MEDIUM TERM FINANCIAL STRATEGY AND FORECAST

Version 2 – June 2016

2017/18 – 2020/21

"Great Place, Great Community, Great Future"

EXECUTIVE SUMMARY

1. The report sets out the challenges facing the Council following the Government's Financial Settlement for 2016/17. Unusually this year the final settlement differed from the initial settlement due to intense lobbying form the sector. This mitigated some of the reduction in funding in the next couple of years but created a cliff edge funding reduction in 2019/20.

2. It is important to recognise that this report is not a Budget report but a look forward at the potential threats to Council finances and seeks member approval as to the strategy of how these could be addressed.

3. The proposed financial strategy set out herein should enable the Council to maintain services across the medium term and beyond and continues to pursue the policy agreed with members that rather than cutting services the Council should deliver efficiencies and increase income.

4. The Council has managed the impact of significant funding reductions over the last few years without directly impacting on services. This has been achieved by transforming the way the Council operates and delivers services coupled with a more business-like approach to income generation. The challenges presented over the next few years means that the Council will need to be more radical in its approach and be prepared to accept more risk if it wants to maintain services as they are. This will involve not only greater collaboration and closer integration with public sector partners to realise savings but also investing on a commercial basis to generate income. Both of these themes are supported by the Council's key priorities.

5. The Government has proposed that there will be 100% Localisation of business rates in 2019/20. Although no details of the proposed scheme are available based on the data provided in the 2016/17 settlement the impact would appear to be adverse for this Council. At the moment based on the settlement figures provided less than 1% of all Business Rates collected would be passed back to the Council for services. It is proposed that the Council should make representations to the Government that at least 5% of the Business Rate income generated in the Borough should be retained by the Borough as part of the design of the new scheme. This will act as a real incentive for growth and bring financial stability to the Council. It is suggested that Surrey districts collectively work with the LGA and others in championing this approach in support of growth.

6. As part of the autumn statement the Minister offered all Councils the guarantee of a four year settlement, thereby providing financial certainty for Councils, provided they signed up for it by the 14th October 2015 and submitted an "efficiency statement" the format of which is to be determined. The issue for Councils such as ours is that the 4th year of the settlement, 2019/20, is the year in which there will be significant changes to Business Rates which could adversely affect the finances of the Council. Until the details of these changes are known it would not prudent to sign up to a 4 year settlement and hence it is proposed that representations are made to the Government to allow Councils to agree to 3 years instead thereby excluding 2019/20.

7. It is important for the Executive to note that the proposed financial strategy seeks to demonstrate ways in which the Council's financial challenges can be addressed. Its approval does not give specific authority to take specific actions – these would be approved in due course by members as they are worked up – but merely to set the direction of travel. Accordingly Executive is recommended to approve the proposed financial strategy on this basis for recommendation to Council.

BACKGROUND AND CONTEXT TO THE FINANCIAL STRATEGY

Introduction

8. The Medium Term Financial Strategy (MTFS) is the Council's key financial planning document which takes account of all the various factors and influences that may impact on the Council for the next few years. These factors include economic conditions, Government spending plans, current expenditure patterns, inflation, and planned changes to service delivery, changing demand for services, the impact of new legislation, sources of income etc. It also includes an assessment of the risks faced by the Council.

9. The MTFS includes a forward look over the next four years to anticipate the spending pressures faced by the Council and the level of savings required to keep Council Tax increases to minimum levels permitted. It provides guidance for officers in building the short, medium and longer term picture of financial requirements facing the Authority and enables financial planning to be carried out in advance to help the Authority meet future demands. Planning now to meet known changes in the future provides greater opportunity to phase in the impact of the changes. Planning for the future will mean that the Authority can ensure sufficient funds are held in balances to be in a position to react swiftly to changing demands and emergencies as priorities or policy demands changes. By anticipating the pressures at an early stage, we can plan to meet the challenges and ensure that limited financial resources are targeted to the Council's residents' highest priorities.

10. The MTFS sets out how the Council will ensure a stable and sustainable financial position to allow the Council to achieve its strategic priorities. It also takes into account the significant funding reductions confirmed in the Local Government financial settlement. It further highlights that the Council will continue to face ongoing reductions in funding over the medium to longer term given the current position on public finances.

11. The Strategy forms a key plank in the Council's achievement of the aims set out in the Corporate Plan and individual service and performance plans. Budgets are developed alongside the service performance and efficiency agenda and monitored similarly. This document draws on the information, aims and concerns set out in these and other documents and seeks to provide a financial framework that will allow the Council to achieve its vision and strategic priorities for the longer term.

12. The Council continues to be committed to maximising the use of increasingly scarce resources, directing resources towards its priorities and generating income whilst keeping Council Tax within permitted levels.

13. The strategy covers a four-year horizon, period 2016/17 – 2019/20 and sets out the resource issues and principles that shape the Council's budget; it identifies current issues and considers potential developments/related issues that are likely to provide the basis for future revenue and capital budgets.

14. Over the past six years the Council has made significant progress in the achievement of its strategic financial priorities. The Council's underlying financial

position remains strong and the Council has managed to achieve the savings required each year.

15. Despite these achievements, the MTFS is being produced at a challenging time for all authorities, there is little room for manoeuvre on finances and relentless delivery of savings and new income streams are required to maintain financial stability. The current national economic and financial climate provides a very challenging context for the MTFS. This strategy needs to remain flexible and the Council's Reserves sufficiently resilient to respond to the impact of volatile external factors and risk transfers from Central Government. The Council has set a balanced budget and its financial standing is sound. Significant savings and new income will continue to be required in future years to maintain financial stability and the ongoing provision of services to our residents.

16. The Council will need to continue its focus on asset investment in order to generate revenue streams as it cannot rely on just efficiency savings to balance the budget shortfall over the next four years.

