

Setting of the Council Budget and Council Tax for 2019/20

Summary:

This paper sets out the Council's Revenue Budget for 2019/20 together with recommendations for Council Tax. It also includes a financial forecast covering the next 3 years together with a strategy to address future financial challenges.

Wards Affected – All

Recommendation

The Council is advised to NOTE:

- a) that under delegated powers the Executive Head of Finance calculated the amount of the Council Tax Base as 38,054.42 (Band D Equivalent properties) for the year 2019/20 calculated in accordance with the Local Government Finance Act 1992, as amended;
- b) that expenditure totalling £2,042,116 be charged directly to reserves;
- c) that £185,000 be a special expense relating to the non-parished area of the Borough;
- d) That the budget includes provision of £250,000 for the proposed pay increase for all staff;
- e) the comments in respect of the robustness of the 2019/20 Budget and the adequacy of the Council's reserves, provisions and the General Fund Working Balance;
- f) the comments in respect of the financial forecast, strategy and future financial sustainability of the Council;

The Council is advised to RESOLVE:

- g) that the Budget Requirement for 2019/20 be £13,157,835 as set out at the end of Annex A;
- h) that the Council Tax Requirement for the Council's own purposes for 2019/20 be £8,324,785 as set out in Annex A and;
- i) that the Council Tax for 2019/20 (excluding special expenses and Parish precepts) be set at £218.66 for a Band D property

1. Resource Implications

- 1.1 This paper sets out the Council's revenue budget for the coming financial year. Councils are legally obliged to set a balanced budget and the budget presented achieves this through a combination of

efficiencies, increased returns from investment assets and increase in Council Tax.

- 1.2 This overall budget has increased compared to last year. This is due to inflationary pressures in areas such as wages and contracted costs together with reductions in grants for services the Council provides. This has been offset by increases in investment income, use of grants and reserves. There is no general savings target included within this year's budget.
- 1.3 The summary budget is included at the end of Annex A and a more detailed set of individual budget for services – the budget book – has been published on the website and is also available in the Member's room.
- 1.4 The Council continues to receive no Revenue Support Grant and central funding, which includes business rates, has fallen by £2.7m in 8 years. This loss, together with inflationary pressures, has been made up by the Council following a strategy of greater efficiency, investment in property and income generation rather than cuts to services.
- 1.5 So far this strategy has been successful but does carry a significant amount of risk. The current uncertain economic times, in particular around the future of the retail sector, poses a question as to whether this will be sustainable in the future. The financial forecast indicates that there are future budget pressures to be addressed if current services are to be maintained. That said, despite the risks, only the Council's commitment to its town centre through investment could actually bring the regeneration of Camberley to reality.
- 1.6 The Government has stated that Councils will be required to hold a referendum if their Council Tax increase is more than the higher of 2.99% or £5. This budget has been prepared on the basis of slightly below the maximum permissible increase of 2.94%, for rounding purposes. This level of increase is assumed by Government when they consider local authority funding and members are urged to approve it. Both Surrey County Council and the Police have gone for the maximum permitted increases. This will mean that the Surrey Heath Band D council tax will become £218.66 which is an increase of £6.24 on the previous year.

Future Resource Implications

- 1.7 There are a number of changes to Local Government Finance expected in the coming year. The Government has published a consultation paper on its proposals for changes to Business Rates and Council Funding. This will be implemented in the new funding settlement for 2020/21 onwards. Unfortunately from the information provided it is not possible to determine the impact of the changes on Surrey Heath or on Local Government in general. It will be interesting to see whether the funding review results in additional resources for

local government or just a change in how these are shared out. It is likely that District Councils will not feature highly in demands for additional cash compared to other areas such as social care and so their funding will at best stay level or more likely continue to reduce.

