

General Fund Estimates 2016/17

Summary

To consider and recommend to Council the General Fund Revenue Estimates for the financial year 2016/17.

Portfolio - Finance

Date Signed Off: 13 January 2016

Wards affected – All

Recommendation

- (i) The Executive is advised to RECOMMEND to Council that the 2016/17 General Fund Revenue Budget of £10,973,280 as set out in Annex A be approved.
- (ii) The Executive is advised to RECOMMEND to Council that the support grant for parishes to compensate them for the effects of the local council tax support scheme unchanged for 2016/17 compared to 2015/16
- (iii) The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of the level of Council Tax to be set for 2016/17.
- (iv) The Executive is asked to NOTE
 1. That the budget contains £746,900 per paragraph 11 chargeable to reserves;
 2. The savings and minimum revenue payment required;
 3. The provisional Revenue Support Grant & NNDR allocation of £1,792,175 and the final allocation will be reported to Council at its meeting on 24th February 2016;
 4. The use of £800,000 of the New Homes Bonus to support the budget;
 5. The additional pension payment of £507,000 for 2016/17 to contribute to the deficit and;
 6. That a full report, setting out Council Tax proposals for 2016/17 will be presented to Council on 24th February 2016.
 7. The future savings that will be required as a result of reductions in Government funding in the period to 2020 and the impact this may have on the future financial viability of the council and its services.

1. Resource Implications

2016/17 Budget

- 1.1 The budget has been prepared on the assumption that Council Tax will be increased by 1.94%. This is because the Government has announced that it is their intention to set the referendum limit at 2%. Should this not be the case then other options will be presented at the meeting.
- 1.2 **It is a matter for full Council to decide upon the level of Council Tax set however Executive can make a recommendation.**
- 1.3 The revenue support grant the Council receives to pay for services has been reduced by £738k or 67%. The remaining £357k will be withdrawn in 2017/18. This will mean that after next year the Council will receive no money from Central Government for its services, including the funding of the Council Tax Support Scheme which replaced Council Tax benefit.
- 1.4 The net cost of Services for 2016/17 as presented as shown is £320k lower than last year. However this is after charging an additional £169k in pension contributions and £202k minimum revenue payment to repay debt. Actual service costs have fallen almost £600k due to savings and additional income.
- 1.5 The total budget is attached as Annex A and a full set of budget pages detailing each service are available on the Escene and in the member's room.
- 1.6 A number of fees and charges have been increased and have been approved in accordance with financial regulations. These changes are reflected within the budget. A list of these can be found on the internet under finance.
- 1.7 Wages and salaries for the year have fallen by £17k overall compared with last year. This is despite an increase in National insurance of 2% and increments totally £113,000. Services have been told that they must keep within the cash envelope from 2015/16 however this does mean that they will need to find in year savings of £235k. As a result of these pressures the vacancy margin has been set at 2% this year rather than 3% as in previous years. An allowance has also been included for a potential pay increase.
- 1.8 The Chancellor announced in his Autumn Statement that the grant funding for Local Authorities would be halved by 2019/20 and those Councils would be able to retain 100% of Business Rates from that date. However from the provisional settlement released on the 17th December the reduction for Districts and in particular Surrey Districts is a lot steeper with funding being withdrawn in 2 years. Members may wish to note that there is now no funding for the Council tax support scheme. There are no details available at the moment as to how the 100% retention of business rates is designed to operate. What will be critical for Surrey Heath is where the baseline and tariffs are set since this will determine whether the Council will be in an ongoing deficit or surplus situation.

- 1.9 The Government have brought in a new measure of Council funding called "Core Spending Power". This is the total of Revenue Support Grant, New Homes Bonus and Council Tax. Using the Government Figures this is set to fall in cash terms by 12.9% or £1.5m between 15/16 and 19/20. It should be noted that this assumes that Council Tax will increase by 11% over that period. If inflation is factored in then this is equivalent to a real terms reduction of over 20%. What the Government's figures do not include is an additional deduction being made from Business Rates which will amount to an additional £933k by 2019/20 thereby making the reduction nearer 30% in real terms.
- 1.10 The Council is due to receive £1.418m in New Homes Bonus in 2016/17 compared to £1.271k in the previous year. This money is not new money but rather top sliced business rates which are then redistributed to those Councils which build the most houses. The rate of building in Surrey Heath is still one of the lowest in the Surrey and the south east. Guildford for example is due to receive almost £2.3m, Woking and Runnymede £2.0m and Elmbridge £3m. In fact of all the Surrey districts only Mole Valley receives less. It is proposed that £800k is used to support the budget in this financial year.
- 1.11 The Government has announced that the New Homes bonus i.e. an incentive for house building will be retained indefinitely. However they are about to consult on potential changes to the scheme which could reduce the amount of funding for individual councils. This will form part of a separate paper in due course. What does remain certain is that the funding is only guaranteed year to year if house building continues making economic growth in the borough all the more important..
- 1.12 Savings of £270k will need to identify in year however the council has always managed to achieve this target.
- 1.13 Expenses totalling £747k are being charged directly to reserves and this is explained in more detail later in this paper. The General fund is estimated to be at least £1.5m at the end of 2016/17 if the savings and budget are delivered as shown.

