Council Tax setting meeting in February
- 19.3 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:
- 19.3.1 The savings that have been included within the estimates for 2015/16
 - 19.3.2 Items financed from reserves

- 19.3.3 The underlying assumptions in the budget
- 19.3.4 The impact of the past and proposed council tax freeze grants for 2015/16
- 19.3.5 The financial forecast and its implications in respect of the need for further savings if financial stability is to be achieved and the underlying assumptions in its preparation.

20. Options

- 20.1 The Executive is asked to consider and recommend to Council the 2015/16 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.

21. Officer Comments

- 21.1 Any change relating to 2015/16 budget agreed by Executive will be adjusted for in the budget presented to Full Council on the 25th February 2015.

22. Proposals

- 22.1 It is proposed that as follows:

- (i) The Executive is advised to RECOMMEND to Council that the 2015/16 General Fund Revenue Budget of £10,225,700 as set out in Appendix 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 from 2014/15.
- (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 2015/16.
- (iv) The Executive is asked to NOTE:
 - 1. That the budget contains £693,850 per paragraph 11 chargeable to reserves;
 - 2. The savings required depending on the level of Council Tax set;
 - 3. The provisional Revenue Support Grant & NNDR allocation of £2,518,368 and the final allocation will be reported to Council at its meeting on 25th February 2015;
 - 4. The use of £600,000 of the New Homes Bonus to support the budget and; and

5. The additional pension payment of £338,000 for 2015/16 and the ongoing funding implications; and
6. That a full report, setting out Council Tax proposals for 2015/16 will be presented to Council on 25th February 2015.

23. Supporting Information

23.1 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.

24. Corporate Objective And Key Priorities

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

25. Legal Issues

25.1 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.

26. Sustainability

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

27. Risk Management

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

28. PR and Marketing

28.1 The financial standing of the Council is always a matter of interest to local residents and other stakeholders.

29. Equalities

29.1 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.

29.2 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:

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

29.3 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	A – 2015/16 Summary Budget B – Savings and Growth Summary C – Financial Forecast with no Council Tax freeze
Background papers	Revenue estimates for 2015/16
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			

ANNEXE A

GENERAL FUND REVENUE ACCOUNT

2015/16 SUMMARY BUDGET

PORTFOLIO'S	2014/15	2015/16		Variance
		OPTION A	OPTION B	
	Budget	0% Ctax Inc	1.94% Ctax Inc	
	£	£	£	
Business	2,425,470	1,988,870	1,988,870	436,600
Community	5,699,050	5,672,080	5,672,080	26,970
Corporate	1,388,220	1,413,990	1,413,990	-25,770
Finance	1,931,600	1,980,810	1,980,810	-49,210
Regulatory	2,256,610	2,241,520	2,241,520	15,090
Transformation	1,053,070	1,098,350	1,098,350	-45,280
	14,754,020	14,395,620	14,395,620	358,400
Less: Staff cost amendments	-198,671	-129,940	-129,940	-68,731
Pension adjustment	-199,184	-472,370	-472,370	273,186
Add: Additional pension contribution	169,000	338,000	338,000	-169,000
Internal asset charges reversed	-2,680,990	-2,311,760	-2,311,760	-369,230
Less: Funding from Reserves	-557,900	-693,850	-693,850	135,950
NET COST OF SERVICES	11,286,275	11,125,700	11,125,700	160,575
Less: Investment Interest earned	-200,000	-300,000	-300,000	
Less: New Homes Bonus	-525,000	-600,000	-600,000	
ESTIMATED NET EXPENDITURE	10,561,275	10,225,700	10,225,700	
Less: Savings Target	-255,977	-315,895	-246,597	
Add: Contribution to Parishes	19,943	19,943	19,943	
Add: Tfr to Reserves from Collection Fund	169,000	0	0	
BUDGET REQUIREMENT	10,494,241	9,929,748	9,999,046	
Less: Sec 31 Grant in Lieu of Council Tax	0	-70,477	0	
Less: Collection Fund Surplus	-169,000	-120,000	-120,000	
Less: Business Rates baseline	-1,396,806	-1,423,497	-1,423,497	
Less: Rate Support Grant	-1,577,955	-1,094,873	-1,094,873	
Less: Business Rates growth	-200,000			
Add: Parish Precepts				
COUNCIL TAX REQUIREMENT	7,150,480	7,220,901	7,360,676	
Less: Special Expenses	-173,111	-173,111	-176,000	
Less: Parish Precepts	0			
OWN COUNCIL TAX REQUIREMENT	6,977,369	7,047,790	7,184,676	
<i>Band D equivalent Properties</i>	<i>36,237.02</i>	<i>36,600.49</i>	<i>36,600.49</i>	
<i>Base Council Tax per Band D property</i>	£192.56	£192.56	£196.30	

Parish Precepts are not included above as they were not known at the time the report was prepared

