

Portfolio:	Non
Date signed off:	Executive Function
Ward(s) Affected:	All

Purpose

To approve the Council's Budget and Council Tax for the Financial Year 2015/16.

INTRODUCTION

1. The purpose of this paper is to enable the Council to set its Budget and Council Tax for 2015/16. Under statute these functions cannot be delegated to the Executive.
2. The Government has continued to pursue its policy of reducing the budget deficit. This has resulted in a 40% real terms cut to total local government funding nationally since 2010 making Local Government one of the hardest hit parts of public expenditure. For Surrey Heath this has resulted in a reduction in grant of almost £3m. This means that for Surrey Heath the Rate Support Grant has been reduced by £476k or 33% and is now under £1m. This reduction equates to almost 7% on Council Tax.
3. Unlike many public bodies the Council has a legal duty to set a balanced budget. As set out in the Medium Term Financial Strategy the Council has pursued a policy of balancing its budget year on year through savings and increased income. Officers have worked very hard on reducing costs through better contracting, more efficient use of staff and technology. They have also worked to increase the amount of income the Council generates. This means that the impact of the Government's austerity program has not really impacted the services the public sees.
4. It is clear that whatever the outcome of the general election further reductions in public spending will be required from Local Government. Whilst going forward officers will still work on increasing income and reducing costs it is likely that further significant savings can only be delivered through fundamental changes to service design, delivery and provision.
5. Looking at the budget for 2015/16 as presented this shows a decrease of £160k as compared with the previous year. This is after taking into account a further £169k increase in deficit pension contributions and a £263k increase in payroll costs. This is a great achievement in very difficult circumstances after several years of cuts. Executive Heads have risen to the challenge by setting some tough financial targets and have confirmed through a star chamber process that they are deliverable.
6. The total budget is attached as Annex A within this paper. The detailed Revenue estimates, which show each budget page and portfolio, from which this summary budget is built up are available on Escene and in the Member's Room. A hard copy can be provided on request.
7. The Government has announced that it will pay a 1% compensatory grant to all those Councils that elect to freeze their Council Tax. This will be included within the Council's ongoing funding up to the end of the spending review period (which is 2016). It should be noted in this regard that both the County Council and the Police, which together make up 87% of the total Council Tax bill have both announced that it is their intention to increase Council Tax.

8. On the 18th December 2014, Kris Hopkins MP announced that any Council increasing its Council Tax above 2% would be subject to a binding referendum to be held on the 7th May, the same day as the General and Local elections. At the time of writing, Parishes are still exempt from the referendum requirements and can thus precept for any level of Council Tax increase they wish.
9. This reports presents two options for the budget based on two different levels of Council Tax for Members to decide on. These are as follows:

Option A:	Freeze Council Tax and accept the grant;
Option B:	Increase Council Tax by 1.94% and reject the grant
10. Members may of course decide to set Council tax at whatever level they wish however if this were to be greater than 2% it would be subject to a referendum at the Council's expense.

CURRENT POSITION

11. The budget monitoring report for December predicts that the Council will be underspent at the end of the year. In respect of the budget for 2015/16 services have confirmed that the budget set is achievable and that no further adjustments are required as a result of 2014/15 predicted outturn. A full financial report for the 3rd quarter will be presented to Executive in due course.

GENERAL FUND REVENUE ESTIMATES

12. The Executive considered the budget as outlined in this paper on the 24th February 2015. The outcome of this will be updated at this meeting.
13. The complete budget is attached as Annex A to this paper. To aid understanding this has been broken down in to sections and is examined in more detail in the next part of this report.

Net Cost of Services

14. The table below shows the breakdown of the net cost of services.

GENERAL FUND REVENUE ACCOUNT

Net Cost of Services 2015/16

PORTFOLIO'S	2014/15 Budget £	2015/16 Budget £	Variance £
Business	2,425,470	1,988,870	-436,600
Community	5,699,050	5,672,080	-26,970
Corporate	1,388,220	1,413,990	25,770
Finance	1,931,600	1,980,810	49,210
Regulatory	2,256,610	2,241,520	-15,090
Transformation	1,053,070	1,098,350	45,280
	14,754,020	14,395,620	-358,400
Less: Staff cost amendments	-198,671	-129,940	68,731
Pension adjustment	-199,184	-472,370	-273,186
Add: Additional pension contribution	169,000	338,000	169,000
Internal asset charges reversed	-2,680,990	-2,311,760	369,230
Less: Funding from Reserves	-557,900	-693,850	-135,950
NET COST OF SERVICES	11,286,275	11,125,700	-160,575

15. The "Cost of Services" is made up a summation of the individual budget sheets by service. These are then adjusted for items required to be removed by statute, such as asset charges, corporate costs, such as pension funding and expenditure not funded by the Council Tax, such as out of reserves to give the "Net cost of Services".
16. An analysis of the changes to individual budget pages is included within the General Fund Estimates paper presented to Executive on the 24th February. A complete set of budget pages is available on E scene and there are copies in the Member's Room but the main changes are outlined in the next section.

Cost of Services

Business

17. The theatre is predicting an increase in show income in line with its 5 year plan. Car parks are predicting modest increases in income but are also building up a fund for future maintenance. Parks and Open Spaces includes the predicted income from the 3g pitch for the first year of £72k less the additional operating costs and cost of borrowing.

Community

18. Community are budgeting for an increase in income from community alarms due to increased usage as well as from recycling due to increasing recycling prices. This is offset in part by contractual price rises.

Corporate

19. There are no big changes to corporate save an increase in costs of £35,000 for the elections later this year.

Regulatory

20. Regulatory have budgeted for a £170k increase in Development control income in line with experience so far. This is indicative of the up turn in construction across the Country.

