

Portfolio:	Non Executive Function
Ward(s) Affected:	All

Purpose

To approve the Council's Budget and Council Tax for the Financial Year 2016/17.

Introduction

1. The purpose of this paper is to enable the Council to set its Budget and Council Tax for 2016/17. Under statute these functions cannot be delegated to the Executive.
2. The Government was elected on a policy of reducing the budget deficit and this was confirmed with the Spending Review 2015. For Surrey Heath this will result in the loss of £1m in Revenue Support Grant (RSG) funding by 2017/18. Originally it was proposed to introduce a "tariff" or negative grant in 2017/18 however this has been softened as a result of lobbying by councils so that it will not come in to effect until 2019/20 – the year in which business rates become fully localised - and the Government has also given a transitional grant from 2016/17 and 2017/18 to ease the loss of RSG. Despite this Surrey Heath will still end up paying £1m to the Government by 2020. This equates to a 30% reduction in funding in real terms by the end of the spending review period or a loss of £2m in resources equating to a 27% increase in 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 and indeed during the year money has been invested in income generating assets. This means that, so far, the impact of the Government's austerity programme has not really impacted the services received by the public. It will be a challenge to maintain this up to 2019/20.
4. Looking at the budget for 2016/17, as presented, this shows a decrease of just under £300k as compared with the previous year. This is after taking into account a further £169k increase in deficit pension contributions and a £265k increase in payroll costs of which £153k was due solely to a change in Government policy on National Insurance. Services have worked very hard to reduce costs and to increase income and Executive Heads have set themselves some challenging, but deliverable, budgets.
5. The total budget is attached as paragraph 76 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.

6. The Government has announced that the referendum trigger for Council Tax for Districts will be set at 2% or £5 whichever is the higher and that there will be no offer of a freeze grant this year. It is interesting to note that in the current settlement all previous freeze grants have been removed thereby impacting Councils funding. Here in Surrey Heath we have lost £174k which was given in compensation for a past Council Tax freeze.
7. As a result of the choice for different levels of Council tax increase the attached paper models a budget based on a Council Tax increase of 1.94% and another of £5. Members may of course decide to set Council tax at whatever level they wish. Each change of 1% in Council tax leads to a change in the budget of about £72k. It should be noted that any increase above £5 would be subject to a referendum at the Council's expense.
8. Members may be interested to know that Surrey County Council is permitted to increase their Council Tax by an additional 2% to raise money for Adult Social Care. The county has indeed decided to levy this extra precept.
9. The financial forecast indicates that there will be between a £1.4m and £1.6m budget gap by 2020. £1m of this will not actually arise until 2019/20 and may well be impacted by the 100% Localisation of Business Rates which is due to start in the same year. However it should be noted that if savings of this magnitude were needed and taking into account the savings already made it will seriously call into question the future financial sustainability of the Council and its services.

General Fund Revenue Estimates

10. The Executive considered the budget as outlined in this paper on the 9th February 2016. The paper presented did not take account of the changes in Government grant which had only been announced the previous evening. That said the service budgets presented in this paper are unchanged from the ones presented to Executive. The only changes between the two budgets are due to the change in the settlement and have affected the savings required, use of new homes bonus, Government grants and the Council Tax requirement.
11. The complete budget is attached as paragraph 76 to this paper. To aid understanding this has been broken down into sections and is examined in more detail in the next part of this report.

Net Cost of Services

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

GENERAL FUND REVENUE ACCOUNT

Net cost of Services

	2015/16 Budget £	2016/17 Budget £	Variance
Business	2,001,870	1,878,820	-123,050
Community	5,419,619	5,041,616	-378,003
Corporate	1,470,457	1,520,080	49,623
Finance	2,030,230	1,907,470	-122,760
Legal and Property	146,100	21,280	-124,820
Regulatory	2,273,831	2,438,507	164,676
Transformation	975,365	865,680	-109,685
	<u>14,317,472</u>	<u>13,673,453</u>	<u>-644,019</u>
Less: Staff cost amendments	-129,940	-92,676	37,264
Portfolio changes	78,148		-78,148
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	<u>11,819,550</u>	<u>11,523,632</u>	<u>-295,918</u>

13. The net cost of services is made up of a summation of all the individual service budget sheets which are then adjusted for a number of other items to give the net cost of services.