Future Resource Implications

- 1.14 The Department for Communities and Local Government (DCLG) has published the amount of funding Councils can expect in the period to 2019/20. Many Districts have been pursuing a strategy of being free from Government funding and indeed at Surrey Heath we have made steps along that road by increasing income and investing in property. However from the information available it would appear that not only does Surrey Heath lose its grant in 2017/18 but in fact becomes a contributor i.e. the grant becomes negative or basically a charge. This is completely new territory and shows that it will become very difficult for districts to be free of Government funding. This has been achieved by applying a tariff adjustment payable out of business rates. By 2019/20 of the £1.555m baseline business rates that Surrey Heath is due to receive £933k will be returned to Government meaning that the borough is only

guaranteed to get 1.5% of the business rate we collect. This is the case for all districts in Surrey as can be seen in the attached table.

Future funding for Surrey Districts

			Cumulative		Cumulative		Cumulative		Cumulative
			% reduction		% reduction		% reduction		% reduction
	15-16 RSG	16-17 RSG	on 15-16	17-18 RSG	on 15-16	18-19 RSG	on 15-16	19-20 RSG	on 15-16
	£M	£M		£M		£M		£M	
Elmbridge	1.776	0.67	-62.4%	-0.3	-116.9%	-0.86	-148.4%	-1.48	-183.3%
Epsom and Ewell	1.006	0.42	-58.6%	-0.05	-102.8%	-0.32	-118.0%	-0.62	-134.9%
Guildford	2.079	1.10	-47.3%	0.32	-82.0%	-0.15	-108.4%	-0.67	-137.7%
Mole Valley	0.903	0.27	-69.7%	-0.22	-112.4%	-0.5	-128.1%	-0.82	-146.2%
Reigate and Banstead	1.665	0.50	-70.3%	-0.42	-123.6%	-0.95	-153.5%	-1.54	-186.7%
Runnymede	1.322	0.75	-43.5%	0.29	-83.7%	0.01	-99.4%	-0.3	-116.9%
Spelthorne	1.331	0.58	-56.4%	-0.1	-105.6%	-0.36	-120.3%	-0.75	-142.2%
Surrey Heath	1.095	0.36	-67.4%	-0.22	-112.4%	-0.56	-131.5%	-0.93	-152.4%
Tandridge	1.175	0.53	-55.0%	-0.03	-101.7%	-0.36	-120.3%	-0.73	-141.1%
Waverley	1.574	0.76	-51.4%	0.06	-96.6%	-0.35	-119.7%	-0.81	-145.6%
Woking	1.483	0.59	-60.4%	-0.11	-106.2%	-0.53	-129.8%	-0.99	-155.7%
Surrey districts	15.409	6.514	-57.7%	-0.78	-105.1%	-4.93	-132.0%	-9.64	-162.6%

- 1.15 In addition there is uncertainty as to what the future funding from the new homes bonus will be. Although the Government has pledged to maintain the bonus indefinitely the level of reward for Districts may well reduce substantially. This will further increase the financial pressure on the council.
- 1.16 The 100% retention of business rates by Councils by 2020 will bring with it risks in terms of increased volatility in income but also opportunities. Economic development, and in particular hard development, will be key to the Council's ability to fund services in the future. Similarly the Council will need to maintain its focus on projects which deliver financial rather than non-financial benefits if it is to try to fill the gap created by reductions in government funding. On top of this the Council will continue to operate in an environment where there is increasing pressure on wages and staffing and so will need to continue to be innovative in the way it delivers services and works with partners.
- 1.17 The Council has made significant internal efficiency savings and increased income to meet the reduction in funding so far without any detrimental effect on services to the public. Staff have worked hard to minimise the effect of Government cuts on the community. The financial projection driven by funding reductions shows that further significant savings will be required. Most of the significant internal efficiencies have already been realised and so more emphasis is being put in to the way services are being delivered be that by shared services, joint working, joint contracting, outsourcing or demand management. The Council has also worked hard on its strategy of increasing income and has achieved better returns on its treasury investments and borrowed money to invest in property for regeneration and financial return. Clearly this work will need to be accelerated if core services are to be maintained at their current levels.
- 1.18 It would appear for the settlement that the Government is pursuing a strategy where limited public funds in two tier areas are being diverted from the lower to

the upper tier. This is to ensure that services such as Adult and Children's services, which are subject to demographic pressures, are funded at the expense of what are perceived to be less important functions provided by Districts. This will mean that unless Districts can raise substantial levels of funding themselves it will become increasingly difficult to maintain the existing arrangements of local government in two tier areas.

2. Key Issues

3. Introduction

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

- reviews the current year's budget position
- recommends to Executive for recommendation to Council the Budget for 2016/17
- gives details of the provisional Government grant settlement for 2016/17
- includes a financial projection for 5 years going forward

3.2 This year's budget is again prepared against a background of major reductions in public expenditure, the financial volatility of Business Rates and increasing demand for service driven by an aging population and economic factors. This is making it increasingly difficult for the Council to continue to deliver all its services in their current form in the medium term.

4. General Fund Estimates 2016/17

4.1 This year services were asked to prepare their budget using the following parameters:

- No growth unless contractual and even then to be absorbed by compensatory savings
- No inflationary uplift
- Base Wages and salaries to keep at least to the 2015/16 cash limited total. i.e. increases in NI, pensions and increments to be absorbed by each service. An exception to this was where in order to generate additional income extra staffing was required

4.2 Management Board in 'Star Chamber' review workshops examined and challenged the draft estimates in some detail and checked that the budget parameters above had been complied with.