Finance

21. There was a £90k reduction in the budgeted grant to provide the benefits services however this has been offset in part by reductions in audit costs

Transformation

22. No significant changes in this area.

Other costs

23. Included within each service are the costs of IT, public offices, insurance and most importantly wages.

IT costs

24. These have faced pressure from increases in license costs although these have been offset by savings in other IT areas. The total budget for IT excluding staff and depreciation is about £900k

Public Offices

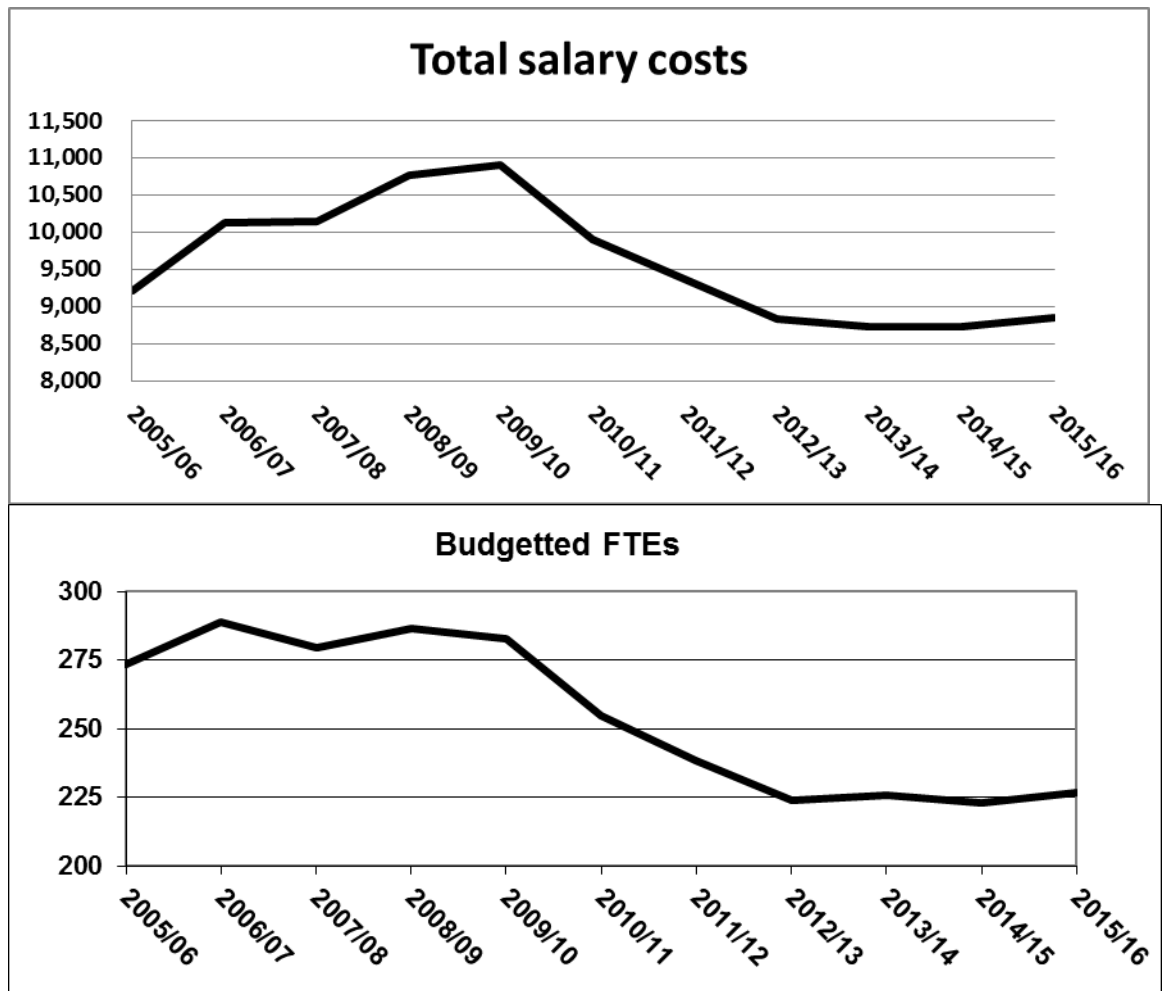
25. Public office costs are the total cost, excluding wages, of providing the Council's offices. After savings in plant maintenance and business rates the total cost excluding asset charges is £370k.

Insurance

26. Insurance costs show a slight reduction due to the transfer of insurance to LB Sutton. The total cost is about £230k.

Employee costs

27. The graphs below show the budgeted salary costs and FTE for the last 10 years. It should be noted that costs are actual costs – there is no adjustment for inflation – hence in real terms the costs of wages has fallen even more steeply than shown in the graphs. In addition sundry employee expenses have fallen by £38k due to reduction in training and sundry budgets which were overspent.



Other Items

Staff Cost amendments

28. This figures is made up of two elements. Firstly an amount for a possible salary increase and secondly a deduction for the vacancy margin.
29. Although each service staffing budget includes the cost of the full staff establishment it has been assumed that on average there will be a 3% vacancy rate and this has been deducted from the overall budget. This percentage has been set at 3% for a number of years and is on target to be achieved corporately again for 2014/15. This figure also includes an allowance for a possible salary increase.

Pensions

30. Part of the cost of providing a service includes the notional cost of providing accrued pension benefits for staff for that year. Government accounting rules state that only the actual contributions paid can be charged to Council tax payers so an adjustment is made to the budget to reflect this.
31. As a result of the triennial review of the fund in March 2013 the actuary determined that additional one off contributions were required for the next 3 years to work towards reducing the pension deficit. This additional payment was £169k in 2014/15 is £338k in 2015/16 rising to £507k in 2016/17. This is a significant pressure on the budget especially in times of funding cuts.

Asset Charges

32. Asset charges are charged to individual services as they represent the cost for the use of an asset to provide that service. They are included within each portfolio and are probably best thought of as a depreciation charge. However Government accounting rules mean that these costs cannot form part of the Council Tax Requirement and be charged to Council Tax payers and hence are reversed out in the budget. This also means there is no allowance built up within the budget for the replacement of assets when they wear out.