Service Budgets

14. A complete set of budget pages showing the changes is available on E scene and there are copies in the Member's Room but the main changes are outlined in the next section.

Business

15. £230k net decrease in parking budget due to cost savings and additional income. Additional costs of £67k for the Arena due to terms of extended contract.

Community

16. Community are budgeting for a net reduction in budget of almost £378k compared to last year. Recycling and refuse are contributing £156k of this due to changes in the contract and increased recycling returns with the remainder being spread across the other savings as a result of increased income and reduced support costs.

Corporate

17. There is overall growth of £49K due to the fact that staff have been transferred into communications from other areas of the council. Elections has also increased to reflect the costs, such as postage, which were previously funded by grants.

Regulatory

18. Reduction in income areas such as planning. Increase of £200k for family support but direct costs are being funded from reserves.

Finance

19. There was a £125k reduction due to a reduction in collection costs for council tax and business rates as well as a fall in salary and other charges.

Transformation

20. Transformation has a net saving of 110k of which £73k is due to the removal of 'one off' items such as carry forwards in the budget for 2015/16..

Legal

21. Legal which includes Corporate property has reduced its budget by £124k due to net income generated by the Council's two new property acquisitions in 2015/16. These will contribute net income of £260k. There is however the Minimum Revenue Repayment (to repay the loan) to be made of £132k leaving a net income of £128k.

Other costs

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

IT costs

23. The ICT budget has remained level with increases in licence costs being absorbed by savings in other areas. Excluding depreciation ICT costs just under £800k a year.

Public Offices

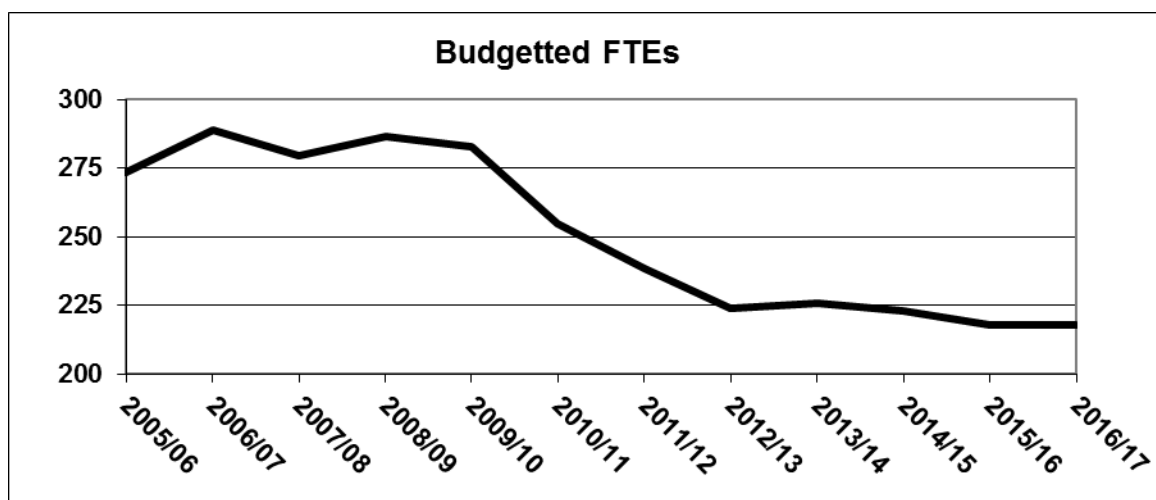
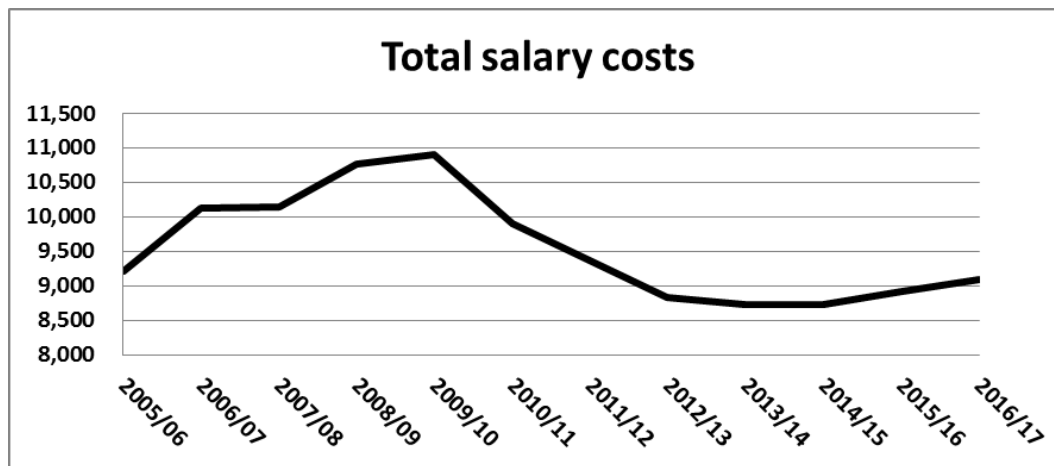
24. Public office costs are the total cost, excluding wages, of providing the Council's offices. This year they have fallen by £82k of which £50k is due to recharged services charges and business rates to new tenants.