- 1.8 In addition to the funding changes the Government is keen to roll out its 75% localisation of business rates across the country in 2020/21. This will see Councils being able to keep 75% of any gains, but also being liable for 75% of any losses over a pre-set baseline. In addition to this the whole business rates system is likely to be rebased meaning that existing gains and losses will be shared out nationally. Clearly where the new baseline is set will have a major impact as to whether an individual council is able to make any gains/losses in the following years. If it is set too high then whatever the Council does to stimulate growth it is unlikely to benefit, if it is set too low then this may benefit successful areas disproportionately. The setting of the baseline will be closely linked to the outcome of the Fair Funding review. As if these changes were not enough there is also talk of a revaluation of business rates in 2020 which would impact what businesses pay and therefore what is collected. Considering all these things together it is extremely difficult to predict with any certainty what the Council's funding will be beyond this coming year. It is perfectly possible to foresee a situation after these changes where eventually the Council actually keeps no business rates at all.
- 1.9 There are also likely to be changes to other grants such as the New Homes Bonus, Homelessness, Housing benefit, Admin grants etc. but what these will be, other than a reduction, is difficult to predict.
- 1.10 The Council is required to prepare a Medium term Financial Forecast so as to demonstrate that it can achieve a balanced budget in the future or that it understands the challenges in delivering one. This forecast, together with the Financial Strategy, has been included as Annex C in this report. The preparation of the forecast this year has been particularly challenging given there is no information on funding beyond 2019/20.
- 1.11 The strategy includes a number of assumptions and these are set out in the paper. The key ones being:
 - An estimate as to what future funding will be
 - No reduction in services offered
 - Only capital expenditure, and the revenue costs resulting is included if approved by members.
 - The redevelopment of the London Road Development and the Arena Leisure centre have been assumed to be revenue neutral i.e. they will generate sufficient income to cover costs. If this is not the case then this may add or reduce financial and cash flow pressures going forward.

- 1.12 The financial strategy indicates that there will be an ongoing financial gap as follows:

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Resources	11,191	10,790	10,903	11,031
Expenditure	-12,365	-12,723	-12,911	-13,102
Net position	-1,173	-1,933	-2,008	-2,071

- 1.13 The Council has over the years made significant internal efficiency savings and sought to reduce the cost of services through collaboration with other bodies. Rather than cut services the Council has pursued a strategy of increasing income, mainly through investment, and this has been successful in meeting these challenges so far. However the impact of further reduction in funding coupled with the impact of inflation and rising costs has meant that the Council has a future funding gap. This Investment strategy will need to continue to ensure that the Council has sufficient resources to maintain services independent of Government funding changes. Furthermore the Council will only be able to borrow money if it has a means to repay it since there is likely to be very little surplus resource within the existing budget. That said the ultimate solution may well be closer collaboration across Surrey if not a full reorganisation of local government as the current arrangements may not be financially sustainable in the longer term. This outcome may be precipitated anyway by the financial issues at Surrey County Council.

2. Key Issues

- 2.1 The level of budget set and the allocation of resources can impact all the Council's services. This report:
- Sets out recommendations for the Budget and Council tax for 2019/20
 - Gives details of expected funding including Business Rates and grants for 2019/20
 - Includes a financial forecast and strategy showing the financial challenges the Council faces in the future.
- 2.2 The 2019/20 budget has been built up from individual service budgets that are shown in detail in the budget book. Where possible inflationary pressures have been absorbed and an allowance of £250k has been made for pay increases this year.
- 2.3 Government funding in the form of business rates and New Homes Bonus has been based on the provisional settlement announced on the 13th December 2018. This was confirmed on the 29th January 2019.

- 2.4 Last year Surrey Heath was part of a Surrey based Business Rates pilot. This was expected to generate £500k which would have gone to Government. The actual amount will be known when the current financial year ends and so is not reflected in this budget, however it was agreed when the pilot application was made that it would be used for economic development projects. An application was made to join a new pilot for 2020/21, albeit on not such advantageous terms, and the outcome is still awaited. Although the Council collects £40m from local businesses only 4% comes to the borough to pay for services. That said Business Rates income has increased well above the original base and so some of this increase has been used to support the budget for this year.
- 2.5 Surrey Heath has invested money in property over the last 3 years which is contributing £1.245m, after borrowing costs and loan repayments, to support Council services. Although this income stream is not without risk it is vital if services are to be maintained in the face of Government funding cuts.
- 2.6 As the Council has no capital receipts the Council can only fund its capital plans by way of grant or borrowing. If these projects are not in themselves self-financing then the interest and Minimum Revenue Provision have to be covered. For every £1m borrowed about £36k revenue is required per year, assuming the asset has a life of 50 years, and so more income generating investments, or reductions in costs, will be required to cover this cost.
- 2.7 The Council maintains a number of earmarked reserves and provisions. All reserves and provisions are considered appropriate and supportive of future expenditure requirements. Revenue Reserves (including earmarked reserves) are projected to be around £30m at the 31st March 2019. These reserves are not only needed for future committed expenditure, such as SANGS, but also to manage the significant financial risks around commercial property and interest rates. Included within this budget is expenditure totalling £2m which has been charged to reserves.
- 2.8 The General Fund reserve, which is the Council's contingency fund, needs to be sufficient to deal with any unexpected expenditure. Provided Council Tax is increased as predicted and the budget delivered then the General Fund should be at least £2.0m at the 31st March 2020. A risk calculation, attached as Annex B indicates that a minimum balance of £2m is needed to provide financial cover for day to day cash flow and any financial emergencies which may occur during the financial year.
- 2.9 A number of fees and charges have been increased and have been approved in accordance with the Financial Regulations. These changes are reflected within the Budget.