Items funded from reserves

33. Management Board examined the 2015/16 Estimates in detail to identify expenditure which was either of a non-recurring nature or could be funded from reserves. It has determined that the following items should be funded from reserves:
- £75,000 from the Community Fund relating to Community Grants included in the budget. Typically this budget is underspent.
 - £300,000 from the Capital Revenue reserve relating to Transformation costs and specifically Camberley Town Centre. This is because this is such a major project and outside the normal day to day activity of the Council.
 - £150,000 from the property maintenance fund to fund improvements to property
 - £82,900 for Community Safety from the Crime and Disorder Partnership reserve for schemes in the year
 - £85,950 for Family Support from the Family Support funding reserve which was created when the service was initially set up.

Members are asked to NOTE that expenditure of £693,850 be funded from reserves.

Surrey Heath BC Council Tax Requirement

34. Not all of the “Net Cost of Services” is paid for by Council Tax payers. Hence in order to get to the “Council Tax requirement”, which represents the amount residents actually pay deductions are made to allow for sources of funding. This is summarised in the table below:

Surrey Heath BC Council Tax Requirement			
PORTFOLIO'S	2014/15	2015/16	2015/16
		OPTION A	OPTION B
	Budget	0% Ctax Inc	1.94% Ctax Inc
	£	£	£
NET COST OF SERVICES	11,286,275	11,125,700	11,125,700
Less: Investment Interest earned	-200,000	-300,000	-300,000
Less: New Homes Bonus	-525,000	-600,000	-600,000
ESTIMATED NET EXPENDITURE	10,561,275	10,225,700	10,225,700
Add: Contribution to Parishes	19,943	19,943	19,943
Add: Tfr to Reserves from Collection Fund	169,000	0	0
Less: Collection Fund Surplus	-169,000	-120,000	-120,000
Less: Share of Business Rates	-1,304,845	-1,329,778	-1,329,778
Less: Rate Support Grant	-1,441,565	-965,188	-965,188
Less: Other Grants in settlement	-227,942	-223,402	-223,402
Less: Business Rates growth	-200,000	0	0
Gross Budget to Fund from Council Tax	7,406,866	7,607,275	7,607,275
Less: Savings Target	-255,977	-315,895	-246,597
Less: Billed as "Special Expenses"	-173,111	-173,111	-176,000
Less: Sec 31 Grant in Lieu of Council Tax	0	-70,477	0
SHBC COUNCIL TAX REQUIREMENT	6,977,778	7,047,792	7,184,678

35. These items are now explained in more detail below:

Investment Income

36. The continuing low interest rate policy pursued by the Bank of England continues to have a detrimental impact on returns from the Council's investments. With this in mind the Council's treasury advisors Arling Close were asked whether the treasury strategy could be amended to broaden the range of investments and thus increase returns albeit with higher risk. The revised strategy, which permits investment in property and corporate bond funds as well as equity funds, was approved by Council in December 2014 and £8m has been placed in these investments. As result of this change in strategy it is anticipated that returns for 2015/16 will increase from the current £200k to £300k and this has been included in the budget.

New Homes Bonus

37. In 2010 the Government launched an incentive to encourage house building. This gave local authorities £1,468 (based on 2014/15 average council tax) for each new housing unit built or brought back in to occupation plus a further £350 if the housing was affordable. The value of the incentive is calculated each year by reference to the change in the Council Tax Base and then paid in the following year and for 5 years after that.
38. Amounts received so far are as follows:

Year	2011/12	2012/13	2013/14	2014/15	2015/16
Amount	£69k	£307k	£634k	£918k	£1.271m

39. Whilst the level of general grant paid to Councils has fallen the amount paid out as NHB has risen which reflects the Government's policy to reward those Councils that deliver hard housing development. Due to constraints Surrey Heath has one of the lowest levels of new housing in Surrey hence our payment is less than our neighbours but there is no doubt that for those that build houses this is an increasing source of revenue.
40. Officers have also worked hard to reduce the number of empty properties in the borough and this has also increased the amount of New Homes Bonus received.
41. It is worth noting that, of the £1.2bn cost of NHB, only £250m is actual new money. The remainder is funded from top slicing business rates which, in the normal course of events, would come to local authorities. It should be remembered that NHB is not "new" money and instead comes out of redistributed local authority funds – mainly by top slicing business rates. However, it is becoming an increasingly important source of revenue for those areas that want to build housing.
42. Although the NHB is meant to be a reward for housing, the Government does include it in their calculation of "revenue spending power" for local authorities, implying that it is meant to fund on-going services. With that in mind £600k has been used to support the Council's revenue budget.
43. Although the scheme was initially guaranteed for a further 6 years, it is open to any Government to change the scheme or indeed end it and distribute the funding differently. If this were to happen, this would present a significant financial challenge to this Council and would have a knock on impact on services. Hence it would be prudent to decrease reliance on this funding over time and this has been reflected in the financial forecast later in this paper.

Members are asked to NOTE that £600,000 of the New Homes Bonus for 2015/16 has been used to support the revenue budget

Contribution to Parishes

44. The Council pays a special grant to parishes to compensate them for the change to the tax base due to the introduction of the Local Council Tax support scheme (LCTSS). This grant will remain unchanged from that paid in 2014/15 and is shown in the table. This is despite the fact that overall government funding for Councils and the LCTSS has been reduced.

Support for Parishes due to the LCTSS within 2015/16 budget:

Parish/Town	Support given in 2014/15	Support for 2015/16
Bisley	1,334.30	1,334.30
Chobham	2,962.87	2,962.87
Frimley and Camberley	8,116.98	8,116.98
West End	1,591.65	1,591.65
Windlesham	5,937.64	5,937.64
TOTAL	£19,943.44	£19,943.44

Members are asked to NOTE that there is no reduction in support for parishes.