17. The Council's MTFS once agreed is communicated to staff, partners, stakeholders, and also published on the Council's website.

Delivering the Council's Priorities

18. Our 2020 strategy sets out the Council's vision as:

"The distinctive characteristics of the borough will be maintained where right and improved where desired. Our people will live in good quality homes, our children will attend excellent schools, employers will want to locate to the area, health care will be easily accessible, public service will be of the highest standard, crime rates will still be low and everyone, young and old, will be playing a full and active role in the global challenge of reducing the harmful effects of climate change so ensuring sustainable resources for our children's children."

19. The role of the Council's financial planning process is to support the achievement of the Council's Strategic Priorities and Council Plan.

20. The Council has four main priorities that respond to residents' concerns and to ensure the delivery of high quality, cost-effective services:
    - **We want to make Surrey heath an even better place where people are happy to live**
    - **We will sustain and promote our local economy so that our people can work and do business across Surrey Heath**
    - **We will deliver our services better, faster and cheaper**
    - **We will build and encourage communities where people can live happily and healthily.**

Objective of the Financial Strategy

21. The objectives of the financial strategy are as follows:

- Help ensure that the Council's financial resources are directed to support delivery of the Council's priorities and achievement of value for money.
- Illustrate the financial effects of existing financial commitments over the medium term, both revenue and capital, and to set the parameters for the efficiency gains and income necessary to achieve a balanced budget.
- Look ahead to the longer term to help plan sustainable services within an uncertain external economic and funding environment.
- Strengthen the Council's financial resilience and manage volatility and risk, including maintaining an adequate level of Reserves.
- Secure, maintain and develop the Council's capital assets consistent with the Asset Management Plan.
- Maximise the Council's rental income from Property Acquisitions and Asset Development in line with the Property Acquisition Strategy so that the Council becomes less reliant on Government grants to provide its vital services

Financial Management Principles

22. The Council has a duty to the public for responsible use of their money. The Council shall conduct its financial affairs in a responsible manner, but also in a way that encourages innovation, achieves improvement and facilitates partnership.

23. The following principles underpin the Council's financial management arrangements:

- The Council will conduct its financial management with integrity, probity and in accordance with the standards and expectations of a publicly funded body

- The Council will ensure that its published financial information is transparent, reliable and understandable

- The Council will ensure that budgets are based on prudent and realistic estimates

- The Council will maintain sound financial controls as set out in Financial Regulations, and at all times will have regard to advice from the Section 151 Officer, Head of Paid Service and Monitoring Officer

- The Council will ensure Members play a role in the monitoring of expenditure

- The Council will base its decision making upon complete, reliable and timely financial information, and an evaluation of the financial and risk implications

- The Council will hold its managers accountable for remaining within their budget, empowering managers to take the business decision necessary to do so

- The Council will work with partners in the public, private and voluntary sectors to maximise resources available to deliver corporate priorities

- Before committing to additional expenditure, the Council will ensure that additional funding and/or savings are identified to meet the extra costs. The Council will not commit to ongoing spending from incomes of a one-off nature

- The Council will secure value for money in the procurement of its services

- The Council will maximise its income and will review its fees and charges annually to ensure its income is sustainable and meets its priorities

- The Council will maintain balances and reserves to enable it to response effectively to unexpected events and opportunities, and sufficient to meet all known future liabilities

- The Council will try to identify savings to support budgetary pressures, not use reserves; however, use of reserves may be made to fund one-off items or to alleviate budget pressure within the context of an overall plan to achieve a balanced budget

- The Council will operate its capital programme, borrowing and investments in accordance with the CIPFA Prudential Code. The revenue impact of the Capital Programme will be included in the revenue budget

These principles underpin the operation of the Council's finances and will contribute to ensuring the ongoing sustainability of the finances of the Council.

<u>Budget Setting</u>

24. The financial management principles which underpin the budget setting process are described above. In setting the budget, the principal activities will be:

- An in year monitoring process which ensures maximum delivery from limited resources.

- Review of all base budgets to ensure the level of planned expenditure and income is accurate.

- Ongoing dialogue with budget managers and Corporate Management team to ensure wide spread understanding of the budget and the implication of decisions made during the budget setting process.

- A robust view of growth and savings proposals to ensure all figures are validated and deliverable

- A commitment to delivery once the decisions are made and an understanding of the time scale and process for setting the budget

- Ensure the impact of other parts of the Council's finances, in particular the capital programme are reflected in the General Fund budget and vice versa.

- A clear understanding of risk and the financial implications of decisions

NATIONAL CONTEXT

25. The provisional local Government finance settlement announced on 17 December is seen as a historic settlement: a transition to a world, from 2020, in which local Government will be entirely self-funded through Council tax, business rates and other local resources. This moves Britain from being a nation where nationally 80% of Council expenditure is financed by Central Government, to one in which there is an unambiguous connection between local Councils and their Council taxpayers and businesses. That said it also included for the first time an obligation for districts to not only be self-funding from these sources of income but furthermore to pay business rates back in to the national economy from 2019/20 by the application of negative grant. The Government has also stated that coming with Local Government retaining 100% of Business Rates there will be a number of new obligations for which there will be no additional resources.

26. Within this settlement, the Government prioritised Adult Social Care – i.e. services to help with the growing elderly population, vulnerable and disabled people through a new 2% Adult Social Care precept on Council tax for local authorities with social care responsibilities.

27. The New Homes Bonus, which was due to end this year, has been extended indefinitely. The Government has consulted on reforms to “sharpen its incentives” to make savings which can then contribute to adult social care costs. At this point in time the outcome of the consultation and proposed changes are not known.

28. One change with this year’s settlement is that there is the certainty that comes from knowing what resources will be available not just next year, but until the end of the Parliament, The 2016/17 announcement includes local authority allocations up to 2019/20. There is also an expectation that Councils will smooth the path of spending over the four years using reserves.