4.3 A summary of the budgetary position is as follows:

	Note	£000	£000
2015/16 Net Cost of Services			11,573
Grant treated as revenue	a		-299
One off items removed			-50
			11,224
Variations to Original Estimate:			
Savings and income	b	-2,329	
Increased Expenditure	c	1,956	
Change in portfolios			-373
			10,851
Pay provision and vacancy margin	d	37	
Pension adjustment	e	-90	
Internal asset charges	f	107	
Pension fund contribution	g	169	
Minimum Revenue payment	h	202	
Change in savings target	i	-23	
Non portfolio changes			402
2016/17 Net Cost of Services			11,253

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

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

- a. This is the grant received to pay for Disabled Facilities Grants which is being treated as a revenue grant
- b. These are savings and additional income offered as part of the budget process
- c. This relates to increased expenditure through volume and prices
- d. This includes a provision for a pay increase and the vacancy margin. The 2% vacancy margin assumes that the actual staff costs will be less than the budgeted cost due to vacancies arising in the year. This has been 3% in previous years but due to pressures within the budget from increases in national insurance costs it has been reduced to 2% this year. That said it is always exceeded on a corporate basis.
- e. These are accounting adjustments. The pension adjustment arises because the cost of services includes the actuarial cost of pension provision whereas the Council is only allowed to charge to Council tax payers the actual contributions made.
- f. The asset charge depends on the number of assets held, their valuation and the depreciation policy. It is against local government accounting rules to charge this to Council Tax and it is therefore reversed out as an accounting entry.
- g. This is an additional payment required to contribute to the pension fund deficit as determined by the actuary at the triennial review in 2013. This means the total deficit payment is now £507,000. An actuarial review will

be carried out in March 2016 and a new deficit contribution will be assessed at that time for the 2017/18 budget and the next 3 years after that.

h. This represents the Minimum Revenue Payment that is required in order to ensure that revenue funds are put aside for the repayment of debt.

i. This is the movement in the corporate savings target for the year

4.6 Provided the actual expenditure, including savings, meets the budget the General Fund will be unchanged at the end of 2016/17 at about £1.5m. This is considered to be a prudent level.

5. Localisation of Business Rates (LBR)

5.1 LBR gives local authorities a direct financial incentive to increase economic growth activity, as measured by an increase in business rates driven by development, in their local area. Broadly speaking for every additional £1 collected above the initial baseline 50p goes to government to be redistributed as grants such as New Homes Bonus and 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 £107k.

5.2 The table below shows the level of business rates the Government expects Surrey Heath to collect and how this translates in to actual funding:

Total Business Rates and Council Share 2015/16 to 2019/20

		2015/16	2016/17	2017/18	2018/19	2019/20
		Final	Provisional	Provisional	Provisional	Provisional
		£000	£000	£000	£000	£000
Baseline - assumed minimum collected		34,025	34,310	34,988	36,018	37,170
Less: 50% to Government		-17,013	-17,155	-17,494	-18,009	-18,585
Less: 10% to SCC		-3,402	-3,431	-3,499	-3,602	-3,717
Share for SHBC		13,610	13,724	13,995	14,407	14,868
Less Fixed Tariff		-12,187	-12,289	-12,531	-12,900	-13,313
Business Rates for SHBC		1,423	1,435	1,464	1,507	1,555
Less Tariff Adjustment		0	0	-220	-557	-933
Remining share of Business Rates		1,423	1,435	1,244	950	622
%age share		4.2%	4.2%	3.6%	2.6%	1.7%
Safety Net		1,317	1,328	1,354	1,394	1,438

- 5.3 It can be seen from the above table that it has been assumed that Business Rates will increase by 9% over the spending review period. In 2020 Councils will be allowed to retain 100% of business rates however how this affects Surrey Heath will be dependent on the baseline and tariff set. It can be seen that the amount the borough current received compared to what it collects is actually very small and amounts to only 4% of the total.
- 5.4 If Surrey Heath collects more than £34.310m in 2016/17 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.
- 5.5 The cost of any revaluations, irrespective as to which year they relate, falls on the borough together with any interest due. The Government did introduce a time limit on claims which came in last year and is also looking to review the whole appeals process.
- 5.6 The safety net applies to the share of business rates before the tariff adjustment. i.e. this is the minimum the Council is guaranteed to receive.
- 5.7 A national business rates revaluation is due to take place in 2017 and this will result in changes to individual authority's baselines and tariffs. In theory no one Council should be worse off as a result of the revaluation but this remains to be seen. In addition a rebalancing of business rates between authorities is due to take place in 2020. This may mean that gains in one area are passed to other areas where there have been losses. Alternatively gains up to 2020 could all be transferred to the centre. It will become clear as to the implication for Surrey Heath once the proposals for 100% rate retention have been revealed.

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

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

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

- 5.9 Given the continued uncertainty over the level of revaluations on appeal only the baseline level of £1.435m has been put in to the budget. Any increase above this will be taken to reserves to offset future losses.

6. Local Government Settlement 2016/17

- 6.1 The Council received notification of an indicative settlement for 2016/17 its rate support grant of £357k on the 17th December representing a reduction of 67% in cash terms compared with 2015/16. This will confirmed by Parliament in January 2016. The grant will be completed abolished in 2017/18 and indeed after that will effectively become negative.