2.10 The financial strategy, included as Annex C, sets out the predicted financial challenges that the Council faces and sets out ways that these can be addressed. It is the responsibility of the Section 151 Officer to ensure that the budget remains balanced and therefore the financial strategy is an important document in flagging up potential future issues.

Robustness of the 2019/20 Budget

2.11 The Local Government Act requires the Council's Chief Financial Officer to report to Council upon:

- The robustness of the estimates made for the purposes of the calculation of the Council tax requirement; and
- The adequacy of the proposed financial reserves

2.12 CIPFA has recently published its draft resilience index for all local Councils and the Section 151 officers are to have regard for this when preparing a view on the robustness of the budget. The results for Surrey Heath are shown in the table below:

Surrey Heath

	Min	Authority	Max
Reserves Depletion Time	0.00	100.00	100.00
Level of Reserves	16.6%	300.0%	300.0%
Change in Reserves	-100.0%	50.8%	360.8%
Unallocated Reserves	0.0%	300.0%	300.0%
Earmarked Reserves	6.4%	300.0%	300.0%
Change in Unallocated Reserves	-84.5%	15.9%	400.5%
Change in Earmarked Reserves	-63.2%	58.6%	1946.3%
Grants to Expenditure Ratio	0.0%	0.0%	24.8%
Council Tax Requirement / Net Revenue Expenditure	37.0%	100.0%	100.0%
Retained Income from Rate Retention / Net Expenditure	2.1%	100.0%	100.0%
Auditors VFM Assessment	Unqualified		

2.13 Generally speaking, with the exception of grants ratio, the higher the value the more financially resilient the Council is considered to be.

2.14 The Council's Chief Financial Officer confirms he is satisfied that the preparation of the 2019/20 estimates has been undertaken with rigour and due diligence and provides the appropriate level of resources to meet forecast service requirements. He also reports that the Council's Reserves, Provisions and the General Fund Working Balance, supplemented by the Revenue Capital Reserves are at such levels to meet all known future expenditure requirements and fund any unforeseen or urgent spending which may arise.

2.15 The Chief Financial Officer would like to draw attention to:

- the risks within the Budget particularly around the reliance on income to fund services and;
- the continuing need to make further savings and increase income, as shown by the Medium Term Financial Forecast, if services are to be maintained and the Council remain financially sustainable into the future.

3. Options

- 3.1 Members have the option of rejecting or amending the budget and/or Council Tax increase. However any changes must ensure that the budget remains balanced otherwise it cannot be approved.

4. Proposals

- 4.1 It is proposed that the Council NOTES:

- a) that under delegated powers the Executive Head of Finance calculated the amount of the Council Tax Base as 38,054.42 (Band D Equivalent properties) for the year 2019/20 calculated in accordance with the Local Government Finance Act 1992, as amended;
- b) that expenditure totalling £2,042,116 be charged directly to reserves;
- c) that £185,000 be a special expense relating to the non-parished area of the Borough;
- d) That the budget includes a sum of £250,000 for the proposed pay increase for all staff;
- e) the comments in respect of the robustness of the 2019/20 Budget and the adequacy of the Council's reserves, provisions and the General Fund Working Balance;
- f) the comments in respect of the financial forecast and strategy in respect of the future financial sustainability of the Council;

- 4.2 It is proposed that the Council RESOLVES:

- a) that the Budget Requirement for 2019/20 be £13,157,835 as set out at the end of Annex A;
- b) that the Council Tax Requirement for the Council's own purposes for 2019/20 be £8,324,785 as set out in Annex A and;
- c) that the Council Tax for 2019/20 (excluding special expenses and Parish precepts) be set at £218.66 for a Band D property

5. Supporting Information

- 5.1 This is included within the annexes to this paper.

6. Corporate Objectives And Key Priorities

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

7. Legal Issues

- 7.1 The Council has a statutory duty to set a balanced Budget. The Budget, which is approved by Full Council, will form part of the Council's Budget and Policy Framework. With only a very few exceptions, all decisions of the Executive, Council, Officers, and subordinate bodies must be taken in accordance with the Council's Budget and Policy Framework.
- 7.2 The Council has a duty to appoint an officer with specific responsibility for the proper administration of its financial affairs. At Surrey Heath Borough Council, this officer is the Executive Head of Finance ("Section 151 Officer"). When making recommendations for the Budget, the Council's Section 151 Officer must report on both the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The Council's Section 151 Officer has a duty to make a formal report - section 114 report (to full Council and to the external auditor) if it appears to him that the expenditure or proposed expenditure of the Council is likely to exceed the resources available to it to meet that expenditure.