Collection Fund

45. The Borough Council collects Council Tax on behalf of all precepting authorities. If the amount collected is less than predicted this results in a deficit on the Collection Fund. Conversely, if the amount collected is greater than predicted this results in a surplus. Any deficit or surplus is shared amongst all the principle precepting bodies. As Surrey Heath has one of the highest collection rates in the country the fund is forecast to be in surplus at the 31st March 2015.
46. The Sec 151 officer has determined that a surplus of £1,000,000 can be declared for the year. Of this, £750k will be paid to Surrey County Council, £130k to the police and the remaining £120k to the borough

Members are asked to NOTE the Council Tax surplus of £1m being declared

Share of Business Rates

47. In 2012, the Government announced that Councils would have a direct financial incentive to encourage hard business development in their areas. This was to be achieved by giving Council's a share of business rates collected in their area. In two tier areas, Districts collect Business Rates, so a fixed tariff was introduced to be charged against business rates collected to ensure counties had certainty of income. In addition, in order to ensure that all areas started in the same position, a baseline was set which, if business rates collected exceeded it, would result in additional income, but if they fell below it, there would be a loss of income, with losses capped at a predetermined "safety net" level.
48. Broadly speaking, for every £1 collected above the baseline, 50p goes to government, to be redistributed as New Homes Bonus and other grants, 10p goes to Surrey CC, 20p goes to fund a safety net for areas suffering large reductions in rateable income and 20p remains in Surrey Heath. Conversely a fall in income of £1 will result in a loss of income of 50p to the government, 10p to the county and 40p to Surrey Heath – however this loss is capped at 7.5% of our overall baseline meaning the most Surrey Heath can lose is about £107k.
49. The table below shows the level of business rates the Government expects Surrey Heath to collect and how this translates in to actual funding:

Total Business Rates and Council Share

2015/16 Settlement

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

50. Of the £1.423m allocated above, £93k is top sliced to pay for the homelessness and Council tax freeze grant, leaving the actual amount to contribute to general services as £1.330m.
51. Any increase generated through the annual uplift in business rates is clawed back by reducing the revenue support grant by a corresponding amount. Hence, although Surrey Heath businesses pay more business rates each year, none of this increase actually comes to the borough to pay for services. However, increases and decreases in valuations do affect the level of income the Council receives.
52. If Surrey Heath collects more than £34.025m then it can retain 20% of any excess. If conversely it collects less then it loses 40% of any loss up to £107k in total. i.e. The borough cannot receive less than £1.317m to pay for its services.
53. The table below shows estimated direct gains and losses for percentage changes in business rates income against the government baseline of £34m.

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

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

54. One issue with Localisation of Business Rates, as it stands, is that the cost of any revaluations, irrespective as to which year they relate, falls on the borough. The LGA had campaigned that appeals relating to the periods before 2013/14 should be charged to the old National Pool but this was rejected by ministers. Surrey Heath has had some very large revaluations going back several years resulting in very large refunds. This has meant that, for 2013/14, Surrey Heath actually lost money under the new arrangements and we will be very lucky to break even for 2014/15. That said, in the last 2 years, the valuation office has cleared a significant number of appeals and so, going forward, the level of appeals should reduce and the income become more predictable.
55. The Chancellor announced a number of new reliefs for small businesses and retailers in the autumn statement. He also capped the increase. The cost of these initiatives is directly funded by the Treasury, to ensure that Councils are not out of pocket.
56. Looking forward, there is likely to be a national business rates revaluation in 2017 and a rebalancing of business rates between authorities in 2020. Given that the revaluation is just a redistribution of business rates amongst businesses across the country, this is unlikely to have a significant impact on individual councils. However, the rebalancing between authorities could see those that have been successful at increasing income through economic development giving up business rates income to those that have not. The current Government also announced that there would be a wholesale review of business rates and the way businesses are taxed in 2016. This may also have implications for the way local authorities are funded in the future.
57. Given the continued uncertainty over the level of revaluations on appeal, no growth in business rates has been included within the budget and instead, the government baseline has been used. Any gains above this will be taken to reserves to offset future losses and any losses will be capped at £107k.

Revenue Support grant and total funding settlement for 2015/16

58. Last year the Council received notification of an indicative settlement for 2015/16 of £2.518m on 19th December, representing a reduction of £456k or 15% in cash terms compared with 2014/15. This will be confirmed by Parliament in January 2015.
59. Rather than looking at the reduction in core grant, the Government uses a measure called "Revenue Spending Power". This includes non-recurrent funding such as the New Homes Bonus and Council Tax Freeze Grants. By this measure, funding has only fallen by 0.7% in cash terms.

Surrey Heath Central Government Funding

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

- a. The Local Council Tax support scheme was introduced in 2013/14 and the funding was separately identifiable. Since then it has been included within the overall settlement and it is therefore reasonable to assume has been subject to the same level of cuts as overall council funding.
 - b. The table above shows that the core grant has been reduced by £476k in 2015/16.
 - c. The Council tax freeze grant agreed in 2011/12 was due to expire in 2015/16 but the Government has indicated that it is their intention that this funding will be maintained.
60. Since 2010/11, like for like funding in cash terms i.e. ignoring inflation has been reduced by around £2.3m or 48%. Further reductions can be expected in the future.

Savings

61. As in previous year, the budget contains an in-year savings target in order to deliver a balanced budget. The level of this depends on the decision taken with regard to Council Tax.

Special Expenses

62. These are an element of the costs relating to the maintenance of parks etc in non parished areas. This charge is then billed as a separate item to non parished areas in a similar way to a precept in parished areas. The level of the deduction is dependent on the Council Tax decision taken.

Council Tax and Council Tax Freeze

63. Each property in the borough is placed in one of 8 property bands, A to H, depending on the value of the property. Band D is considered as the "national average" Council Tax band and it is this band that is used for setting the tax and comparing with other authorities. A band A property pays 2/3 of the cost of a Band D property whereas a band H one pays twice as much. The mix of houses in the borough means that Surrey Heath has one of the highest proportions of top banded properties in the country.