- 6.2 Surrey Heath's allocation is as follows:

	Final	Final	Final	Final	Prov	Prov	Prov	Prov
	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Core Funding	£0	£0	£0	£0	£0	£0	£0	£0
Revenue Support Grant	63	1,415	1,441	965	357	0	0	0
Share of Business Rates	3,080	1,370	1,304	1,330	1,435	1,464	1,507	1,555
Tariff adjustment						-220	-557	-933
	3,143	2,785	2,745	2,295	1,792	1,244	950	622
Other Grants rolled in:								
Council Tax Freeze Grant	176	176	176	174				
Homelessness Grant		50	50	49				
Returned funding			3	0				
Council Tax Support Funding		419						
	3,319	3,430	2,974	2,518	1,792	1,244	950	622

- 6.3 The funding for the Local Council Tax support scheme is no longer shown separately and Councils are now expected to fund this themselves going forward.
- 6.4 The Council tax freeze grant paid as compensation to those councils that froze council tax has been withdrawn. No further freeze grants are being offered for 2016/17 and beyond.

7. Council Tax and Council Tax Freeze Grant

- 7.1 Council Tax will be set by the Full Council at its meeting on the 24th February 2016.
- 7.2 The Minister has confirmed that there will be a cap on council tax increases as follows:
- 4% - For those Councils with Adult Social Care responsibilities
 - £5 – for those Councils with historically low Council tax
 - 2% - for all others including Surrey Heath
 - Parishes are not included with in the capping legislation
- 7.3 Any council which sets a precept above the capping limits will have to hold a local referendum on the proposed increase in council tax.
- 7.4 No freeze grant is being offered this year so the budget has been prepared on the basis that council tax will be increased by 1.94%. This has been chosen because the %age increase on bills is rounded to 1 decimal place.
- 7.5 The current Surrey Heath band D Council Tax is £196.30. The table below shows the effect on an increase of 1.94%

Council Tax Increases

Percentage	Increase £	SHBC Weekly Increase £	SHBC Weekly Cost £
1.94%	3.81	0.07	3.84

*The Table shows the costs for Band D properties only.
Every 1% increase in Council tax raises approximately £72,400 annually
Surrey Heath only gets about 12% of the total Council Tax charged*

- 7.6 **The Council is at liberty to set whatever level of Council Tax it so wishes.** Increases deemed to be “excessive” i.e. over 2% will trigger a local referendum (at the Council’s expense) on the increase requested.
8. Tax Base, Parish Support and Collection Fund

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

Council Tax Base

	2016/17	2015/16	Change
Bisley	1,513.05	1,507.32	5.73
Chobham	1,928.94	1,922.82	6.12
Frimley and Camberley	23,382.72	23,125.93	256.79
West End	2,013.81	1,997.80	16.01
Windlesham	8,051.68	8,046.62	5.06
Total	36,890.20	36,600.49	363.47

- 8.2 This increase will create additional council tax income of £70,000 and shows the value in financial terms in delivering housing.
- 8.3 The Council pays a special grant to parishes to compensate them for the change to the tax base due to the introduction of the Local Council Tax support scheme (LCTSS). This grant will remain unchanged from that paid in 2015/16 and is shown in the table below:

Support for Parishes due to the LCTSS

Parish/Town	Support given in 2015/16 & 2016/17
Bisley	1,334.30
Chobham	2,962.87
Frimley and Camberley	8,116.98
West End	1,591.65
Windlesham	5,937.64
TOTAL	19,943.44

- 8.4 The Collection fund shows a projected surplus at the end 2015/16. The Sec 151 officer has determined that a surplus of £600,000 can be declared for the year. Of this will £448,460 will be paid to Surrey County Council, £79,370 to the police and the remaining £72,170 to the borough. This will be used to support the budget for 2016/17.

9. Investment income

- 9.1 The 2016/17 estimates include a provision of £300k for investment income.

10. Pensions

- 10.1 Surrey Heath along with all the other boroughs and districts, the county, police, a number of parishes and other organisations are members of the Surrey Local

Government Pension Scheme. This is managed by Surrey CC and in accordance with regulations a triennial actuarial review was carried out as at the 31st March 2013.

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

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

11. Items funded from reserves

11.1 As in previous years £746,900 of expenditure is funded directly from reserves as follows:

- £75,000 of expenditure relating to community grants included in the budget is being funded from the community fund. Typically this budget is under spent.
- £250,000 of costs related to Transformation is being financed from the Capital Revenue reserve as it is deemed to be an investment to deliver transformational change to Council services and thus deliver savings in the medium term. This may become an additional budget pressure going forward.
- £91,900 for community safety using Crime and Disorder Partnership funding.
- £150,000 for property maintenance from reserves.
- £150,000 for Family Support from the Family Support funding reserve which was created when the service was initially set up.
- £30,000 from SANGS reserves to pay back borrowing to purchase SANGS land in Chobham.

12. Funding transferred to Reserves

12.1 Unused new homes bonus is budgeted to be transferred to reserves.

13. Minimum Revenue Payment

13.1 There is an amount of £202k included within the budget to cover the cost of the Minimum Revenue Payment for assets purchased in the previous year funded through borrowing. This payment is to ensure that there is adequate funds to

repay the capital when it becomes due. The MRP charge has been made in line with the council's policy.