Insurance

25. No change in insurance costs despite a hardening market.

Employee costs

26. 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. If wages had risen in line with RPI then they would now be £12m. Wages have increased this year due to the pay rise awarded last year and the increase in national insurance imposed by the Government as a result of ending contracting out. Wages costs are likely to continue to rise as the Council is under pressure and will find it increasingly difficult to recruit staff as wages increase in the private sector.



Other Items

27. The “Cost of Services” is made up of a summation of the individual budget sheets by service. These are then adjusted for a number of different items as follows:

Staff cost amendments

28. This includes a deduction for the vacancy margin and an allowance for a pay increase if awarded. The vacancy margin has been set at 2% rather than 3 % this year to reflect the pressure that services are under to achieve a cash limited budget for wages. All services are required to ensure that they absorb all increases, such as increments, within their existing budget. This year this

has been particularly difficult given the increases in national insurance due to the ending of pension contracting. This has meant that each service is carrying an in year savings target for wages

Pension Adjustment

29. Accounting rules require that services are charged with the actuarial cost of pensions however for budgeting purposes only the actual cash contribution can be charged to Council Tax.

Additional Pension Contribution

30. As a result of the 2013 actuarial review of pensions the Council was required to make a cash contribution towards the fund's deficit. This has increased to £507k this year

Minimum Revenue Payment

31. The Council has entered into loans to purchase property and has also borrowed internally to fund the capital programme. The Minimum Revenue Payment or MRP is a charge that is made against revenue to ensure that there are sufficient funds available to repay the money borrowed over time. The interest on loans is charged against the services

Internal asset charges reversed

32. Services are charged for their "use" of assets to reflect the "wearing out" of those assets. However local authority accounting rules do not permit these costs to be charged to Council Tax and so they are deducted from the budget. This is in contrast to the private sector where depreciation is a charge against profit

Surrey Heath BC Council Tax Requirement

33. 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:

COUNCIL TAX REQUIREMENT 2016/17

	2015/16	2016/17 1.94% CT Inc	2016/17 £5 Inc
	Budget £	Budget £	Budget £
NET COST OF SERVICES	11,819,550	11,523,632	11,523,632
Less: Investment Interest earned	-300,000	-300,000	-300,000
Less: Savings Target	-246,597	-241,307	-197,344
Add: Contribution to Parishes	19,943	19,943	19,943