64. Council Tax is levied on what is known as the “tax base” or the number of Band D equivalent properties in the borough. This year the base has risen by 363 band D equivalent properties due to house building, conversion of offices to housing and a purge on empty homes. This will generate an additional £70k in income for the borough. The base is shown in the table below:

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

65. Although Surrey Heath collects Council Tax on behalf of all the preceptors, only around 12% of the total bill actually comes back to this Council.
66. **The Council is at liberty to set whatever level of Council Tax it so wishes** but any increase over 2% will trigger a local referendum under the Localism Act.
67. The Government has agreed to pay a grant equivalent to 1% of council tax for any Council that freezes its tax for 2015/16. This would be approximately £70,500. The Government has stated that this money will be put in to Council's baselines meaning it is secured for the future however whether this will go beyond the current spending round is unclear.
68. A freeze in 2015/16 would save on average £3.75 a year for a Band D taxpayer on their Surrey Heath precept compared to an increase of 1.94%. Surrey County Council and the Police which together make up 88% of the bill residents receive have already stated their intention to increase Council tax rather than accept the freeze grant.
69. The current Surrey Heath band D Council Tax is £192.56. Two proposals for increases are outlined below:

Surrey Heath Council Tax for Band D equivalent properties

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

The Table shows the costs for Band D properties only.

Every 1% increase in Council tax raises approximately £70,500 annually

70. Surrey County Council and the Surrey Police and Crime Commissioner have both announced their intention to increase Council Tax by 1.99%. Indicative figures are shown in the table below:

	2014/15	2015/16 0% Inc	2015/16 1.94% Inc.
Surrey Heath BC	192.56	192.56	196.30
Surrey County	1,195.97	1,219.68	1,219.68
Surrey Police	211.68	215.89	215.89
	<u>1,600.21</u>	<u>1,628.13</u>	<u>1,631.87</u>

71. Given the longer term financial implications the Sec 151 officer would urge members to increase Council tax this year to just below the referendum threshold. Only by doing this can income for services be protected for future years.

Members are asked to NOTE the financial implications of a Council Tax freeze and the 2% trigger for “excessive” Council Tax increases set by the Minister

Parish Precepts and Special Expenses

72. Each Parish within Surrey Heath is able to set its own “precept” or charge. This is collected by the borough from residents as part of their Council Tax at no charge.
73. Although the Government has considered bringing parishes within the capping legislation, this has not happened so far.
74. The parish precepts are shown below:

Parish	2015/16			2014/15			Increase
	Tax Base	Precept	Band D	Tax Base	Precept	Band D	
Bisley	1,507.32	67,381	44.70	1,464.72	64,523	44.05	1.48%
Chobham	1,922.82	76,537	39.80	1,895.73	74,037	39.05	1.92%
West End	1,997.80	81,453	40.77	1,988.67	80,278	40.37	1.00%
Windlesham	8,046.62	288,146	35.81	7,913.83	277,970	35.12	1.95%
Total Parishes	13,474.56	513,517	38.11	13,262.95	496,808	37.46	1.74%

TOTAL BUDGET

75. The overall budget is shown in the table below:

Surrey Heath BC Council Tax Requirement			
	2014/15	2015/16	2015/16
		OPTION A	OPTION B
	Budget	0% Ctax Inc	1.94% Ctax Inc
	£	£	£
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Add: Tfr to Reserves from Collection Fund	169,000	0	0
Less: Collection Fund Surplus	-169,000	-120,000	-120,000
Less: Share of Business Rates	-1,304,845	-1,329,778	-1,329,778
Less: Rate Support Grant	-1,441,565	-965,188	-965,188
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Less: Billed as "Special Expenses"	-173,111	-173,111	-176,000
Less: Sec 31 Grant in Lieu of Council Tax	0	-70,477	0
SHBC COUNCIL TAX REQUIREMENT	6,977,778	7,047,792	7,184,678
Add: Special Expenses	173,111	173,111	176,000
Add: Parish Precepts	496,808	513,517	513,517
COUNCIL TAX REQUIREMENT	7,647,697	7,734,420	7,874,195
<i>Band D equivalent Properties</i>	<i>36,237.02</i>	<i>36,600.49</i>	<i>36,600.49</i>
<i>SHBC Base Council Tax per Band D property</i>	£192.56	£192.56	£196.30

OTHER MATTERS

Reserves and Provisions

76. The Council maintains a number of earmarked reserves and provisions. These are reviewed on an annual basis by the Performance and Audit Scrutiny Committee. All reserves and provisions are considered appropriate and supportive of future expenditure requirements. Revenue Reserves (including earmarked reserves) are projected to be around £17m and Capital Reserves £500k at the 31st March 2015.

Adequacy of the General Fund

77. The General Fund reserve is the Council's contingency fund which needs to be sufficient to deal with any unexpected expenditure.

78. Whichever option for Council tax is taken, it is predicted that the general fund will be £1.2m at 31st March 2015, provided all the savings are achieved.
79. In respect of the General Fund working balance, a risk calculation (annex B) indicates that a minimum balance of £1.1m is needed to provide financial cover for day to day cash flow and any financial emergencies which may occur during the financial year. This is satisfied by all the Council Tax options presented.