14. New Homes Bonus (NHB)

14.1 In 2010 the Government announced a new incentive to encourage house building. This rewarded local authorities for the number of houses they constructed and also provided an additional payment for any affordable units built. The bonus is calculated each year using the tax base growth and the reward is paid for that year and the 5 years following.

14.2 Amounts received so far are as follows:

Year	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Amount	£69k	£307k	£634k	£918k	£1.271m	£1.418m

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

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

14.5 The Government has assumed that New Homes Bonus is there to support on-going services and so £800k has been used to support the Councils revenue budget with the remaining £618k being transferred in to reserves.

14.6 The Government has launched a consultation on the future shape of New Homes Bonus which will result in a reduction to the level of incentive given. This could be done by:

- reducing the number of years an incentive is paid
- changing the district/county split
- reducing growth for a baseline housing delivery
- reducing the bonus for houses passed on appeal
- not paying the bonus where no local plan is in place

The outcome of this is not known at the moment and will affect the 2017/18 budget onwards. Given that this funding is time limited and it is unclear what will happen when the scheme ends the Council will need to take steps to reduce its cost base or generate income to cover reduction in this funding stream in the future.

15. Overall Budget

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

16. Financial Risks

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

Income Projections

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

Achievement of savings

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

Inflation

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

Salaries

- 16.5 As the council reduces headcount and churn reduces achievement of the 3% headcount is becoming more difficult. In addition services have been told to operate within a cash limited envelope for wages. This means absorbing all increments within their spend envelope. This has also meant that there are £235k of savings required in wages which have yet to be identified but have been built in to the budget.

Business Rates Funding

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

17. Financial Forecast

- 17.1 Each year as part of the budget process a 5 year financial forecast is prepared which attempts to model the Council's finances over this period. The Government has announced the funding allocations for 2016/17 to 2019/20. Whilst we do not have details beyond that it has been assumed that the reductions in that period will carry on beyond 2019/20.
- 17.2 The forecast assumes that there is no change in services or income. Its purpose is to show the scale of the challenge over the next 5 years.

- 17.3 The introduction of 100% localisation of Business Rates in 2020/21 will lead to increased volatility in income for Councils however for the purposes of the forecast it has been assumed that there will be no major changes. The potential impact of changes in business rates is highlighted elsewhere in this paper.
- 17.4 The introduction of the Council Tax Support scheme transfers financial risk to the Council in terms of increased bad debts and changes in number of claimants. Based on experience so far the risk would appear to be low and so it has been ignored but should still be noted. It should also be reiterated that this is no longer funded by Government.
- 17.5 The Council is becoming increasingly reliant on reserves to support its budget. Whilst this is manageable it does have implication for the medium to longer term.
- 17.6 The forecast take no account of any significant projects that may arise during the life of the forecast. Part of the decision process for these projects will be a consideration of their impact on the Council's future funding.
- 17.7 Each Financial Forecast is made up of 4 parts as follows:

Revenue fund projection

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

Capital Expenditure forecast

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

Capital and revenue balances

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

Assumptions

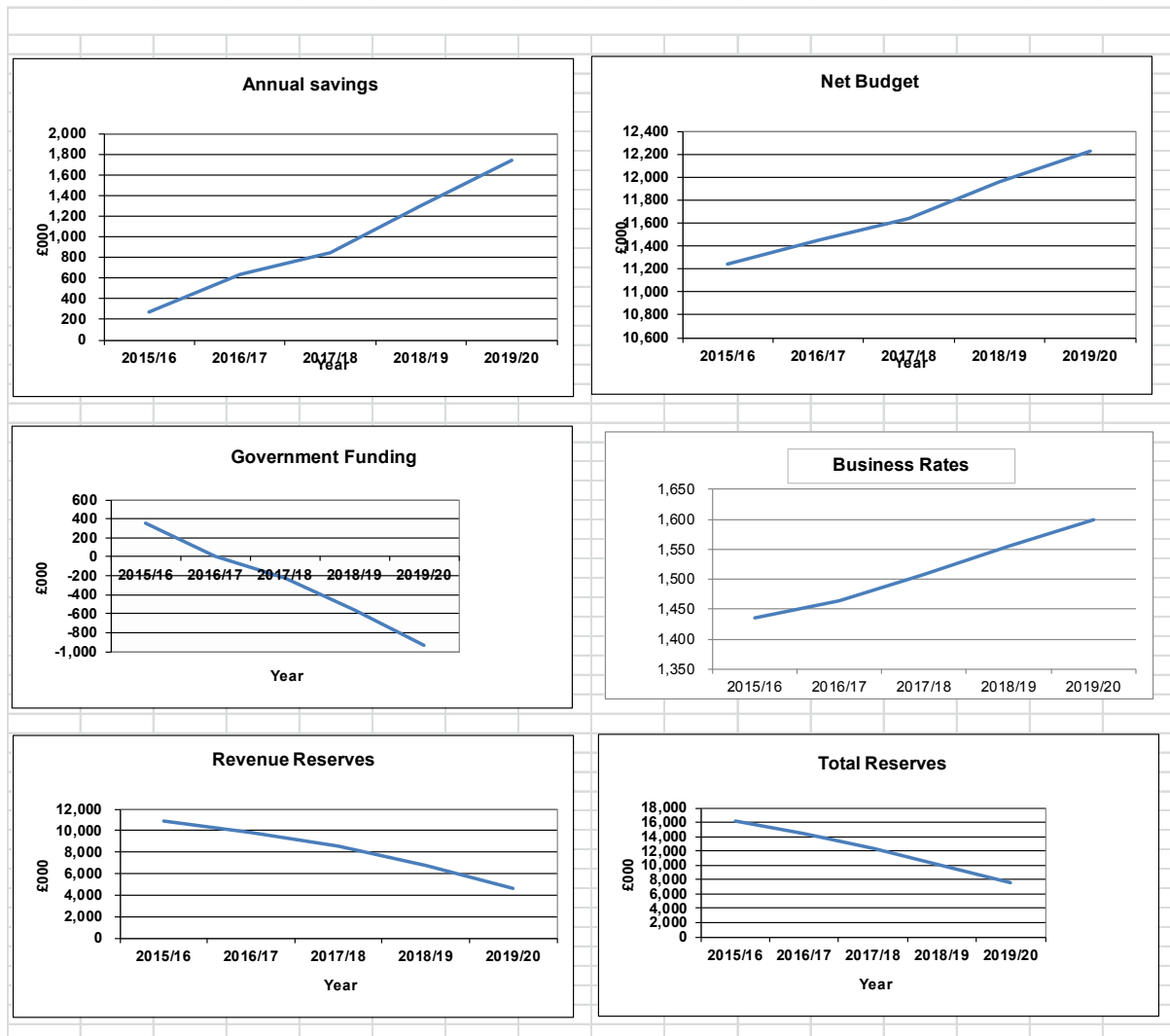
- 17.11 The assumptions used in the forecast are set out below:

Forecast Assumptions

Category	Assumption
Inflation - wages	1.5% rising to 2%
Inflation - Expenses	1% to 1.5%
Investment Returns	2%
Government Funding	As per SR2015
Council Tax	1.94% increase
Fees and Charges	2.0%

18. Financial Projection based on a Council Tax increase in 2016/17

18.1 The graphs show the projected outcomes for 2016/17 to 2020/21. The detailed schedules are in Annex B



18.2 The outcome from this scenario is that savings of about £1.7m will be required by 2020/21.

19. Risks to be considered in relation to financial forecast

19.1 The “prudent” scenario above is based on a set of assumptions that are in reality a “best guess”. This year more than ever there are a number of areas of uncertainty, particularly in relation to the local government finance reforms, which potentially could have a huge effect on forecasts.

19.2 Income Projections

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

19.3 Local Government Funding

It has been assumed that funding will continue to fall in line with spending review 2015 and continue to fall at the same rate after that. This will mean that Surrey Heath will receive no money for services from Government and in fact become a net contributor.

19.4 Council Tax increases

These forecasts assume that Council Tax will be increased by 1.94% in the future. The Government could reduce the level at which a referendum is triggered thereby limiting the ability of Councils to increase Council Tax.

19.5 Pension Deficit payments

It is assumed that these payments will remain at the same level after the next revaluation.

19.6 New Homes Bonus

The forecast assumes that this will be retained but reduced over the period. The Government’s estimates have been used in the forecast but these may change as a result of a review of NHB.

19.7 Interest Rates

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

19.8 Inflation

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

19.9 Legislative changes

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

19.10 Changes

It has been assumed in the forecast that there will be no changes to services. Transformation of services will be one of the ways that the funding gap is addressed. The purpose of the forecast is to give an indication as to the size of that challenge. In respect of agency services such as Supporting families it is

assumed that this will be funded externally on the same basis as it is currently. If this were not to happen then this would be an additional budget pressure on the Council.

20. Conclusions to be drawn from the Financial Forecast

- 20.1 The removal of Government funding was anticipated although the speed of removal came as a surprise. What was not expected was the fact that Surrey Heath would become a net contributor thereby adding a £1m of cost pressure that has now to be dealt with. As stated earlier the projection assumes that no action is taken to deal with the Council's financial challenges. This is clearly not the case. Work is ongoing in identifying future savings and income streams however the scale of the challenge should not be underestimated especially in the light of the savings already made. The next 5 years will require some more innovative and radical action to be taken if core services are to be maintained. This will mean that Surrey Heath by 2021 will need to be radically different from what it is now.
- 20.2 Members should be aware that the scale of the reduction in funding, especially taken in the context of the savings already made, is so great that it calls in to question the financial viability of the Council and its services in the period to 2020.
- 20.3 Funding of capital continues to be a real issue. Capital receipts have all been exhausted and funding is being done from revenue reserves. Services are being required to fund capital out of future savings to ensure that reserves are not run down. The Council has also borrowed to fund investment assets which generate returns.
- 20.4 Pensions continue to be a significant cost. Total contributions now amount to almost £2m pa and further increases as a result of the triennial review on the 31st March 2016 whilst not anticipated cannot be ruled out.