8. Sustainability

- 8.1 The Budget, setting of Council Tax and financial strategy underpin the Councils ongoing financial sustainability.

9. Risk Management

- 9.1 There are a number of significant financial risks in relation to the budget as follows. These are as follows:

National economy

- 9.2 The uncertainty over Brexit coupled with inflation could have a big impact on the Council's budget. Each 1% increase in interest rates adds over £1m to borrowing costs and similarly a 10% cut in retail rental values would take £500k out of the Councils retail income. Although a prudent view has been taken based on professional advice, the performance of the retail sector and its impact on property values is a particular cause for concern as the Council has invested so heavily in this sector. Similarly a downturn in the housing market could impact planning fees and housing development.
- 9.3 Inflation has added to budget growth during the year and continues to be a concern. If costs were to rise even more quickly this could also put strain on the budget. It should also be remembered that these factors may also impact our residents and businesses and therefore impact their ability to pay their Council Tax and Business Rates.

Salaries

- 9.4 The salary budget has assumed a budgeted pay rise of 2.5%, which has been agreed with staff, in order to bring the Council in to line with other Surrey districts. The budget also assumes a 4% vacancy margin for staff turnover during the year.

Surrey County Council

- 9.5 The Council still receives grants from Surrey CC to support its community services although these have reduced significantly this year. There is a risk that these remaining grants may not be paid given the financial challenges in Surrey and therefore the cost of these services would then fall on the Council. If in the future Surrey County Council was unable to deliver a balanced budget this could lead to a full reorganisation of local Government within Surrey.

Financial Strategy

- 9.6 There are a number of financial risks within the forecast which are explored in more detail in the document itself. These primarily are around assumptions in respect of inflation, future funding, interest rates etc. Any change in these assumptions does have a major impact on the forecast going forward and the challenges it presents.

10. Equalities Impact

- 10.1 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.
- 10.2 Where significant service changes are likely to occur as part of proposals included in budgetary proposals, the Council is thus conducting Equality Impact Assessments (EIA) of these proposals. EIAs are all about considering how such proposals may impact, either positively or negatively, on different sectors of the population in different ways. The purpose of such assessments is to;
- Identify whether the proposals are likely to have a disproportionate impact on any particular group within the population;
 - whether such an impact is positive or negative; and
 - whether such an impact might constitute unlawful discrimination.
- 10.3 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.

11. PR And Marketing

- 11.1 The financial standing of the Council is always a matter of interest to local residents and other stakeholders. It is important that the public is informed as to how little Business rates the borough receives compared to what it collects from local ratepayers.

12. Officer Comments

Conclusion

- 12.1 A couple of years ago it appeared that the council had gone a long way to addressing the financial challenges it faced. Since then there have been further cuts in funding and grants but more significantly costs have risen and these increases could not be absorbed through further efficiencies. In addition the continued slowing of the economy has impacted retail rents in particular and this has had a knock on impact on the Council's finances. It should be noted however that the Town centre was purchased with a view to advancing the Council's aspirations for Camberley rather than investment return however the returns did help to address the Council's financial challenges. Further properties have been purchased in 2018/19 and these have gone to help the Council deliver a balanced budget. In total in the 2019/20 budget property purchases are budgeted to contribute £1.2m to the Council's Budget – that is equivalent to an increase in Council Tax of 15%.
- 12.2 The investment in property coupled with increases in business rates and use of reserves has enabled the Council to maintain services and present a balanced budget for 2019/20. However the financial forecast has identified further challenges in future years leading to a budget gap of almost £2.2m by 2023/24. Although the Council has adequate reserves at the moment to manage this it only provides breathing space and so action must still be taken.
- 12.3 The Council will need to continue to grow and maximise its income streams, be this by further investment in property or raising charges, if service cuts are to be avoided in the future. It will also need to seriously consider greater collaboration with other Councils so as to reduce costs as well as looking at ways to manage demand.
- 12.4 None of what has been done so far or what is proposed is without risk and indeed in the current climate these risks could be significant enough to impact across the Council.
- 12.5 There is no doubt that in an ideal world Councils would be adequately funded through taxation for the services they provide. Sadly this is not likely in the foreseeable future and so Surrey Heath has to continue to be bold and take control of its own destiny, taking account of whatever risks and opportunities this may give rise to.

12.6 Members are therefore urged to grasp all income generating opportunities as they arise, however unpalatable they may seem, and this includes increasing Council Tax by the maximum amount permitted without a referendum.