MEDIUM TERM FINANCIAL FORECAST

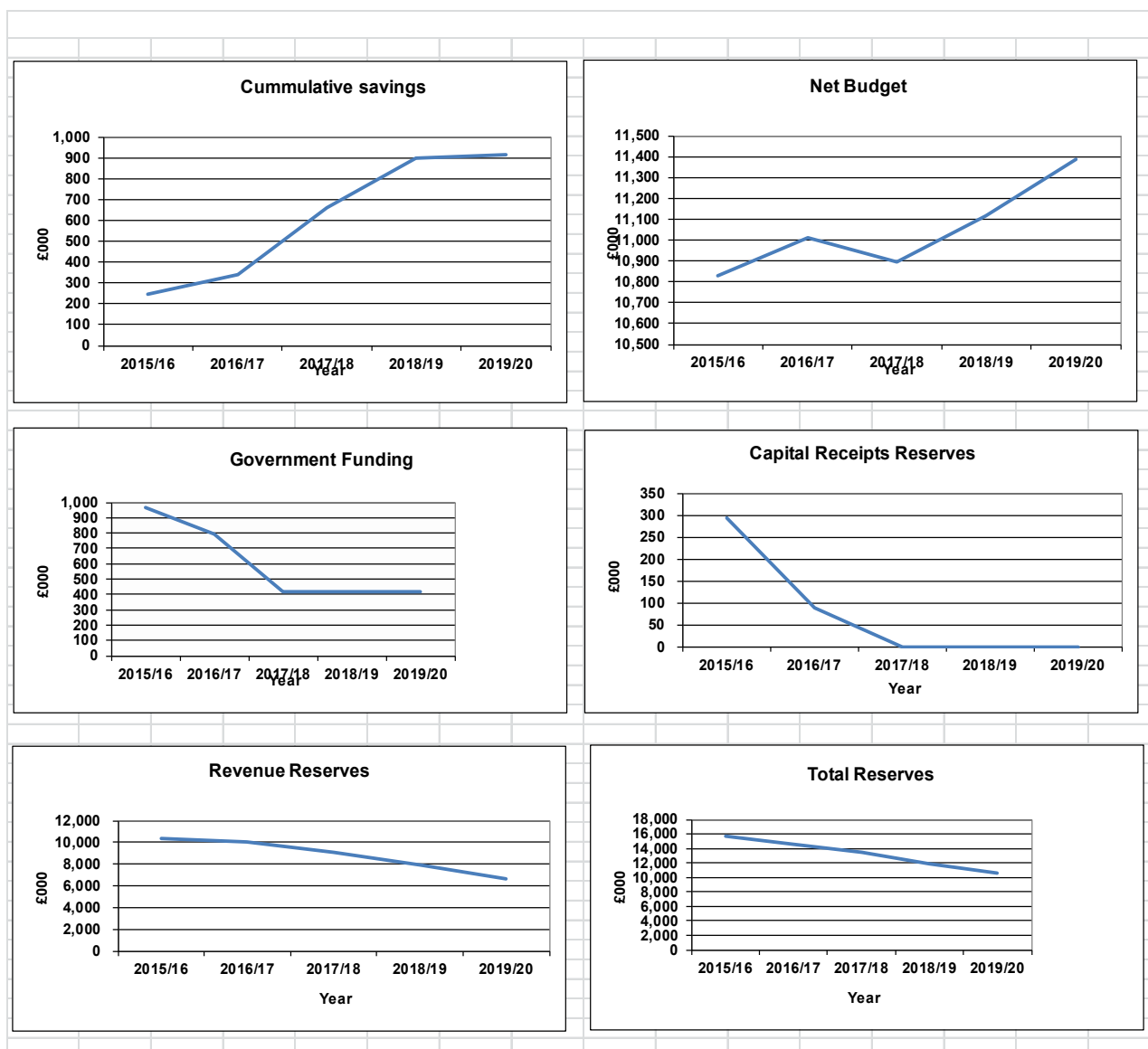
80. The Council is required to consider a financial forecast which predicts the Councils finances for the next 5 years. This is particularly difficult this year for the following reasons:
- a) The Government has only given grant figures for 2015/16. It has been assumed that our grant will continue to be reduced until all that is left is that element to pay for the Local Council Tax Support Scheme and historical Council Tax freezes. A clearer picture will arise after the General Election.
 - b) It is anticipated that there will be modest growth in business rates. The effects of a revaluation or rebasing have been ignored.
 - c) Members will decide on the level of Council tax for 2015/16 at this meeting. However, the forecast assumes an increase of 1.94% for the life of the forecast. It has been assumed that the "referendum trigger" will remain at 2%. However, this may, in fact, be reduced.
 - d) It has been assumed that the "New Homes Bonus" will be removed by 2018 and taken as part of the savings required by an incoming Government.
 - e) It has been assumed that the pension contribution will reduce to £250k after the next revaluation due to improving gilt yields.
81. Other assumptions are as follows:

Forecast Assumptions

Category	Assumption
Inflation – wages	1.5% rising to 2%
Inflation – Expenses	1% to 1.5%
Investment Returns	2%
Fees and Charges	2.0%

Prudent scenario with Council Tax increase in 2015/16

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



83. The outcome from this scenario is that savings of about £1m will be required by 2019/20. This is based on the assumption that no steps are taken to increase income or reduce costs in this period. However, in reality, this would not be the case. The purpose of the forecast is to illustrate to Members the scale of the challenge to be faced. Were a freeze to be adopted, this would add £70 cummulatively for each year the freeze was taken.
84. Capital becomes a revenue pressure quickly as capital receipts are exhausted.
85. The medium term financial strategy will be revised later in the year when the new Government's economic plans are clearer.
86. The detailed forecasts are included in Annex C.

Members are asked to NOTE the outcome of the financial forecast

RISKS TO THE PROPOSED BUDGET

87. There are a number of financial risks contained within the budget as follows:

Income Projections

88. A number of services are reliant on income to pay for their services. Whilst services have been prudent in their estimates, economic factors or changes in legislation, that are beyond the Council's control, can affect the Council's ability to levy charges.

Achievement of savings

89. The savings in the budget may be difficult to achieve given the level of savings found in the past. Savings will need to come from changes to service provision and additional income through fees and charges.

Inflation

90. Price inflation is currently low. However, the Council is experiencing wage pressures in a number of professional areas.

Funding Risks

91. Business Rates continue to present a risk to the Council finances, albeit contained within the safety net provisions.

<i>Members are asked to NOTE the risks outlined above</i>
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ROBUSTNESS OF THE 2015/16 BUDGET

92. The Local Government Act requires the Council's Chief Financial Officer to report to Council upon:
- (i) the robustness of the estimates made for the purposes of the calculation of the council tax requirement; and
 - (ii) the adequacy of the proposed financial reserves

The Council is required to have regard to this section of the report when making decisions in respect of the budget requirement.