29. After significant lobbying from Councils the Government offered some transitional relief for Councils to smooth the funding reductions and give some breathing space. However the big reductions in funding would still come in in 2019/20.

30. Once significant change in the final settlement was to allow all Districts to raise their Council tax by 2% or £5 whichever was the higher without being subject to a referendum. The Government has implied in the data they have released that this will be allowed for the life of this Parliament. The previous policy of offering grants for Council tax freezes was abolished and furthermore any grants payable for previous freeze were removed.

31. The Government is working hard to promote “Devolution Deals” across the country as a way of generating economic growth. Surrey Heath is part of the 3SC deal and discussions are still at an early stage. Being part of a “devolution deal” could bring with it financial advantages such as the ability to levy a local infrastructure precept. There are also risks in that income raised by growth, say by building new houses could be top sliced or there may be new obligations with little or no resources.

Government Support

32. Government Support currently consists of Redistributed Business rates, Revenue Support Grant and New Homes Bonus. The Government set out its four year settlement figures in February 2016 in respect of Business Rates and Revenue Support Grant. In addition a consultation has taken place to look at the ways the New Homes Bonus incentive can be "sharpened".

33. The 4 year settlement figures are shown in the table below:

	4 year settlement - February 2016				**Estimated**
	2016/17	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Core Funding	**£0**	**£0**	**£0**	**£0**	**£0**
Revenue Support Grant	357	0	0	0	0
Share of Business Rates	1,435	1,464	1,507	1,555	1,601
Tariff adjustment				-933	-1,100
	1,792	1,464	1,507	622	501
Other Grants rolled in:					
Transitional Grant	133	84			
	1,925	**1,548**	**1,507**	**622**	**501**
Reduction in funding		**-377**	**-41**	**-885**	**-121**

34. Due to the fact that Surrey was one of the worst affected areas from the original settlement figures published in December 2015 these were significantly improved in the February 2016 final settlement. A Transitional grant was introduced to soften the impact of reductions in RSG and the Tariff Adjustment (or negative RSG) was deferred until 2019/20.

35. It is uncertain what will happen beyond 2019/20, however it is reasonable to assume that there will be increases in the tariff adjustment as this will be a useful mechanism for the Government to take a larger and larger slice of Business Rates. In fact it is not beyond the realms of impossibility that there will come a time when the Council actually receives no business rates to pay for services.

Four-year settlement

36. The Government has offered a four year settlement that Councils' can accept based on the February 2016 settlement figures (shown above) which, in the Governments' view, would provide some certainty on the funding position during this period. The Government has confirmed that Councils' will need to sign up by October 2016 and will need to provide an efficiency statement which shows the efficiencies generated as a result of the certainty provided by the settlement. The nature of this statement has yet to be released but ministers have stated that they

do not wish it to be onerous or create significant additional work for local authorities.

37. Whilst the Government under pressure has introduced mitigations in the form of transitional grants to the original funding proposals for 2016/17 to 2017/18, the 4th year 2019/20 has been left unchanged. The Government has set out that the elements which are fixed if a Council signs up are the Revenue Support Grant, Transition Grant and Rural Services Grant. The Top up and Tariffs related to the Business Rates system will also be protected from changes to relative needs of the Council but there will be no protection from any additional functions which may be transferred to Councils as a result of the move to 100% Business Rates retention or otherwise. There is also no protection from what are called 'unforeseen events'.

38. The figures for the first 3 years of the funding proposals represent continued reductions in resource which was to some extent expected. It had been anticipated for a while that RSG would be phased out the only issue was how quickly this would occur. In 2019/20 the potential change to 100% Business Rates retention coupled with the introduction of the "Tariff Adjustment" means there is such a high level of uncertainty that it is impossible at this stage to accept the proposed figures.

39. It is therefore recommended that unless things change significantly then the Council will only be able to accept the first 3 year's figures. It should be a condition of acceptance that any proposals to change these figures, or the functions which the Council is responsible for, proposed by Government should include provision for the Council to review this decision.

Business Rates

40. Surrey Heath is responsible for collecting business rates, which are set centrally, from all businesses in the borough. In 2015 the Government introduced what is called a "Localisation" of Business Rates which was intended to enable Councils to share in the growth in their areas and to hence encourage development.

41. Under the current system 50% of all business rates collected go to the Government with 40% remaining with the borough and 10% going to the county. In two tier areas to ensure that Districts did not get more money that their relative needs a "fixed tariff" is charged against the 40% allocation which in effect means that most of it is lost. In addition the Government sets an annual baseline as to the level of business rates it's expect to be billed in the year. If the Council manages to over achieve against this target then it can effectively keep 20% of any increase. If however it underachieves then it will suffer 40% of the shortfall up to a predetermined safety net level. Business rates go up and down not only because businesses open and close but also due to revaluations resulting from appeals from the valuation office which can go back several years.

42. The table below shows the baseline level of business rates the Government expects Surrey Heath to collect in the next few years. It can be seen that the actual level of Business rates Surrey Heath actually gets to keep is relatively small.

	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000
Baseline - assumed minimum collected	34,025	34,310	34,988	36,018	37,170
Less: 50% to Government	-17,013	-17,155	-17,494	-18,009	-18,585
Less: 10% to SCC	-3,402	-3,431	-3,499	-3,602	-3,717
Share for SHBC	13,610	13,724	13,995	14,407	14,868
Less Fixed Tariff	-12,187	-12,289	-12,531	-12,900	-13,313
Business Rates for SHBC	1,423	1,435	1,464	1,507	1,555
Less Tariff Adjustment	0	0	0	0	-933
Remining share of Business Rates	1,423	1,435	1,464	1,507	622
%age share	4.2%	4.2%	4.2%	4.2%	1.7%
Safety Net	1,317	1,328	1,354	1,394	1,438

43. Although figures have been given for 2019/20 the Government plans to introduce a system where by 100% of Business rates are retained by Councils rather than the 50% currently. This new system will require baselines and tariffs to be reassessed which will then be used to determine the redistributive model within the scheme nationally. This is a significant risk for Councils as it will ultimately determine the financial impact of the transition to the new system.