Annexes	A - 2019/20 Budget B - Adequacy of General Fund C - 2019/20-2022/23 Financial strategy
Background Papers	2019/20 Budget Book
Author/Contact Details	Adrian Flynn – Chief Accountant Kelvin Menon – Executive Head of Finance
Head of Service	Kelvin Menon – Executive Head of Finance Kelvin.menon@surreyheath.gov.uk

ANNEX A

Council Tax and Revenue Budget 2019/20

Introduction

1. The Executive considered the Budget as outlined in this annex on the 19th February 2019 and, whilst recommending the Budget, decided to reserve its position on Council Tax for this meeting. Only Full Council can set the Budget and Council Tax. This paper sets out the information required to enable Council to make that decision and support the recommendation made.
2. The complete budget is included at the end of this Annex. However in order to aid members understanding it has been broken down in to various sections and these are examined in turn.

Net Cost of Services

3. Each service completes a detailed budget page for every activity it delivers. These are available in the Budget Book 2019/20 which has been placed on the website and in the members room. The individual budget pages are then added together to give the total for each service.
4. In order to get to the net cost of services the following adjustments are made:
 - A staff vacancy margin of 4% is deducted to represent staff turnover in the year;
 - The “minimum revenue payment” or MRP represents the statutory amount of debt the council must repay/set aside. Interest is charged directly to services;
 - Internal assets charges (or depreciation) which has been charged to services is reversed out as by statute this is not allowed to be charged to the General Fund and taxpayers.
5. The table below shows the breakdown of the net cost of services and notes have been provided on the key changes in service budgets compared to last year.

NET COST OF SERVICES			
	2018/19	2019/20	Variance
	Budget	Budget	
	£	£	
Business	943,324	961,515	18,191
Community	4,478,341	5,029,957	551,616
Corporate	1,629,680	1,851,855	222,175
Finance	1,837,587	1,969,280	131,693
Legal and Property	-45,220	-480,401	-435,181
Investment and development	-1,912,080	-852,389	1,059,691
Regulatory	1,897,265	2,139,019	241,754
Transformation	3,261,803	3,420,756	158,953
	12,090,700	14,039,592	1,948,892
Less: Staff cost amendments	200,000	0	-200,000
Add: Minimum Revenue Payment	1,353,000	2,014,000	661,000
Internal asset charges reversed	-2,294,700	-2,625,700	-331,000
NET COST OF SERVICES	11,349,000	13,427,892	2,078,892

Business - £18k growth

6. The services has made savings on its Grounds maintenance contract during the year but has had to use this to fund increases in costs as a result of the on street parking transferring to SCC and wages for staff.

Community - £551k growth

7. £425k of the total increase is due to an increase in asset charges (depreciation) of which £300k is due to the refuse vehicles alone. Under local authority rules these are not charged to the budget however the £300k for the refuse vehicles does get charged as part of the "minimum revenue payment" (MRP) since they are funded by borrowing. The service has also lost £138k in payments from Surrey CC for recycling and community services. Contractor inflation on refuse and street cleaning alone amounted to £281k although some of this has been offset through savings on waste contract management and additional income of £176k. In addition there have been staff savings of £80k, offset by wage rises, together with contractor penalties of £80k.

Corporate - £222k growth

8. £107k of the increase is the estimated cost of the elections in May 2019 which is being funded from reserves. The remainder relates to increments, wage rises and the vacancy margin which is now being held corporately

Finance - £131k growth

9. £40k growth has been included within corporate management to deal with traveller incursions and the remainder is wages

Legal - £435k saving

10. The two properties purchased in the year, Vulcan Way and Trade City will contribute £460k but this is offset in part by wage increases. All other changes have been absorbed within the service

Investment and Development - £1.0459 growth

11. The bulk of this, £1m, relates to the shortfall on rents which is being funded from the interest equalisation reserve. The remainder relates to wage growth.

Regulatory - £242k growth

12. Grants amounting to £71k relating to housing have been removed from the budget as it is anticipated these will not be available this year. £30k relates to an increase in asset charges for disabled grants and the remainder relates to salary increments, wages growth and the transfer of the vacancy margin to the corporate centre.

Transformation - £158k growth

13. £27k relates to asset charges for IT equipment. £34k has been saved from the closure of the council car scheme with the remainder being increases in staffing costs both in terms of increments, wages, new posts and vacancy margin now transferred
14. A budget book which includes a detailed for every function and service is published on the Council's website.