BUDGET REQUIREMENT	11,292,896	11,002,268	11,046,231
Less: Collection Fund Surplus	-120,000	-72,170	-72,170
Less: Business Rates baseline	-1,329,778	-1,435,359	-1,435,359
Less: Rate Support Grant	-965,188	-356,817	-356,817
Less: New Homes Bonus	-1,271,000	-1,418,000	-1,418,000
Less: Other Grants in settlement	-223,402	-132,988	-132,988
Add: Tfr to Reserves	671,000	718,000	718,000
Less: Funding from Reserves	-693,850	-746,900	-746,900
Add: Parish Precepts	513,517	537,437	537,437
COUNCIL TAX REQUIREMENT	7,874,195	8,095,471	8,139,434
Less: Special Expenses	-176,000	-176,000	-176,000
Less: Parish Precepts	-513,517	-537,437	-537,437
OWN COUNCIL TAX REQUIREMENT	7,184,678	7,382,034	7,425,997

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

Investment Income

35. 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. Although there are rumours that this may change in the future there is unlikely to be any significant movement in the coming year. On the advice of the treasury advisors, Arling Close, the Council broadened the range of investments it could invest in with a view to increasing 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 a result of this change in strategy returns have increased in 2015/16 compared to 2014/15 but no further increase is anticipated for 2016/17.

Corporate savings Target

36. This is the savings target which is to be achieved corporately over the year.

Contribution to Parishes

37. 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). Despite large reductions in Government funding since the LCTSS was introduced the grant has been maintained at its current level. This may be reviewed as part of the 2017/18 budget process

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

Parish/Town	Support given in 2015/16	Support for 2016/17
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

38. 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 2016.
39. 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

Members are asked to NOTE the Council Tax surplus of £600,000 being declared

New Homes Bonus

40. In 2010 the Government launched an incentive to encourage house building. This gave local authorities £1,483 (based on 2014/15 average council tax) for each new housing unit built or brought back into occupation plus a further £350 if the housing was affordable. The Council increased its housing stock by 123 after adjusting for empty properties and delivered 1 affordable unit. This meant that for 2015/16 the Council was awarded £147,319. This is then added to the incentives accrued over the last 6 years to give a total of £1,418,185.
41. 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 and affordable housing in Surrey. This can be seen in the table below:

Borough	Net Housing delivered 2016/17	Affordable Homes delivered 2016/17	Bonus for 2016/17	Total for 2016/17
Surrey Heath	123	1	147,319	1,418,186
Waverley	371	112	567,163	2,229,521
Runnymede	348	263	506,845	2,010,921
Spelthorne	271	38	331,225	1,895,630
Guildford	422	118	582,690	2,362,055
Elmbridge	291	137	518,117	2,967,242
Rushmoor	245	152	298,263	1,994,435
Hart	344	96	493,581	2,076,562

42. It is worth noting that of the £1.6bn 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. This means effectively that resources are reallocated to those areas that deliver housing away from those that do not.
43. Although the NHB is a reward for housing the Government does include it in the total resources available to councils and so with this in mind, £700k has been used to support the Council's revenue budget.
44. Although the scheme was initially guaranteed until 2020/21 the Government has stated that it is their intention to continue with the incentive indefinitely. However they are currently consulting on potential proposals to "sharpen" the incentive.

Changes suggested are:

- Reduce the incentive period to say 3 or 4 years
- Deduct a baseline delivery of housing – say 0.5% of current stock – before awarding the bonus
- Only pay a bonus where there is a valid local plan in place
- Reduce any bonus due on houses granted on appeal

Clearly a number of these proposals will have a detrimental effect on districts and effectively reduce the incentive to deliver housing. Executive will be responding to the consultation at its meeting on the 1st March 2017.

Members are asked to NOTE that £700,000 of the New Homes Bonus for 2016/17 has been used to support the revenue budget

Transfers to reserves

45. The Council is due to receive £1,418k in respect of new homes bonus of which £700k is being used in the budget. The remainder is being placed in the capital reserve. This compares to £600k being used last year

Transfers from Reserves

46. Management Board examined the 2016/17 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 totalling £746,900 should be funded from reserves:
- £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

Members are asked to NOTE that expenditure of £746,900 be funded from reserves.

Share of Business Rates

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

49. 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 currently receives compared to what it collects is actually very small and amounts to only 4% of the total.
50. 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.
51. 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.
52. The safety net applies to the share of business rates before the deduction of negative rate support grant otherwise called a tariff adjustment.
53. 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.