ANNEX C

REVENUE FUND PROJECTION 2015/16 to 2019/20

BASE MODEL

2015/16 £000		2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Budget	Portfolio				
1,989	Business	1,989	1,989	1,989	1,989
2,241	Regulatory	2,241	2,241	2,241	2,241
1,414	Corporate	1,414	1,414	1,414	1,414
5,672	Community	5,672	5,672	5,672	5,672
1,981	Finance	1,981	1,981	1,981	1,981
1,063	Transformation	1,063	1,063	1,063	1,063
	MC adj				
-694	Less funded from Reserves	-694	-694	-694	-694
-280	Vacancy Margin	-280	-280	-280	-280
13,386		13,386	13,386	13,386	13,386
	One Off or Non Cash Costs				
(2,311)	Internal Asset charges	(2,311)	(2,311)	(2,311)	(2,311)
(472)	FRS17 Pensions	(472)	(472)	(472)	(472)
338	Pension deficit funding	507	250	250	250
35	Non recurrent costs				35
(2,410)		(2,276)	(2,533)	(2,533)	(2,498)
10,976	Base Budget	11,110	10,853	10,853	10,888
	Financing Changes				
(300)	Investment Income	(345)	(401)	(373)	(336)
	Income Inflation	(160)	(323)	(490)	(659)
	LCTSS growth	20	40	60	80
150	Wages Inflation	287	473	662	856
	Expense Inflation	100	252	405	561
(150)	Total	(98)	41	266	501
10,826	Total Budget to be funded	11,012	10,894	11,119	11,389
	Financed By				
965	Rate support Grant	793	420	420	420
1,330	Business Rates	1,400	1,400	1,450	1,500
223	Other grants	223	223	223	223
-20	Contribution to Parishes	-20	-20	-20	-20
7,185	Council Tax	7,324	7,466	7,611	7,759
120	Collection Fund Surplus	120	120	120	120
600	New Homes Bonus	600	300	0	0
	Increase in Tax Base	50	100	150	200
176	Special Expenses	179	183	186	190
10,579	Total Finance	10,670	10,192	10,141	10,392
247	Funding Gap/Savings	343	701	978	997

ANNEX C

CAPITAL EXPENDITURE FORECAST 2015 To 2020

BASE MODEL

	Estimated 2015/16 £'000	Estimated 2016/17 £'000	Estimated 2017/18 £'000	Estimated 2018/19 £'000	Estimated 2019/20 £'000
Disabled Facilities Grants	500	500	500	500	500
Renovation Grants	25	25	25	25	25
IT					
Planned Property Maintenance					
Capitalised Salaries					
Equipment Replacement Program					
GRAND TOTAL OF ALL SCHEMES	525	525	525	525	525
CAPITAL RECEIPTS RESERVE B/F	500	295	90	0	0
Add: Funding from Capital Revenue Reserve	0	0	115	205	205
Add: Funding from Revenue					
Add: Government Grant	270	270	270	270	270
Add: Capital Receipts	50	50	50	50	50
Less: Capital Expenditure	(525)	(525)	(525)	(525)	(525)
CAPITAL RECEIPTS RESERVE C/F	295	90	0	0	0
CAPITAL REVENUE RESERVE B/F	9,237	8,937	8,687	8,322	7,867
Less: Transformation	(300)	(250)	(250)	(250)	(250)
Less Funding Required for Capital	0	0	(115)	(205)	(205)
CAPITAL REVENUE RESERVE C/F	8,937	8,687	8,322	7,867	7,412

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

ANNEX C

**GENERAL FUND CAPITAL AND REVENUE BALANCES ESTIMATED 2015 TO 2020
WITH COUNCIL TAX INCREASE**

Estimated Balance 31-Mar-15 £000		Estimated Balance 31-Mar-16 £'000	Estimated Balance 31-Mar-17 £000	Estimated Balance 31-Mar-18 £000	Estimated Balance 31-Mar-19 £000	Estimated Balance 31-Mar-20 £000
	Capital Reserves					
500	Capital Receipts	295	90	0	0	0
500	Sub Total Capital Reserves	295	90	0	0	0
	Earmarked Revenue Reserves					
12	Atrium Public Art	11	11	10	10	9
350	Atrium s106	0	0	0	0	0
130	Blackwater Valley & Developer Conts	110	90	60	30	0
10	Gum Machine	8	6	4	2	0
6	Chobham Partnership	0	0	0	0	0
740	Commuted Sums	600	500	400	300	200
320	Community Fund	280	230	180	130	80
120	Crime and Disorder Partnership	70				
360	Deepcut Commuted Sums	340	330	320	310	300
40	Heathside Muga	0	0	0	0	0
180	Insurance	150	100	90	80	80
360	Land Drainage	330	300	250	200	150
25	Land Charges	0	0	0	0	0
35	new burdens	0	0	0	0	0
20	Old Dean Toddlers Playground	15	12	12	10	8
40	Personalisation	0				
120	Sec 106	100	70	50	30	10
350	Planning Tariffs	300	250	300	250	300
1,750	Reapirs and Property Fund	1,600	1,450	1,300	1,150	1,000
206	Recycling Fund	150	50	0	0	0
45	Remediation Fund	45	45	45	45	45
240	Surrey Family Support	100	0	0	0	0
800	SANGS	850	1,000	1,250	1,500	1,750
6,259	Total Earmarked Revenue Reserves	5,059	4,444	4,271	4,047	3,932
	Other Revenue Reserves					
9,237	Capital Revenue Reserve	8,937	8,687	8,322	7,867	7,412
200	New Homes Bonus	400	600	800	1,000	1,200
1,200	General Fund Working Balance	1,053	710	9	-968	-1,966
10,637	Total Other Revenue Reserves	10,390	9,997	9,131	7,899	6,646
17,396	TOTAL RESERVES	15,744	14,531	13,402	11,946	10,578