21. **The Next stage**

- 21.1 At this stage, the following information is required before details of the level of Council Tax for 2016/17 can be proposed:
- The Revenue Support Grant Settlement and Redistributed Business Rates as detailed at paragraph 6, is still provisional. It is anticipated that the final settlement will be announced in Parliament towards the end of January.
 - The County Council needs to determine its precept for the year
 - The Police Commissioner needs to determine his precept for the year.
 - Details of all the Parish Precepts.
 - Confirmation of the referendum limit of 2%

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

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

- The savings that have been included within the estimates for 2016/17
- The major reductions in Government funding as a result of the 2015 Spending review and its implications for the maintenance of services
- Items financed from reserves
- The underlying assumptions in the budget
- The financial forecast and its implications in respect of the need for further savings if financial stability is to be achieved and the underlying assumptions in its preparation

22. Options

22.1 The Executive is asked to consider and recommend to Council the 2016/17 Revenue Estimates as set out in this paper including the savings target and amounts chargeable to reserves. It can of course amend or reject any part of the budget as set out as it sees fit.

23. Officer Comments

23.1 Any change relating to 2016/17 budget agreed by Executive will be adjusted for in the budget presented to Full Council on the 24th February 2016.

24. Proposals

24.1 It is proposed that as follows:

- (i) The Executive is advised to RECOMMEND to Council that the 2016/17 General Fund Revenue Budget of £10,973,280 as set out in Annex A be approved.
- (ii) The Executive is advised to RECOMMEND to Council that the support grant for parishes to compensate them for the effects of the local council tax support scheme unchanged for 2016/17 compared to 2015/16.
- (iii) The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of the level of Council Tax to be set for 2016/17.
- (iv) The Executive is asked to NOTE
 1. That the budget contains £746,900 per paragraph 11 chargeable to reserves;

2. The savings and Minimum Revenue Payment required;
3. The provisional Revenue Support Grant & NNDR allocation of £1,792,175 and the final allocation will be reported to Council at its meeting on 24th February 2016;
4. The use of £800,000 of the New Homes Bonus to support the budget;
5. The additional pension payment of £507,000 for 2016/17 to contribute to the deficit and;
6. That a full report, setting out Council Tax proposals for 2016/17 will be presented to Council on 24th February 2016.
7. The future savings that will be required as a result of reductions in Government funding in the period to 2020 and the impact this may have on the future financial viability of the council and its services

25. Supporting Information

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

26. Corporate Objective and Key Priorities

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

27. Legal Issues

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

28. Sustainability

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

29. Risk Management

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

30. PR and Marketing

- 30.1 The financial standing of the Council is always a matter of interest to local residents and other stakeholders. The Council may consider it important that the public is informed as to how little central government funding the borough receives and how this is to be reduced further in the future.

31. Equalities

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

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

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

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

Annexes	A – 2016/17 Summary Budget B – Financial Forecast
Background papers	Revenue estimates for 2016/17
Author/contact details	Kelvin Menon – Executive Head of Finance Kelvin.menon@surreyheath.gov.uk
Head of service	Kelvin.menon@surreyheath.gov.uk

	Required	Consulted	Date
Resources			
Revenue			
Capital			
Human Resources			
Asset Management			
IT			
Other Issues			
Corporate Objectives & Key Priorities			
Policy Framework			
Legal			
Governance			

Sustainability			
Risk Management			
Equalities Impact Assessment			
Community Safety			
Human Rights			
Consultation			
P R & Marketing			

ANNEXE A

GENERAL FUND REVENUE ACCOUNT

2016/17 SUMMARY BUDGET

PORTFOLIO'S	2015/16	2016/17	Variance
	Budget	Budget	
	£	£	
Business	1,988,870	1,878,830	-110,040
Community	5,672,080	5,041,616	-630,464
Corporate	1,413,990	1,520,080	106,090
Finance	1,980,810	1,907,470	-73,340
Regulatory	2,241,520	2,438,507	196,987
Transformation	1,098,350	886,950	-211,400
	14,395,620	13,673,453	-722,167
Less: Staff cost amendments	-129,940	-92,676	37,264
Less: Savings Target	-246,597	-270,295	-23,698
Pension adjustment	-472,370	-561,965	-89,595
Add: Additional pension contribution	338,000	507,000	169,000
Add: Minimum Revenue Payment		202,000	202,000
Internal asset charges reversed	-2,311,760	-2,204,180	107,580
NET COST OF SERVICES	11,572,953	11,253,337	-319,616
Less: Investment Interest earned	-300,000	-300,000	0
Add: Contribution to Parishes	19,943	19,943	0
BUDGET REQUIREMENT	11,292,896	10,973,280	-319,616
Less: Collection Fund Surplus	-120,000	-72,170	47,830
Less: Business Rates baseline	-1,329,778	-1,435,359	-105,581
Less: Rate Support Grant	-965,188	-356,817	608,371
Less: New Homes Bonus	-1,271,000	-1,418,000	-147,000
Less: Other Grants in settlement	-223,402	0	223,402
Add: Tfr to Reserves	671,000	618,000	-53,000
Less: Funding from Reserves	-693,850	-746,900	-53,050
Add: Parish Precepts	513,517	513,517	0
COUNCIL TAX REQUIREMENT	7,874,195	8,075,551	201,356
Less: Special Expenses	-176,000	-180,000	-4,000
Less: Parish Precepts	-513,517	-513,517	0
OWN COUNCIL TAX REQUIREMENT	7,184,678	7,382,034	197,356
<i>Band D equivalent Properties</i>	<i>36,600.49</i>	<i>36,890.20</i>	
<i>Base Council Tax per Band D property</i>	<i>£196.30</i>	<i>£200.11</i>	