44. Under the current system Boroughs and Districts carry 40% of the risk of any losses on appeals although there is a safety net in place to mitigate this. The county on the other hand take only a 10% risk and indeed benefit from receiving a fixed tariff payment from districts irrespective of the level of business rates paid. Under the 100% retention system it is not clear yet where the risk will sit and there will be no safety Government imposed safety net. If 100% of the risk were to sit with Districts then the loss of one significant business ratepayer could easily make an individual district financially unsustainable.

45. All Business Rates properties across the country are currently being revalued to give a new 2017 valuation. This is likely to result in an increase in business rates paid in the south and a reduction in the north to reflect the overall performance of the national economy. The tariffs and top ups will be adjusted to ensure that no council is worse off on day one after the revaluation however the level of appeals

that this will generate do represent a significant risk as the cost of these will be borne by individual authorities.

46. The Government are also consulting on changing the whole system of revaluations which currently take place every 5 years (although the 2015 revaluation has been deferred to 2017) to a more regular system. It is unclear what impact this may have on our income

47. In addition the Chancellor, in his budget on 16 March, announced a number of changes which will all reduce the amount of Business Rates payable as follows:

    a. Small Business Rate Relief doubled permanently from 50% to 100% from April 2017. (Currently the second 50% is temporarily funded as grant).
    b. Increases in the thresholds for Small Business Rates relief and the standard Business Rates multiplier.
    c. Increases to be linked to CPI instead of RPI.
    d. The potential for more frequent revaluations (at least every 3 years). Given revaluation is a trigger for business rates appeals and appeals can have a significant impact on income, this adds to the risk and uncertainty going into the new arrangements.

48. Whilst the Government has agreed to fund these initiatives for the moment and they are welcome for business it is a concern that the amount of money that will eventually be passed over to Council's in 2019/20 is in fact being continually eroded by Government policy changes.

49. The Council has employed LG futures to do some resource modelling of future business rates. They anticipate that due to increases in the business rates base Surrey Heath could in fact received £400k a year more than the Government Baseline in 2017/18 and 2018/19 falling to £200k in 2019/20. The details of this are shown in the resources table below and it is these figures that have been used in the financial forecast.

Year	2017/18	2018/19	2019/20	2020/21
Total rates £m	35.827	36.882	36.440	37.167
SHBC share £m	1.921	1.973	0.765	0.765
%age	5.4%	5.3%	2.0%	1.3%

<u>New Homes Bonus</u>

50. The Government has consulted on changes to the New Homes Bonus scheme, which closed on the 10^{th} March, and we are awaiting the outcome. The Government has signified that it tends to "sharpen" the incentive which is given for the delivery of new housing. This is likely to be achieved by reducing the amount payable to Councils and making it harder to qualify.

51. The Council responded to the consultation emphasising the need for this funding to continue and discouraging the Government from introducing baseline targets (beneath which grant would not be earned), or changes to exclude developments if planning permission was granted on appeal.

52. It is difficult to predict the future level of News Homes Bonus since the results of the consultation have not been published. However LG futures have made estimates as to what they predict the new homes bonus will be going forward based on the most likely outcome of the consultation and historical house building in Surrey Heath. This assumes that the bonus will be restricted to eventually to 4 years from 2018/19 and be scaled back. This results of this are shown in the table below:

Year	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Amount	£1.409m	£0.888m	£0.733m	£0.837m

53. For the purposes of the forecast it has been assumed that the levels shown above will be received in New Homes Bonus grant. In 2016/17 £700k was retained in support of the budget. Hence with the indicative levels of grant above it should still be possible to do this. It should however be noted that even to achieve this level of New Homes Bonus the Council will still need to deliver homes at the same rate as now.

54. There is a risk that the changes to the scheme have a more significant impact and the total bonus paid falls below the £700k currently used to support the revenue budget. If this were to happen the Council would need to secure additional savings to offset these losses from the base budget. This has not been reflected in the forecast.

<u>Council tax income</u>

55. The final Local Government Settlement for 2016/17 introduced the ability for Borough and District Council's to increase Council Tax by the higher of £5 or 2%. The future spending power figures provided by the Government assumed that Councils will take advantage of this flexibility to generate the maximum Council Tax income possible. In addition the Government has assumed that the tax base will increase at the same rate as it has historically.

56. For the forecast it is assumed that the Council will implement the maximum increase in Council Tax it may do so without needing a Referendum and that the tax base will increase by 0.67% being 2/3rds the average increase for the past 3 years. This is about 250 Band D properties per annum.

Council Tax Forecast

Year	2016/17	2017/18	2018/19	2019/20	2020/21
Tax base	36,982	37,232	37,482	37,735	37,989
Band D	£206.07	£211.07	£216.07	£221.07	£225.47
Total funding	£7.602m	£7.838m	£8.077m	£8.319m	£8.541m

It should be noted that the figures above include the Special Expenses charge.
It is a major plank of the Financial Strategy that Council tax is increased to by maximum permitted level each year

SERVICE AND OTHER PRESSURES

Employee Costs

57. The Council has over several years sought to limit the growth in salaries by ensuring that the in cash terms the salaries budget is fixed despite increases in wages and increments. In order to achieve this the Council's headcount has been reduced over the last few years. In 2015/16 the Council managed to keep within its pay budget and indeed over achieve on the vacancy margin and the 2016/17 budget was set on the same parameters. Going forward this is going to be increasing difficult to maintain in that firstly the Council is finding it difficult to recruit in some technical areas due to wage competitions and secondly if there were further reductions in headcount there would be some resilience issues in some areas.