Contribution to the Budget from investment property

15. The Council has made substantial property investments over the last few years without which it would have been impossible to deliver a balanced budget. This is budgeted to contribute £1.245m to the 2019/20 budget after interest and loan repayments.
16. Although there are risks in property investment in that rentals and investment values can fall it is clear that without this investment being made services would have had to be cut or stopped as a result of funding reductions. In addition ownership of Camberley town centre has enabled the Council to advance its regeneration aspirations. The Council has adequate reserves to cover this risk in the short term to buy time so that further action can be taken.
17. Under the Prudential Regulations those Councils with borrowings must make an annual charge to revenue, called the minimum revenue payment (MRP), to ensure at the end of the life of the asset funded by debt the Council will have repaid, or will have the funds set aside to repay, any loans it has on that asset. Councils are prohibited from relying on

increases in asset values over time to repay debt. In the 2019/20 budget £2,014,000 has been charged to revenue in accordance with the Council's MRP policy for current and future debt repayment. This payment not only covers debts incurred for property purchase but also loans taken out to fund other assets such as refuse collection vehicles and capital improvements.

Surrey Heath Borough Council Tax Requirement

18. The "Net Cost of Services" is not the amount Council Tax payers actually pay. Deductions are made for other sources of income such as grants, taxes and interest to come down to the "Council Tax Requirement" which represents the amount Council tax payers will be asked to fund. This is summarised in the table below:

COUNCIL TAX REQUIREMENT 2019/20			
	2018/19		2019/20
	£		£
NET COST OF SERVICES	11,349,000		13,427,892
Less: External Interest earned	-160,000		-140,000
Less: Internal Interest earned	-150,000		-150,000
Add: Contribution to Parishes	19,943		19,943
BUDGET REQUIREMENT	11,058,943		13,157,835
Less: Collection Fund Surplus	-379,500		-116,500
Less: Business Rates baseline	-1,508,666		-1,543,240
Less: Additional Business Rates	-200,000		-950,000
Less: New Homes Bonus	-863,886		-521,613
Add: Tfr to Reserves	863,886		521,613
Less: Funding from Reserves	-816,390		-2,042,116
Add: Parish Precepts	569,890		587,834
COUNCIL TAX REQUIREMENT	8,724,277		9,093,813
Less: Special Expenses	-180,000		-185,000
Less: Parish Precepts	-569,890		-587,834
OWN COUNCIL TAX REQUIREMENT	7,974,387		8,320,979
<i>Band D equivalent Properties</i>	<i>37,540.62</i>		<i>38,054.42</i>
<i>Base Council Tax per Band D property</i>	£212.42		£218.66

19. The main changes between the "Net cost of Services" and the "Council Tax Requirements" are as follows:

Investment Income

20. The Council holds an average of £10m in investments externally and this is budgeted to earn £140k in interest over the year. On the advice of the Council's treasury advisors some investments "lent internally" to purchase assets rather than using external debt. As services pay the full interest cost on loans whether they are funded internally or externally an adjustment has been made to represent the interest foregone on the internal borrowing

Tax Base, Parish Support and Collection Fund

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

Council Tax Base

	2018/19	2019/20	Change
Bisley	1,587.78	1,640.07	52.29
Chobham	1,969.27	2,005.58	36.31
Frimley and Camberley	23,871.57	24,103.84	232.27
West End	2,020.58	2,189.73	169.15
Windlesham	8,091.42	8,115.20	23.78
Total	37,540.62	38,054.42	513.80

22. The increase in the tax base alone will generate an additional £110k in income each year.

23. 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 2018/19 despite the fact that it is no longer funded by central government. This is shown in the table below:

Support for Parishes due to the LCTSS

Parish/Town	Support given in 2018/19 & 2019/20
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

24. Due to staff working hard to ensure that all money due to the Council for council tax is collected it is predicted that the collection fund will be in surplus at the end of 2018/19. The Section 151 officer has therefore

determined that a surplus of £1,000,000 can be declared for the year. Of this £756,700 will be paid to Surrey County Council, £126,800 to the Police and the remaining £116,500 to the borough. This will be used to support the budget for 2019/20

New Homes Bonus

25. In 2010 the Government introduced an incentive to encourage house building. This rewarded local authorities for the number of houses they constructed and also provided an additional payment for any affordable units built. This proved to be so successful in delivering houses that over successive years the Government has watered down the incentive to save money. This has moved the scheme from one which paid a fixed reward for every additional house built for each of 6 years to one which only pays the incentive for 4 years and assumes that the first 0.4% increase in house numbers (150 for Surrey Heath) would have been built anyway and therefore do not require a reward.
26. On the 13th December 2018 the Government announced that Surrey Heath can expect to receive £521,613 in New Homes Bonus for 2019/20. Of this only £10,360 relates to the last year.. This is because although 144 houses were actually delivered this was below the 0.4% (150 units) threshold so none actually qualified for New Homes Bonus. Due to this threshold the payments the Council can expect in future years will be minimal.
27. NHB is not “new” money and instead comes out of redistributed local authority funds – mainly by top slicing business rates and the Government has assumed that it is there to support on-going services rather than to offset the impact of development. For this reason it has been included in the Governments calculation of “Core Spending Power” which lists the resources all Councils have to deliver services.