54. 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 achieved in 2015/16 (relative to NDR Baseline)	NDR 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

55. 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.

Local Government Settlement 2016/17

56. 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 followed by its total removal in 2017/18. This was confirmed by Parliament in February 2016 however as a result of lobbying a transitional grant of £133k in 2016/17 and £85k in 2017/18 has been given to help manage the loss. It was originally proposed by the Government that the grant would go negative in 2016/17, by applying a “tariff adjustment” to business rates however this will now not come in to effect until 2019/20.
57. Surrey Heath’s allocation is as follows:

	Final	Final	Final	Final	Final	Final	Final	Final
	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation	Allocation
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
	£0	£0	£0	£0	£0	£0	£0	£0
Core Funding								
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								-933
	3,143	2,785	2,745	2,295	1,792	1,464	1,507	622
Other Grants rolled in:								
Transitional Grant					133	84		
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	1,925	1,548	1,507	622

58. 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.
59. A number of other grants have also been removed as follows:
- 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.
 - No additional grant to deal with homelessness

Offer of fixing of funding settlement from Government

60. The Government has released settlement figures up to 2019/20 and the details are included within this report. The Minister has offered to guarantee the future settlement figures provided Councils submit an efficiency plan indicating how they will deal with the challenges they present. This has to be done by October 2016
61. At the current time it is not known what is actually being guaranteed and the Government has already said that wider economic considerations may mean the guarantee has to be broken anyway. There are also no details as to what will be required for the efficiency statement or how it will be monitored.
62. With this in mind Council is asked to delegate to the Executive Head of Finance in consultation with the portfolio holder for Finance the decision as to whether the Council signs up for the guarantee or not.

Members are asked to DELEGATE to the Executive Head of Finance in consultation with the Portfolio Holder for Finance the decision as to whether the Council signs up to the Government's offer of a settlement guarantee.

Special Expenses

63. These reflect the cost of providing services to non-parished areas which in parished areas are funded by a parish precept. The charge is billed as a separate item to non parished areas in a similar way to a precept in parished areas.

Council Tax and Council Tax Freeze

64. 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.
65. 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 290 band D equivalent properties due to house building, conversion of offices to housing and a purge on empty homes. This will generate an additional £57k in income for the borough. The base is shown 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	289.71

66. 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.
67. **The Council is at liberty to set whatever level of Council Tax it so wishes** but is obliged to hold a referendum on any increase if it exceeds the capping limits set by the Minister. These have been set as follows:
- 4% - For those Councils with Adult Social Care responsibilities, such as Surrey CC, of which 2% is ring fenced for Adult social care
 - £5 or 2% whichever is the higher for all Districts
 - Parishes are not included within the capping legislation

This is the first year that the option of a £5 increase has been extended to all districts rather than just those Districts with historically low Council Tax.

Any increase in breach of this level will trigger a local referendum at the Council's expense

68. In previous years the Government encouraged Councils to freeze Council Tax by offering a grant to those that froze. However no such grant is being offered this year and indeed grants paid to Councils which froze Council Tax in the past have all been withdrawn.
69. Given the new flexibility over Council tax increase the budget has been prepared on two bases namely:
- An increase of 1.94% being under the 2% limit;
 - An increase of £5.
70. 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
n/a	5.00	0.10	3.87

*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*

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

	2015/16	2016/17	2016/17	% change	% change
		1.94% Inc	£5 inc	1.94% Inc	£5 inc
Surrey Heath BC	196.30	200.11	201.30	1.94%	2.55%
Surrey County	1,219.68	1,268.28	1,268.28	3.98%	3.98%
Surrey Police	215.89	220.19	220.19	1.99%	1.99%
	<u>1,631.87</u>	<u>1,688.58</u>	<u>1,689.77</u>	<u>3.48%</u>	<u>3.55%</u>