93. The Council's Chief Financial Officer confirms he is satisfied that the preparation of the 2015/16 estimates has been undertaken with rigour and due diligence and provides the appropriate level of resources to meet forecast service requirements, whichever budget option is adopted. 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.
94. The Chief Financial Officer would like to draw attention to the risks within the budget, particularly around the council's ability to continue to deliver savings in the future.

Members are asked to note the comments in respect of the robustness of the 2015/16 budget and the adequacy of Reserves, Provisions and the General Fund Working Balance

Conclusion

95. For many Councils, 2015/16 was predicted to be a crunch year. However, as a result of the efforts of staff to increase income, reduce costs and improve efficiency, Surrey Heath has managed to meet the financial challenge posed by Government. That said, the task has not been easy and there are still areas of the budget that are open to risk. There is still a reliance on the New Homes Bonus and reserves for some of the revenue budget, staff recruitment is becoming more difficult as the wider economy improves and capital funding is an issue as capital receipts are used up. Despite this, services have made efforts to increase income and become innovative, but there is still a way to go.
96. Since austerity began, Government funding to this Council has fallen by half in cash terms representing over 20% of the net budget. Despite this, officers have worked hard to ensure that services and standards have been maintained. Like most Councils, Surrey Heath is now coming to the end of the road in terms of further significant internal efficiencies to deliver future savings. Whatever Government wins the election in May, it is clear that further cuts will be required of the sector. Indeed it would appear that the £10bn already saved by local government represents only half of that required. In order to cope with this scale of funding reduction, there will need to be a fundamental rethink as to what Councils are here for, how they should be structured and how and what services are to be delivered. Discretionary services in particular need to become self funding, if they are not to be squeezed out altogether. Increasingly, the focus will need to be more on income generation through investment and charges, managing demand and access to services, internal efficiency through joint working and partnerships and, probably much more challenging, managing the public's expectations in times of increasing economic growth.
97. The Government's ongoing policy of freezing Council Tax, whilst being popular with the public, has long term implications for Council's financial sustainability. Importantly it erodes its ability to grow its own funding base and so maintain services.
98. The financial forecast shows that, by 2020, £1m will be required in extra income or savings if the existing model of services is to be maintained as is. The amount needed may well change after the election, but, what is certain is that the pressure on Councils to provide services with less money will remain and only those that are bold, realistic and innovative will be able to face the challenges ahead.

Legal implications

99. 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.
100. 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 (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.

Equality Implications

101. 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.
102. Where significant service changes are likely to occur as part of proposals included in budgetary proposals, the Council will consider conducting an Equality Impact Assessment (EIA) of these proposals. EIAs are all about considering how such proposals may impact, either positively or negatively, on different sectors of the population in different ways. The purpose of such assessments is to:
 - Identify whether the proposals are likely have a disproportionate impact on any particular group within the population;
 - whether such an impact is positive or negative; and
 - whether such an impact might constitute unlawful discrimination.
103. 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.

Proposals

104. There are two different proposals for members to consider depending on the level of Council tax set.

SET OF PROPOSALS A – 0% COUNCIL TAX INCREASE

Members are asked to:

- i. NOTE that, under delegated powers, the Executive Head of Finance calculated the amount of the Council Tax Base as 36,600.49 (Band D Equivalent properties) for the year 2015/16, calculated in accordance with the Local Government Finance Act 1992, as amended;
- ii. NOTE expenditure totalling £693,850 be charged directly to reserves;
- iii. NOTE that £600,000 of the new homes bonus is being used to support the 2015/16 budget;
- iv. NOTE the implications of the Council Tax freeze grant and that an increase in Council Tax above 2% is deemed to be “excessive” by Government;
- v. NOTE the level of savings required;
- vi. NOTE that the Revenue Support Grant has been reduced by 33% compared to the previous year
- vii. NOTE that there is no reduction in the grant given to Parishes for the Local Council Tax Support Scheme;
- viii. NOTE that a council tax surplus of £1m is being declared;
- ix. NOTE the comments in respect of the robustness of the 2015/16 budget and the adequacy of the Council’s reserves, provisions and the General Fund Working Balance;
- x. NOTE the comments in respect of the financial forecast;
- xi. NOTE that of the Council’s Budget requirement, £173,111 be a special expense relating to the non-parished area of the Borough.
- xii. RESOLVE that the Budget Requirement for 2015/16 be £9,929,748 as set out in Annex A;
- xiii. RESOLVE that the Council Tax Requirement for the Council’s own purposes for 2015/16 be £7,047,790 as set out in Annex A and;
- xiv. RESOLVE that the Council Tax for 2015/16 (excluding special expenses and parish precepts) be set at £192.56 for a Band D property being the same as in 2014/15.

SET OF PROPOSALS B – 1.94% COUNCIL TAX INCREASE

Members are asked to:

- i. NOTE that under delegated powers the Executive Head of Finance calculated the amount of the Council Tax Base as 36,600.49 (Band D Equivalent properties) for the year 2015/16 calculated in accordance with the Local Government Finance Act 1992, as amended;
- ii. NOTE expenditure totalling £693,850 be charged directly to reserves;
- iii. NOTE that £600,000 of the new homes bonus is being used to support the 2015/16 budget;
- iv. NOTE the implications of the Council Tax freeze grant and that an increase in Council Tax above 2% is deemed to be excessive by the Government;
- v. NOTE the level of savings required;
- vi. NOTE that the Revenue Support Grant has been reduced by 33% compared to the previous year
- vii. NOTE that there is no reduction in the grant given to parishes for the Local Council Tax Support Scheme
- viii. NOTE that a council tax surplus of £1m is being declared;
- ix. NOTE the comments in respect of the robustness of the 2015/16 budget and the adequacy of the Council's reserves, provisions and the General Fund Working Balance;
- x. NOTE the comments in respect of the financial forecast;
- xi. NOTE that of the Council's Budget requirement, £176,000 be a special expense relating to the non-parished area of the Borough.
- xii. RESOLVE that the Budget Requirement for 2015/16 be £9,999,046 as set out in Annex A;
- xiii. RESOLVE that the Council Tax Requirement for the Council's own purposes for 2015/16 be £7,184,676 as set out in Annex A and;
- xiv. RESOLVE that the Council Tax for 2015/16 (excluding special expenses and parish precepts) be set at £196.30 for a Band D property being an increase of 1.94% compared with 2014/15.