Transfers to reserves

28. As the New Homes Bonus is not required to support the budget it will be transferred to reserves.

Transfers from Reserves

29. As in previous years £2,042,116 of expenditure is funded directly from reserves as follows:
- £75,000 of expenditure relating to community grants included in the budget is being funded from the community fund.
 - £250,000 of costs to support the work of organisational transformation, economic growth and town centre is being financed from the Capital Reserve as this will generate additional income/savings in the future. This may become an additional budget pressure going forward;

- £116,332 for grounds maintenance from the SANGS reserve which has been created to maintain SANGS in perpetuity;
- £26,650 for grounds maintenance and playgrounds from commuted sums which are provided by developers for maintenance of these facilities;
- £124,134 from reserves for Family Support and;
- £107,000 from reserves to fund the Council elections in May 2019;
- £1,000,000 from the rent equalisation reserve to fund the temporary shortfall in rents;
- £350,000 to fund the final year of pension deficit payments pending the actuarial review in 2019/20

Funding from Business Rates

30. The Council, with all the Surrey Districts and the County, is currently in a 100% Business Rates pilot. This pilot allows Pilot members to keep 100% of any Business Rates increases above their predetermined baseline. Whilst the financial outcome of the pilot will not be known until the end of the financial year this could generate an additional £500k for the borough.
31. The Government has already announced that a new 75% localisation scheme would be introduced nationally from 2020/21 and so it was hope that the 2018/19 pilot would be rolled over for another year. However the Government instead invited Council's to apply for a new 75% pilot, Surrey made an application but was unsuccessful. What this means is that Surrey Heath will revert to the 50% localisation scheme for that one year, and be part of a business rates pool (with a view to maximising some gains) with a smaller group of Surrey Districts.
32. Under the "standard" 50% scheme for every £1 collected above the baseline 50p goes to Government, 10p to Surrey CC, 20p for a safety net for less successful areas and 20p remains in Surrey Heath. A "pool" is identical to the 50% scheme except that the 20p safety net payment is retained by pool members for them to share out – they do however have to provide a safety net for each other.
33. What is important to remember is that whether the Council has a 50%, 75% or 100% scheme this does not denote the percentage of total business rates retained in that area. The percentages only apply to gains over a pre-set baseline. The bulk of Business Rates collected in Surrey Heath, at least 96%, is redistributed to the county and around the country.
34. The table below shows the level of business rates the Government expects Surrey Heath to collect and how this translates in to actual funding:

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

	2018/19	2019/20
	Final	Provisional
	£000	£000
Baseline - assumed minimum collected	33,420	34,798
Less: 50% to Government		-17,399
Less: 10% to SCC		-3,480
Less: 70% to SCC	23,394	
Share for SHBC	10,026	13,919
Less Fixed Tariff	-8,517	-12,376
Business Rates for SHBC	1,509	1,543
%age share	4.5%	4.4%
Safety Net	1,463	1,426

35. The above table reflects the figures released in the provisional settlement on the 13th December 2018 and does not include any impact of growth in business rates over 2018/19. In the budget it has been assumed that the Council will use at least £950k of this 2018/19 growth. Being a member of a pool could increase this amount still further.
36. The Council has worked hard to grow the local economy and support businesses. However despite this the Business rates base has remained static. New Business rates can only be levied on new business premises however the shortage of development land in the borough makes this challenging. On the other side the introduction by the Government of permitted development rights, which permits the conversion of offices to housing without planning permission, means that actually business premises are being lost to housing. Indeed the proposed extension of Permitted Development rights to shops could erode the Council's business rate base even further.

Local Government Settlement 2019/20

37. The settlement, which was announced on December 13th 2018, confirmed that Surrey Heath would again receive no revenue support grant and that the negative grant of £933k anticipated for 2019/20 had in fact been withdrawn. It is worth stating that even without the negative tariff Surrey Heath has lost £2.7m in Government funding (Business Rates and central grant) since 2010/11.

Council Tax

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

- Up to 3.00% - For those Councils with Adult Social Care responsibilities an additional 6% can be charged over 3 years but Surrey has already used their 6% over the last 2 years.
- £5 or up to 3% for Shire Districts – whichever is the higher
- £24 for Police commissioners
- No cap for Parishes and towns

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

40. The budget and council tax recommendations have been prepared on the assumption that Council Tax will be increased by the maximum allowed, however members can decide on any amount up to this level. Members are reminded though that it is a legal requirement that the budget must be balanced and so any change to Council tax levied must be covered elsewhere within the budget.