	2013/14	2014/15	2014/15	% change
		0% Inc	1.9% Inc	
Surrey Heath BC	188.97	188.97	192.56	0%/1.9%
Surrey County	1,172.52	1,195.83	1,195.83	1.99%
Surrey Police	207.55	211.68	211.68	1.99%
	<u>1,569.04</u>	<u>1,596.48</u>	<u>1,600.07</u>	<u>1.75%/1.98%</u>

Surrey County Council are permitted to charge an additional 2% precept to fund Adult Social Care on top of the 2% referendum limit. This additional amount, which is included in the figures above, is £24.39 for a Band D taxpayer

72. Given the longer term financial implications the Sec 151 officer would urge members to increase Council tax this year to by the maximum permitted of £5. Only by doing this can income for services be protected for future years

Members are asked to NOTE the trigger of the higher of 2% or £5 for “excessive” Council Tax increases set by the Minister

Parish Precepts

73. 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.
74. Parishes are not subject to the referendum rules and can set any level of precept they wish.
75. The parish precepts are shown below:

Parish	2016/17				2015/16			Increase
	Tax Base	Precept	Band D		Tax Base	Precept	Band D	
Bisley	1,513.05	82,012	54.20		1,507.32	67,381	44.70	21.25%
Chobham	1,928.94	78,000	40.44		1,922.82	76,537	39.80	1.59%
West End	2,013.81	83,747	41.59		1,997.80	81,453	40.77	2.00%
Windlesham	8,051.68	293,678	36.47		8,046.62	288,146	35.81	1.86%
Total Parishes	13,507.48	537,437	39.79		13,474.56	513,517	38.11	4.40%

Total Budget

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

GENERAL FUND REVENUE ACCOUNT				
2016/17 SUMMARY BUDGET				
	2015/16	2016/17	2016/17	Variance
	Budget	1.9% CT Inc	£5 Inc	
	£	Budget	Budget	
	£	£	£	
Business	2,001,870	1,878,820	1,878,820	-123,050
Community	5,419,619	5,041,616	5,041,616	-378,003
Corporate	1,470,457	1,520,080	1,520,080	49,623
Finance	2,030,230	1,907,470	1,907,470	-122,760
Legal and Property	146,100	21,280	21,280	-124,820
Regulatory	2,273,831	2,438,507	2,438,507	164,676
Transformation	975,365	865,680	865,680	-109,685
	14,317,472	13,673,453	13,673,453	-644,019
Less: Staff cost amendments	-129,940	-92,676	-92,676	37,264
Portfolio changes	78,148			-78,148
Pension adjustment	-472,370	-561,965	-561,965	-89,595
Add: Additional pension contribution	338,000	507,000	507,000	169,000
Add: Minimum Revenue Payment		202,000	202,000	202,000
Internal asset charges reversed	-2,311,760	-2,204,180	-2,204,180	107,580
NET COST OF SERVICES	11,819,550	11,523,632	11,523,632	-295,918
Less: Investment Interest earned	-300,000	-300,000	-300,000	
Less: Savings Target	-246,597	-241,307	-197,344	
Add: Contribution to Parishes	19,943	19,943	19,943	
BUDGET REQUIREMENT	11,292,896	11,002,268	11,046,231	
Less: Collection Fund Surplus	-120,000	-72,170	-72,170	
Less: Business Rates baseline	-1,329,778	-1,435,359	-1,435,359	
Less: Rate Support Grant	-965,188	-356,817	-356,817	
Less: New Homes Bonus	-1,271,000	-1,418,000	-1,418,000	
Less: Other Grants in settlement	-223,402	-132,988	-132,988	
Add: Tfr to Reserves	671,000	718,000	718,000	
Less: Funding from Reserves	-693,850	-746,900	-746,900	
Add: Parish Precepts	513,517	537,437	537,437	
COUNCIL TAX REQUIREMENT	7,874,195	8,095,471	8,139,434	
Less: Special Expenses	-176,000	-176,000	-176,000	
Less: Parish Precepts	-513,517	-537,437	-537,437	
OWN COUNCIL TAX REQUIREMENT	7,184,678	7,382,034	7,425,997	
<i>Band D equivalent Properties</i>	<i>36,600.49</i>	<i>36,890.20</i>	<i>36,890.20</i>	
<i>Base Council Tax per Band D property</i>	<i>£196.30</i>	<i>£200.11</i>	<i>£201.30</i>	

Other Matters

Reserves and Provisions

77. The Council maintains a number of earmarked reserves and provisions. These are reviewed on an annual basis by the Performance and Finance 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 £18m at the 31st March 2016 however all capital reserves will have been exhausted.