58. In addition the Council has some significant ambitions that will need to be funded. Hence for the purposes of the forecast it has been assumed that wages will increase by £200k per year. This equates to around 2% of payroll and will need to absorb any future changes in staff structure, staff progression, Government increase in National Insurance and pay inflation.

59. An actuarial review of the pension fund is due to be completed as at 31 March 2016. This will determine the contributions towards the pension fund deficit from 2017/18 to 2019/20 and any increase in on going contributions. The early indications are that there will be no increase in annual contributions however the deficit funding is likely to rise. For the forecast an assumption has been made of £400,000 annual increase.

Inflation

60. A number of the Council's contracts are indexed in some way to inflation. It has been assumed that these increases will be in line with CPI. The main contracts relate to waste and recycling and these total £3m hence £60k pa has been added.

61. It has been assumed that inflationary increases in other areas will be absorbed in increased charges or other efficiencies

Joint Waste procurement

62. The Council is at the moment in a joint procurement for waste collection with 4 other authorities. At the moment it is not possible to say what the exact savings would be but the Council is guaranteed a saving of at least £100k and so this has been incorporated in to the model.

63. The County is also reviewing the way that it apportions its costs for waste disposal and is looking to achieve significant savings by changing the recycling incentive from one that encourages recycling to one that reduces residual waste. This could have affect Surrey Heath as we are the top performer for recycling. At the moment the impact of this has not been included in the forecast since the details are not know however it is sensible to flag it up as a potential risk.

Reduction in Surrey County Council support

64. A number of the Council's older people's services rely on continued funding from Surrey County Council. Recent discussions with the county have confirmed that this funding is safe for 2016/17. However it is reasonable to assume that this will be cut in the future and so a reduction has been built in to the forecast so as to halve the level of grant by 2019/20.

65. The Council currently provides the "supporting people "services in association with Surrey County Council. At the moment this if funded rom grant. It has been assumed that should the funding come to an end this service would stop. The total direct costs of the service are £320k of which £220k is provided by way of grant.

Land Charges

66. The Government has stated that the Land Registry will take on the future provision of Land Charges information. It is not known when this will occur and there are also now plans to privatise the land registry completely. There is risk that there are residual costs which will no longer be covered by income from charges. An estimate of £40,000 has been included in 2018/19 to allow for any costs which cannot be recovered.

Fees and Charges

67. The Council generates a significant income from fees and charges of which £2m comes from parking costs. This has increased significantly over the past few

years not only from increases in parking charges but also from car park usage. Hence an increase of £100k pa has been incorporated in to the forecast.

68. The Council has ambitions to alter the configuration of car parks in Camberley town centre which could have an impact on income. This has not been reflected in the forecast as this is not certain – however it is mentioned here as a potential uncertainty.

Property income

69. The Council holds a significant portfolio of investment property which in the 2016/17 budget was forecast to generate £1.7m. It has been assumed that these will increase and so £30k has been added in to the forecast to take account of this.

Treasury Management

70. The Council at the 31st March had £27m invested in various institutions however this balance rises and falls during the year. Treasury returns are usually dictated by the BOE base rate which has been set at 0.5% for a number of years. This had a very negative impact on returns. 18 months ago the Council changed its investment strategy and diversified in to money market and managed funds which have proved to be better investments. Hence for the purposes of the forecast it has been assumed that the Council will achieve 1.5% return increasing to 2% in 2019/20.

71. The Council has already taken out borrowing for the purchase of property. These loans are fixed and so the interest as known is reflected in the forecast. It has been assumed that no further loans are taken out.

Capital

72. The Council has an Asset Management Plan and Capital Strategy. The Capital Strategy sets the framework for capital investment and this is supported by the detailed capital programme each year. In addition the Council is actively considering asset disposals and acquisitions in a measured and constructive way to support its objectives.

73. The Council has virtually no capital receipts left and all capital funding is now either from revenue or through internal borrowing. It has been assumed that the Council will continue to fund DFGs as well as improvement programs in IT and these have been shown in the capital forecast. For any other schemes it has been assumed that they will be self-financing i.e. the capital required to implement them will be recovered through revenue savings and hence are not reflected in the forecast.

Level of Reserves and General Fund

74. Local authorities are required, when considering their budget setting, to "*have regard to the level of reserves needed for meeting estimated future expenditure*" and to ensure the Council has a sound financial position and is able to meet its ongoing and future requirements. It is the responsibility of the Council, together with its Section 151 officer, to ensure a prudent approach is taken in the administration of financial affairs and that there is a sufficient reserve to meet the anticipated demands and requirements of the authority.

75. Reserves generally are kept for 3 overriding reasons:
    - As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general reserves
    - A contingency to cushion the impact of unexpected events or emergencies
    - A means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements

76. The main reserve the Council utilises in terms of managing its overall financial position is the General Fund reserve. This reserve is used:

    - To protect the working capital of the authority i.e. to manage fluctuations in spending and to ensure there are sufficient funds to meet the ongoing commitments of the Council

    - To support the Council for any unforeseen occurrences e.g. to support the Council's budget if there are expenditure pressures such as a loss of car parking income or very high price increases (e.g. in fuel) which are unforeseen

    - To be available to fund emergencies for example severe flooding which has affected a number of authorities in recent years

    - To use for investment in the authority as invest to save projects

77. As part of its medium term financial strategy there are also some fundamental principles which apply to how reserves are used:

    - The reserves must only be used to fund one off items of expenditure.

    - Reserves should be maintained at a sustainable level to ensure an adequate working balance is maintained.