41. The current Surrey Heath band D Council Tax is £212.42. Taking account of the increase proposed the new Band D tax will be £218.66.

42. Surrey County Council and Police and Crime Commissioner have already agreed to increase their Council Tax by the maximum allowed and so the impact on a Band D taxpayer, including the proposed Surrey Heath increase is shown below. It is worth noting that even with the increase the Surrey Heath precept only represents 11.3% of the total bill.

:

	2019/20	2018/19	£ change	% change
	£	£		
Surrey Heath Borough Council	218.66	212.42	6.24	2.95%
Surrey County Council	1,453.50	1,411.29	42.21	2.99%
Surrey Police and Crime Commissioner	260.57	236.57	24.00	10.14%
	<u>1,932.73</u>	<u>1,860.28</u>	<u>72.45</u>	<u>3.89%</u>

NB: All figures are provisional

43. Given the challenges around financial and service sustainability the Council faces the Section 151 officer recommends that members increase Council tax this year by the maximum permitted as set out in this paper.

Special Expenses and Parish Precepts

44. Special Expenses are charged to reflect the cost of providing certain services to non-parished areas which in parished areas are funded by a parish precept. This charge is billed as a separate item to non-parished areas in a similar way to a precept in parished areas but does however fall within the borough's overall capping limit. Parishes on the other hand are free to set any precept they wish without any risk of Government intervention.

45. The parish precepts and special expenses are shown below:

Parish	2019/20			2018/19			Increase
	Tax Base	Precept	Band D	Tax Base	Precept	Band D	
Bisley	1,640.07	101,970	62.17	1,587.78	96,465	60.75	2.34%
Chobham	2,005.58	79,000	39.39	1,969.27	77,037	39.12	0.69%
West End	2,189.73	100,455	45.88	2,020.58	90,877	44.98	1.99%
Windlesham	8,115.20	306,409	37.76	8,091.42	305,511	37.76	-0.01%
Total Parishes	13,950.58	587,834	42.14	13,669.05	569,890	41.69	1.07%
Frimley & Camberley	24,103.84	185,000	7.68	23,871.57	180,000	7.54	1.79%
	38,054.42	772,834	19.98	37,540.62	749,890	19.66	1.63%

Total Budget

46. The overall Budget reflecting all of the information above is shown below:

ANNEXE A

GENERAL FUND REVENUE ACCOUNT

2019/20 SUMMARY BUDGET

	2018/19	2019/20	Variance
	Budget £	Budget £	
Business	943,324	961,515	18,191
Community	4,478,341	5,029,957	551,616
Corporate	1,629,680	1,851,855	222,175
Finance	1,837,587	1,969,280	131,693
Legal and Property	-45,220	-480,401	-435,181
Investment and development	-1,912,080	-852,389	1,059,691
Regulatory	1,897,265	2,139,019	241,754
Transformation	3,261,803	3,420,756	158,953
	12,090,700	14,039,592	1,948,892
Staff and Pension amendments	200,000		-200,000
Add: Minimum Revenue Payment	1,353,000	2,014,000	661,000
Internal asset charges reversed	-2,294,700	-2,625,700	-331,000
NET COST OF SERVICES	11,349,000	13,427,892	2,078,892
Less: External Interest earned	-160,000	-140,000	20,000
Less: Internal Interest earned	-150,000	-150,000	0
Add: Contribution to Parishes	19,943	19,943	0
BUDGET REQUIREMENT	11,058,943	13,157,835	2,098,892
Less: Collection Fund Surplus	-379,500	-116,500	263,000
Less: Business Rates baseline	-1,508,666	-1,543,240	-34,574
Less: Additional Business Rates	-200,000	-950,000	-750,000
Less: New Homes Bonus	-863,886	-521,613	342,273
Add: Tfr to Reserves	863,886	521,613	-342,273
Less: Funding from Reserves	-816,390	-2,042,116	-1,225,726
Add: Parish Precepts	569,890	587,834	17,944
COUNCIL TAX REQUIREMENT	8,724,277	9,093,813	369,536
Less: Special Expenses	-180,000	-185,000	-5,000
Less: Parish Precepts	-569,890	-587,834	-17,944
OWN COUNCIL TAX REQUIREMENT	7,974,387	8,320,979	346,592
<i>Band D equivalent Properties</i>	<i>37,540.62</i>	<i>38,054.42</i>	
<i>Base Council Tax per Band D property</i>	£212.42	£218.66	