Options

105. The Council can accept, reject or amend any part of the budget, non recurring expenditure items, savings target and/or the Council Tax Requirement. Any changes, however, may have an impact on the overall robustness of the budget, which may then need to be reassessed.
106. The Council can accept, amend or reject any of the proposals for levels of Council Tax as they see fit. Each 0.1% changes the level of Council Tax changes the savings required by approximately £7,000. Any alternative proposal would need to be assessed to ensure that budget remained robust and take into account the “excessiveness” principles, if appropriate.

Officer recommendation

107. The Section 151 Officer would recommend that Members increase Council Tax by the maximum permitted without triggering a referendum, in order to protect and maintain the Council's services and finances in the longer term.
108. A recommendation will be made at the meeting based on set of proposals A or B (or as amended) as set out later in this paper.

Background Papers: Set of detailed revenue estimates in Members Room and on E Scene.

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ANNEX A

2015/16 GENERAL FUND ESTIMATES WITH COUNCIL TAX OPTIONS

PORTFOLIO'S	2014/15	2015/16	2015/16	Variance
		OPTION A	OPTION B	
	Budget	0% Ctax Inc	1.94% Ctax Inc	
	£	£	£	
Business	2,425,470	1,988,870	1,988,870	436,600
Community	5,699,050	5,672,080	5,672,080	26,970
Corporate	1,388,220	1,413,990	1,413,990	-25,770
Finance	1,931,600	1,980,810	1,980,810	-49,210
Regulatory	2,256,610	2,241,520	2,241,520	15,090
Transformation	1,053,070	1,098,350	1,098,350	-45,280
	14,754,020	14,395,620	14,395,620	358,400
Less: Staff cost amendments	-198,671	-129,940	-129,940	-68,731
Pension adjustment	-199,184	-472,370	-472,370	273,186
Add: Additional pension contribution	169,000	338,000	338,000	-169,000
Internal asset charges reversed	-2,680,990	-2,311,760	-2,311,760	-369,230
Less: Funding from Reserves	-557,900	-693,850	-693,850	135,950
NET COST OF SERVICES	11,286,275	11,125,700	11,125,700	160,575
Less: Investment Interest earned	-200,000	-300,000	-300,000	
Less: New Homes Bonus	-525,000	-600,000	-600,000	
ESTIMATED NET EXPENDITURE	10,561,275	10,225,700	10,225,700	
Less: Savings Target	-255,977	-315,895	-246,597	
Add: Contribution to Parishes	19,943	19,943	19,943	
Add: Tfr to Reserves from Collection Fund	169,000	0	0	
BUDGET REQUIREMENT	10,494,241	9,929,748	9,999,046	
Less: Sec 31 Grant in Lieu of Council Tax	0	-70,477	0	
Less: Collection Fund Surplus	-169,000	-120,000	-120,000	
Less: Business Rates baseline	-1,304,845	-1,329,778	-1,329,778	
Less: Rate Support Grant	-1,441,565	-965,188	-965,188	
Less: Other Grants in settlement	-227,942	-223,402	-223,402	
Less: Business Rates growth	-200,000	0	0	
Add: Parish Precepts	496,808	513,517	513,517	
COUNCIL TAX REQUIREMENT	7,647,697	7,734,420	7,874,195	
Less: Special Expenses	-173,111	-173,111	-176,000	
Less: Parish Precepts	-496,808	-513,517	-513,517	
OWN COUNCIL TAX REQUIREMENT	6,977,778	7,047,792	7,184,678	
<i>Band D equivalent Properties</i>	<i>36,237.02</i>	<i>36,600.49</i>	<i>36,600.49</i>	
<i>Base Council Tax per Band D property</i>	£192.56	£192.56	£196.30	

Notes:

- i) Special Expenses are a deduction from the overall borough budget, representing the cost of providing services in non parished areas of the borough that are paid for by parishes in the parished areas of the borough. This "special expense" is then charged as part of Council Tax on the non parished part of the borough as an additional cost.
- ii) Freeze grant figures are approximate and subject to confirmation. Any difference will be added or deducted from the savings target

GENERAL FUND REVENUE RESERVE							
CALCULATION OF THE MINIMUM REQUIREMENT							
				Calculation Basis			TOTAL
				Base	%	Total	
				£000			£000
Provision for cash flow on expenditure Items							
Based on gross General Fund Expenditure				18,500	3%		463
Provision for shortfall in major income budgets							
Arena				250	4%	10	
Building control Fees				281	4%	11	
Car Park Income				2,004	4%	80	
Community alarms				244	4%	10	
Community Transport				202	4%	8	
Development Control				566	4%	23	
Housing				95	4%	4	
Licensing				150	4%	6	
Local Land charges				200	4%	8	
Meals on Wheels				165	4%	7	
Older peoples centres				160	4%	6	
Parks				288	4%	12	
Property Rents				1,000	4%	40	
Theatre				1,083	4%	43	
Waste and recycling				1,060	4%	42	
				7,748		310	310
Other Contingencies							
- Major Incident or business recovery							50
Cost of major enquiry							50
- Shortfall on Business Rates							100
Failure to achieve savings target							
							150
TOTAL RESERVE REQUIRED							
							£1,122

ANNEX C

REVENUE FUND PROJECTION 2015/16 to 2019/20

BASE MODEL

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

ANNEX C**CAPITAL EXPENDITURE FORECAST 2015 To 2020****BASE MODEL**

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

ANNEX C

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

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