78. The required level of reserves is not specified by statute, either as a cash amount or as a percentage of the Council's budget. The level set is such the Council's financial position is maintained having regard to the risks the authority faces in the foreseeable future. The Sec 151 Officer reports at budget setting time on the adequacy of the reserves whether they are sufficient for the operation of the Council.

79. In assessing the overall level of risk, some of the factors which have been considered are:

- The level of inflation on services. In particular energy inflation which significantly impacts upon operational services

- The impact of the economic recession with increasing levels of benefit take up and the associated demand for services

- The reductions in Local Government funding across the country as part of central Government's deficit reduction program

- Legislative pressures, such as equal pay legislation and the localisation of Council tax benefit will increase financial pressures on local authorities.

80. In considering the above, as well as the overall financial position of the Council, the current assessed minimum level of general fund reserves is remaining at £1 million with revenue reserves being at least £5m. This allows a prudent view of likely risk and will give the authority sufficient flexibility to respond to current economic uncertainty.

81. The Council uses reserves to pay for future liabilities and obligations. In the forecast it is assumed that the current funding from reserves would end once those reserves are exhausted and the only funding which will continue would be the £250k pa for Transformation.

82. The Council has committed to fund a number of LEP bids and so it has been assumed that up to £1m of the total costs will need to contribute from reserves. This will have an impact on the level of income the Council is able to generate from investment.

MEDIUM TERM FINANCIAL FORECAST

Introduction

83. The Medium Term Financial Forecast sets out the forecast level of resources and expenditure for the authority over the next four years as at the date of preparation. It is important to note that the figures shown in the plan are local forecasts, based upon a number of local and national assumptions and variables, the majority of which are beyond the control or influence of the authority.

84. In preparing this forecast, the authority has taken into account local and national data and current stakeholder views regarding resources levels and expenditure pressures. This allows the authority to determine the sustainability of its medium term financial position.

85. Whilst it is highly probable that the figures shown in this document will change a key benefit of preparing this plan is to understand the degree to which they could change. This then can enable appropriate actions to be in place to ensure that the authority can deal with such changes.

Revenue Resources Projection

Medium Term Revenue Resources Forecast

86. Using the above individual revenue resource stream projections, the medium term revenue resource forecast is set out below. The forecast reflects the future arrangements for local Government funding as far as they are known.

Medium Term Revenue Resource Forecast

Summary Forecast	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Business Rates	1.921	1.973	1.698	1.729
Revenue Support Grant - "negative Tariff"	-	-	(0.933)	(0.964)
New Homes Bonus	1.409	0.888	0.733	0.837
Core Spending Power Grants	0.084	-	-	-
Council Tax	7.838	8.077	8.319	8.541
Total Resources	**11.252**	**10.939**	**9.816**	**10.143**

87. In terms of revenue expenditure it has been assumed that the cost of services will stay broadly the same subject to the areas discussed earlier in this paper. In summary the following assumptions have been made around key cost drivers and income streams used in the forecast.

Budget area	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Pay awards - cumulative	£200k	£400k	£600k	£800k
Pensions	£400k	£400k	£400k	£400k
Inflation - cumulative	£60k	£120k	£180k	£240k
Fees & Charges - cumulative	(£100k)	(£200k)	(£300k)	(£400k)
Treasury returns	(£300k)	(£300k)	(£350k)	(£350k)
Property Income - cumulative	(£30k)	(£60k)	(£90k)	(£120k)
SCC Grant reduction - cumulative	£50k	£100k		
Joint waste savings	(£100k)	(£100k)	(£100k)	(£100k)
Land charges		£40k	£40k	£40k

Revenue Expenditure Forecast

88. Using the assumptions above the revenue expenditure projection for the authority is shown in the table below.

REVENUE FUND PROJECTION 2016/17 to 2020/21

2016/17 £000 Budget	Portfolio	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
1,879	Business	1,879	1,879	1,879	1,879
2,438	Regulatory	2,438	2,438	2,438	2,438
1,520	Corporate	1,520	1,520	1,520	1,520
5,041	Community	5,041	5,041	5,041	5,041
1,907	Finance	1,907	1,907	1,907	1,907
888	Transformation	888	888	888	888
13,673		13,673	13,673	13,673	13,673
	Other items				
(2,204)	Internal Asset charges	(2,204)	(2,204)	(2,204)	(2,204)
(193)	Vacancy Margin	(290)	(290)	(290)	(290)
(562)	FRS17 Pensions	(562)	(562)	(562)	(562)
507	Pension deficit funding	507	507	507	507
20	Contribution to Parishes	20	20	20	20
202	MRP funding	430	430	430	430
(746)	Reserves funding	(974)	(974)	(974)	(974)
0	Non recurrent costs			35	
10,697		10,600	10,600	10,635	10,600
	Base budget changes				
100	Wages Inflation	200	400	600	800
	Pension funding	400	400	400	400
	contract Inflation	60	120	180	240
	Fees and charges inflation	(100)	(200)	(300)	(400)
(300)	Investment returns	(300)	(300)	(350)	(350)
	Property Income increase	(30)	(60)	(90)	(120)
	SCC Grant reduction	50	100		
	Joint waste savings	(100)	(100)	(100)	(100)
	Land charges	0	40	40	40
(200)	**Total**	180	400	380	510
10,497	**Total Budget to be funded**	**10,780**	**11,000**	**11,015**	**11,110**

Overall Position

89. Using the medium term revenue and expenditure projections, the resulting overall forecast position for the authority is shown below.

Forecast Resources and Expenditure

Resources vs. Expenditure	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Resources	11.252	10.939	9.816	10.143
Expenditure	10.780	11.000	11.015	11.110
Net Position	**0.472**	**(0.071)**	**(1.199)**	**(0.967)**

90. The surplus in 2017/18 is made up of unspent new homes bonus which means that of the £1.4m received £0.928m is used to support the revenue budget reflecting an increase of £0.228m.