Adequacy of the General Fund

78. The General Fund reserve is the Council's contingency fund which needs to be sufficient to deal with any unexpected expenditure.
79. Whichever option for Council Tax is taken it is predicted that the general fund will be £1.5m at the 31st March 2017 provided all the savings are achieved.
80. In respect of the General Fund working balance, a risk calculation (annex B) indicates that a minimum balance of £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.

Fees and Charges

81. A number of fees and charges have been increased and have been approved in accordance with the Financial Regulations. These changes are reflected within the budget. A list of these can be found on the internet under Finance.
82. There will be a change in the VAT status for Local Land Charges Searches, we are currently awaiting HMRC confirmation, and would request delegated authority for the Executive Head of Finance, in consultation with the Portfolio Holder, to amend the affected fees and charges to reflect the VAT change when it is confirmed by HMRC.

Medium Term Financial Forecast

Setting the scene

83. 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 becoming free from Government funding and indeed at Surrey Heath we have made steps along that road by increasing income and investing in property. However during the settlement period Surrey Heath not only loses its grant but will become a net contributor in 2019/20. The effect of this has been mitigated to some extent in the final settlement by the government granting additional transitional relief for 2 years and giving the ability to raise Council tax by £5. That said even in the final settlement the Government has signalled its intention to levy a charge on

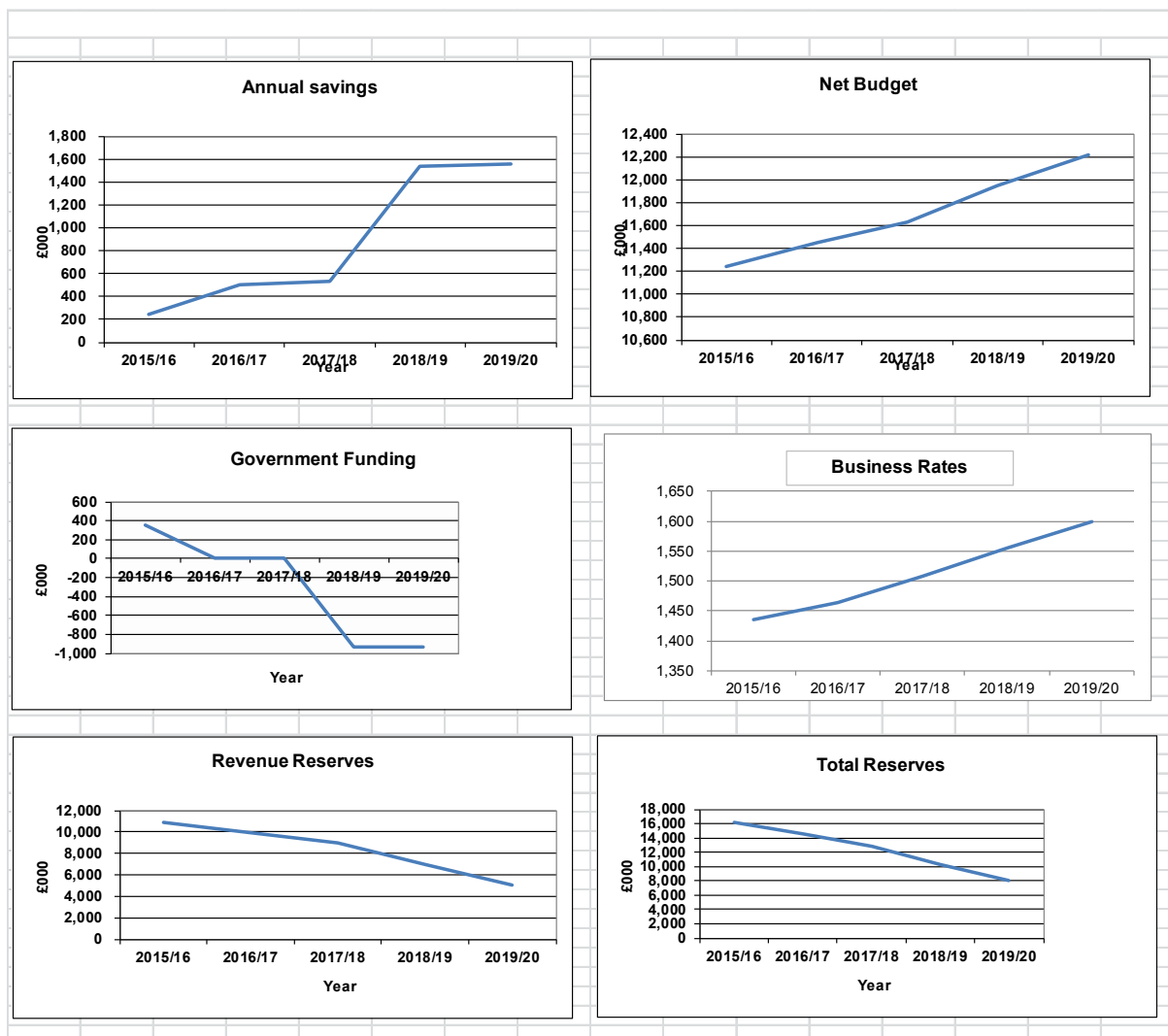
authorities in 2019/20 as a way of taking money from Councils when they get to keep 100% of business rates from that year. What this will mean is that in 2019/20 rather than the Council receiving 4.2% of business rates this will fall to 1.5% all things being equal. This is completely new territory and shows that in fact it will be difficult for Districts to be free of Government funding. Whether this will actually happen will depend on how the 100% localisation of Business Rates operates in practice