ANNEX B
REVENUE FUND PROJECTION 2016/17 to 2020/21
BASE MODEL

2016/17		2017/18	2018/19	2019/20	2020/21
£000		£000	£000	£000	£000
Budget	Portfolio				
1,879	Business	1,879	1,879	1,879	1,879
2,438	Regulatory	2,438	2,438	2,438	2,438
1,520	Corporate	1,520	1,520	1,520	1,520
5,041	Community	5,041	5,041	5,041	5,041
1,907	Finance	1,907	1,907	1,907	1,907
888	Transformation	888	888	888	888
13,673		13,673	13,673	13,673	13,673
	Non service costs				
(2,204)	Internal Asset charges	(2,204)	(2,204)	(2,204)	(2,204)
(193)	Vacancy Margin	-290	-290	-290	-290
(562)	FRS17 Pensions	(562)	(562)	(562)	(562)
507	Pension deficit funding	507	507	507	507
20	Contribution to Parishes	20	20	20	20
202	MRP funding	430	430	430	430
0	Non recurrent costs			35	
11,443		11,574	11,574	11,609	11,574
	Financing Changes				
(300)	Investment Income	(352)	(399)	(347)	(288)
	Income Inflation	(140)	(283)	(428)	(577)
	LCTSS growth	20	40	60	80
100	Wages Inflation	250	453	660	871
	Expense Inflation	100	252	405	561
(200)	Total	(122)	63	350	648
11,243	Total Budget to be funded	11,452	11,637	11,959	12,222
	Financed By				
357	Rate support Grant	0	-220	-557	-933
746	Funding from reserves	983	983	983	983
1,435	Business Rates	1,464	1,507	1,555	1,600
7,382	Council Tax	7,508	7,658	7,811	7,959
72	Collection Fund Surplus	80	80	80	80
800	New Homes Bonus	600	600	600	600
180	Special Expenses	183	187	191	194
10,972	Total Finance	10,818	10,795	10,663	10,483
271	Funding Gap/Savings	633	842	1,297	1,738

ANNEX B**CAPITAL EXPENDITURE FORECAST 2016 TO 2021****BASE MODEL**

	Estimated 2016/17 £'000	Estimated 2017/18 £'000	Estimated 2018/19 £'000	Estimated 2019/20 £'000	Estimated 2020/21 £'000
Disabled Facilities Grants	520	520	520	520	520
Renovation Grants	25	25	25	25	25
IT	35				
Property development	375				
Other	90				
GRAND TOTAL OF ALL SCHEMES	1,045	545	545	545	545
CAPITAL RECEIPTS RESERVE B/F	0	0	0	0	0
Add: Funding from Capital Revenue Reserve	680	180	180	180	180
Add: Funding from Revenue					
Add: Government Grant	315	315	315	315	315
Add: Capital Receipts	50	50	50	50	50
Less: Capital Expenditure	(1,045)	(545)	(545)	(545)	(545)
CAPITAL RECEIPTS RESERVE C/F	0	0	0	0	0
CAPITAL REVENUE RESERVE B/F	9,237	8,307	7,877	7,447	7,017
Less: Transformation	(250)	(250)	(250)	(250)	(250)
Less Funding Required for Capital	(680)	(180)	(180)	(180)	(180)
CAPITAL REVENUE RESERVE C/F	8,307	7,877	7,447	7,017	6,587

NB The effect of significant capital purchases has been excluded and it has been assumed that either they will make a positive contribution or be self-financing

ANNEX B

GENERAL FUND CAPITAL AND REVENUE BALANCES ESTIMATED 2016 TO 2021 WITH COUNCIL TAX INCREASE

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	Estimated Balance 31-Mar-21 £000
Capital Reserves						
0	Capital Receipts	0	0	0	0	0
0	Sub Total Capital Reserves	0	0	0	0	0
Earmarked Revenue Reserves						
13	Atrium Public Art	11	11	10	10	9
316	Affordable housing	316	316	0	0	0
311	Atrium s106	280	250	200	150	100
90	Blackwater Valley & Developer Conts	90	70	50	30	0
11	Gum Machine	8	6	4	2	0
4	Chobham Partnership	0	0	0	0	0
600	Commuted Sums	500	400	300	250	200
299	Community Fund	250	200	150	100	50
39	Crime and Disorder Partnership	0				
377	Deepcut Commuted Sums	370	360	350	340	300
35	Heathside Muga	0	0	0	0	0
217	Insurance	150	100	90	80	80
329	Land Drainage	300	250	200	150	100
0	Land Charges	0	0	0	0	0
100	new burdens	0	0	0	0	0
19	Old Dean Toddlers Playground	15	12	12	10	8
0	Personalisation	0				
134	Sec 106	100	70	50	30	10
459	Planning Tariffs	400	500	600	300	350
1,815	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
72	Surrey Family Support	0	0	0	0	0
1,046	SANGS	700	600	500	600	700
6,537	Total Earmarked Revenue Reserves	5,285	4,690	3,861	3,247	2,952
Other Revenue Reserves						
8,967	Capital Revenue Reserve	8,307	7,877	7,447	7,017	6,587
500	New Homes Bonus	1,000	1,000	1,000	1,000	1,000
2,000	General Fund Working Balance	1,529	896	54	-1,242	-2,980
11,467	Total Other Revenue Reserves	10,836	9,773	8,501	6,775	4,607
18,004	TOTAL RESERVES	16,121	14,463	12,362	10,022	7,559