91. The crunch year comes in 2019/20 when savings of almost £1.2m are required and this this falls in the next year. Hence given all of the unknowns it is a reasonable to assume that savings of at least £1m will be required over the life of this forecast.

Other issues that may affect the forecast

92. The main issues that may affect the forecast are changes imposed by central Government that could reduce the funding available to Councils and put restrictions on Council tax. They could also impose extra burdens which could have a cost in exchange for 100% localisation of business rates.

93. In addition local factors such as the pension fund valuation and pressure on wages could affect the forecast together with more macro-economic factors such as inflation and interest rates.

Sensitivity

94. The projection can vary widely for a few percentage points. If one takes the prudent scenario as a base point then for a number of changes in parameters the savings required for the year ended March 2020 would be:

Change in parameter for forecast period	Change in projected savings for 2021/22
No changes	£0.867m
£100k increase in pay	+£0.400m
50% rise in contract inflation	+£0.360m
50% increase in fees and charges	-£0.200m
£100k increase in investment returns	-£0.400m
Additional 100 houses for Council Tax	-£0.220m
1% growth in Business Rates	-£0.140m

95. Hence it can be seen that small changes can make big differences to the overall projection and the level of savings required

PROPOSED FINANCIAL STRATEGY

96. The figures outlined in this report and summarised in the section above illustrate the potential challenge facing the Council and the likely level of cost reductions or additional income that will be needed to secure a balanced budget.

97. The Council's policy so far has been to seek to achieve a balanced budget with no reductions to services and it is assumed that this approach will continue in to the future.

98. The Council has been particularly successful at reducing costs over the past few years however what is clear is that it will not be possible to meet the required financial challenge through cost savings or efficiencies alone. This is because as the Council becomes smaller the opportunity for savings reduces. That is not to say that there is still scope for further efficiencies through procurement, joint working, new technology etc. just that they will only make a contribution to the savings total.

99. The 2016/17 budget was prepared in accordance with the guidelines below. It is proposed that these principles will continue to apply as key components of the medium Term Financial Strategy throughout the period of this forecast.

- inflationary increases limited to those elements which carry a contractual/unavoidable obligation to adjust by inflation;
- no increase in net revenue expenditure, unless unavoidably necessary, is likely to be approved;
- Wages and salaries to be kept within a cost envelope
- the program to identify further efficiency savings to continue; and
- to propose fees and charges to optimise the income yield.

100. There are a number of different areas the Council should concentrate on in order to address the bridge the £1m financial challenge it faces. These are as follows:

Business Rates

101. A major pressure and source of uncertainty is the Government funding position and in particular in regard to the full localization of Business rates in 2019/20. Although final details of the scheme are awaited from the indicative figures, especially when combined with the negative tariff, Surrey Heath gets to keep only 2% of the business rates collected – far short of the 100% promised. Were this to increase to a modest 5% this would add £1.2m per year to the Councils resources provide a sustainable base position for future years.

Lobby the Government to give a fairer deal to Districts and to provide within the 100% localization of business rates a genuine incentive for growth

Delivery of Housing

102. The delivery of housing within the borough is a key driver for economic growth and is in line with Government policy. The work being done currently with Government to release defence estates land could transform the housing supply

locally. An additional 1,000 houses not only gives an additional £200k in Council Tax *per year* but also potentially £4.800m in New Homes Bonus.

Support the delivery of significant new housing within the Borough.
200 extra units would deliver £40k pa cumulatively

Internal efficiency

103. Whilst a lot of work has already been done to realise the easier efficiencies there is still scope for further work to be done in areas such as shared services, combined management, better procurement, reduced customer contact and streamlined management. The electoral commission review to reduce the number of members and hence member support should also realise savings of at least £100k pa.

Internal efficiencies should deliver a further £20k pa cumulatively
Reduction in members should realise at least £100k pa

Additional income from charges

104. Charging for discretionary services is an accepted way of increasing resources to support other areas of the Council's activities. For some year the Council has discussed for example charging for parking in the borough major parks. Charges are already in place in the neighboring boroughs of Bracknell and Wokingham. Were charges to be introduced in Frimley Lodge and Lightwater Country Park they could be expected to generate at least £50k pa.

Introduce new charges for services - £50k pa

Additional income from assets

105. The Council has been very successful in renting space to partners in Surrey Heath House. So far these contribute of £250k to the budget in terms of rent and shared service costs. A recent space audit indicated that there was still potential to let more space and indeed public sector organisations, such as the CCG, are keen to rent additional space. This is something that should be pursued as a priority.

Rent further space out at Surrey Heath House - £50k pa

106. Total efficiencies from operations as outlined above

Initiative	Financial impact in 2020/21
Housing – 200 units extra pa	120,000
Internal efficiencies	60,000
Reduction in members	100,000
New charges	50,000
Rent space at SHH	50,000
Total	**380,000**

107. This is someway short of the £1m required and so further more radical steps need to be considered as follows:

Reduction in provision of Discretionary Services

108. The Council provides a whole range of services which are not required by statute and therefore not funded. This includes community services such as Meals on wheels and buses to cultural services such as the theatre and the museum. These services in total around £1m hence it is potentially possible to consider reducing the subsidy for these by £100k pa. This may mean however that a number of the services become unsustainable and a likely outcome is that one or two may cease in order to save the others

Reduce subsidy for Discretionary services by £100k pa

Generate Income through Investment

109. Councils have a real incentive to invest to generate income. Borrowing costs from the PWLB are at an all-time low, Councils can fix rates for a long period of time and there is potential to earn a good return from property investment. The Council recently borrowed £16m to invest in income generating assets and this is already contributing to the current budget.

110. Working on the assumption that after taking account of borrowing costs the Council could at least make a 2% actual return and investment in property of £25m should be able to generate £500k. Clearly there is risk in that the value of property can fall as well as rise and the Council can be left in a situation of having no income and additional costs if a property were to become empty. However even with these risks there is really no other option open to the Council to bridge its financial gap short of a sharp reduction in services.

111. The establishment of the Land and Property Board demonstrates the Council's commitment to investment in property driven by a sound business cases in order to deliver financial sustainability and sustain services. Whilst property investment may support the Council's other key priorities, such as the redevelopment of Camberley Town centre, it should be seen as a commercial investment to generate income.

Invest at least £25k with a view to a target net return of 2% - £500k pa

Initiative	Financial impact in 2020/21
Operational changes as above	380,000
Reduction in discretionary services	100,000
Income from investment	500,000
Total Impact of Changes	**£980,000**

112. The strategy outlined above shows how it is possible to achieve the £1m savings required albeit not without an increase in risk. None of the actions suggested are easy and provide no guarantee of success but show the types of things that need to be undertaken. Of course an alternative strategies could be taken as follows:

a. The Council could do nothing and use reserves to support services. With a bit of luck this may keep things going for between 5 and 10 years but is clearly not a sustainable solution and would only delay the inevitable;

b. The Council could reduce and stop discretionary services and ration statutory services. This would possibly achieve the savings required but at significant cost to the community and would represent a change from members aspirations to date. There is also a risk that after doing this what is left would not be sustainable meaning the Council would be driven the route of some sort of merger with neighboring authorities

Neither of these options are particularly sustainable and so there is little choice other than to follow the strategy outlined in one form or another

Looking ahead

113. There is no guarantee that taking the actions above will actually deliver the savings required or that even delivering £1m will be sufficient to address the Council's longer term financial sustainability. It is clear that the reduction in Council funding will continue beyond 2020/21 and that the Government will increase the amount of money it takes out of the sector whilst at the same time increasing the demands upon it. It is inevitable that the current 2 tier system is unsustainable looking forward and that Councils will in the end be driven to work more and more closely together by having shared management and services or indeed even merging completely. It is clear that whatever the outcome of devolution local Government restructure and reorganization has to remain a goal if services are to be maintained in their current form.

RISK MANAGEMENT

114. The Corporate Risk Register includes the risk of the Council being unable to deliver a balanced financial strategy over the medium term. Specific risk factors include:

- External limitations including the Government's ongoing review of Local Government resources, planned localisation of Business Rates and Council Tax pressures including capping;

- Reduced income from fees and charges, which the Council is dependent upon to help balance its revenue budget;

- Budget pressures created by change in demand – decrease/increase in demand for existing services or demand for new services and increased customer expectations.

- In respect of Business Rates were the claim for charitable relief from NHS bodies be successful the Council would have to repay £2m and potentially lose £500k pa in income depending on how the 100% localisation works.

- Risks inherent in property investment and development in terms of movement in the market, development overruns and loss of sales, rental void periods and competition.

115. The Council is addressing these risks by ongoing sound financial management and an emphasis, as part of the Transformation Programme, on value for money, efficiency planning and invest to save initiatives.

116. The Council seeks to manage its risks by retaining an adequate level of balances to ensure that such risks can be managed at least in the short term to allow time for other actions to be taken.

EQUALITIES

117. The strategy has been prepared as far as possible in line with the Council's approach to equalities in that it does not discriminate or support discrimination on the grounds of age, disability, gender, race, religion or belief, or sexuality. The effect on protected groups of actions required to deliver the strategy would form part of an Equalities impact assessment when those changes are considered

OVERALL CONCLUSIONS

118. This strategy and forecast give an overview of the current and future position of the Council. Prospects for the Borough remain good as the Council modernises service delivery and looks to maximise income but the challenges ahead should not be underestimated.

119. Although the financial challenge is substantial it can be seen that with some imagination it is bridgeable. This means not only looking for further efficiencies but going out in a significant way to generate income through construction lead growth, new charges, asset maximisation and investment.

120. This will mean striking a balance between the needs of business and the interests of residents. Only by growing and attracting businesses and encouraging housing development can income be generated to maintain those services that residents hold so dear. Support for business must continue to be a key plank of the Councils financial strategy

121. Whilst the current times bring real challenges to Councils they also give real opportunities to those Councils that are prepared to take the initiative. Surrey Heath has shown through its investment in property and its move in to borrowing that it is prepared to embark on that journey. The first steps have been taken – what is needed now is the courage and determination so carry on.

EFFICIENCY STATEMENT

122. The certainty provided by the Government figures allows the Council to be clear on the challenges over the next 3 years. It enables longer term planning and takes away the uncertainty of the annual local Government settlement process. For 2016/17 there were unexpectedly severe reductions in support and then, after a period of consultation, additional funds made available. The timing of the announcements and the late changes made preparing the budget very difficult. With reliable targets now provided, the Council can be transparent about its financial plans and the decisions it will need to make in order to protect services.

123. The Government requires any Council choosing to accept the 4 year settlement offer to confirm in writing by 14 October 2016 and to submit an efficiency plan. Both CIPFA and the LGA are working with the Government to understand what the efficiency plan will consist of but the Minister Greg Clarke has stated that they should be as “simple and straightforward as possible and not create additional bureaucracy.”

124. The Council delegated at its meeting on the 24th February 2016 to the Executive Head of Finance in consultation with the Portfolio Holder for Finance the decision as to whether the Council signs up for the Government offer of a guarantee. Based on information received to date it would appear to the beneficial for the Council to sign up for at least 3 years however the uncertainty around funding in 2019/20, particularly around the changes to Business rates, makes signing up for the fourth year difficult as it is hard to know what would the

Council would actually be signing up for. Hence it is recommended that representations are made to Government on a Surrey wide basis to enable Council’s to sign up for a 3 year guarantee.