84. As set out earlier in this paper 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.
85. The Government has announced that Councils will be able to retain 100% of Business Rates in 2020. Whilst this is likely to be beneficial for the sector as a whole the implications for Surrey Heath are difficult to quantify since it will all depend on where the base line is set i.e. How much of the business rates we collect will we have to pass on to other Councils. If it is set too high then we will never benefit from any growth however hard we try and the incentive will be lost. However, assuming this is not the case, economic development, and in particular hard development, will be key to the Council's ability to fund services in the future. There will be increased volatility in income which will need to be managed and there is unlikely to be any form of safety net in place if things go badly wrong i.e. a Major business moves away. The ability of Councils to reduce business rates may also mean that those areas that are most successful currently in attracting business, such as Central London, will be in the best financial position to reduce business rates and attract business from elsewhere. That said the scheme may present incentives for growth depending on how it is set up.
86. Coupled with these reductions in funding the Council will be operating in an environment where there is increasing pressure on wages and staffing due to increased competition from the private sector.
87. Against this background the Council is required to consider a financial forecast which predicts the Council's finances for the next 5 years. On the basis of what is known at the moment the following assumptions have been made:
 - a) The final settlement as presented by Government now will remain unchanged for the whole period.
 - b) Growth in Business Rates will be in line with Government projections. The effects of a revaluation, rebasing or full localisation have been ignored.
 - c) Members will decide on the level of Council tax for 2016/17 at this meeting. Two forecasts have been prepared – one on the basis of 1.94% increase for the life of the forecast and one on an increase of £5. It has been assumed that the “referendum trigger” will remain at the higher of 2% or £5 for the life of the forecast.

- d) There is a consultation out at the moment on NewHomes Bonus which proposes a number of changes which could be made. For illustrative purposes it has been assumed that the Council will only receive £600k from 2017/18 onwards and this will be used to support the budget
- e) It has been assumed that the additional pension contribution towards the deficit will remain unchanged as a result of the 2016 actuarial review.
- f) Expense inflation will be between 1% and 1.5% with wage inflation being between 1.5% and 2%
- g) Investment returns will increase by 2% to 2.5% and fees by 2%

Financial forecast

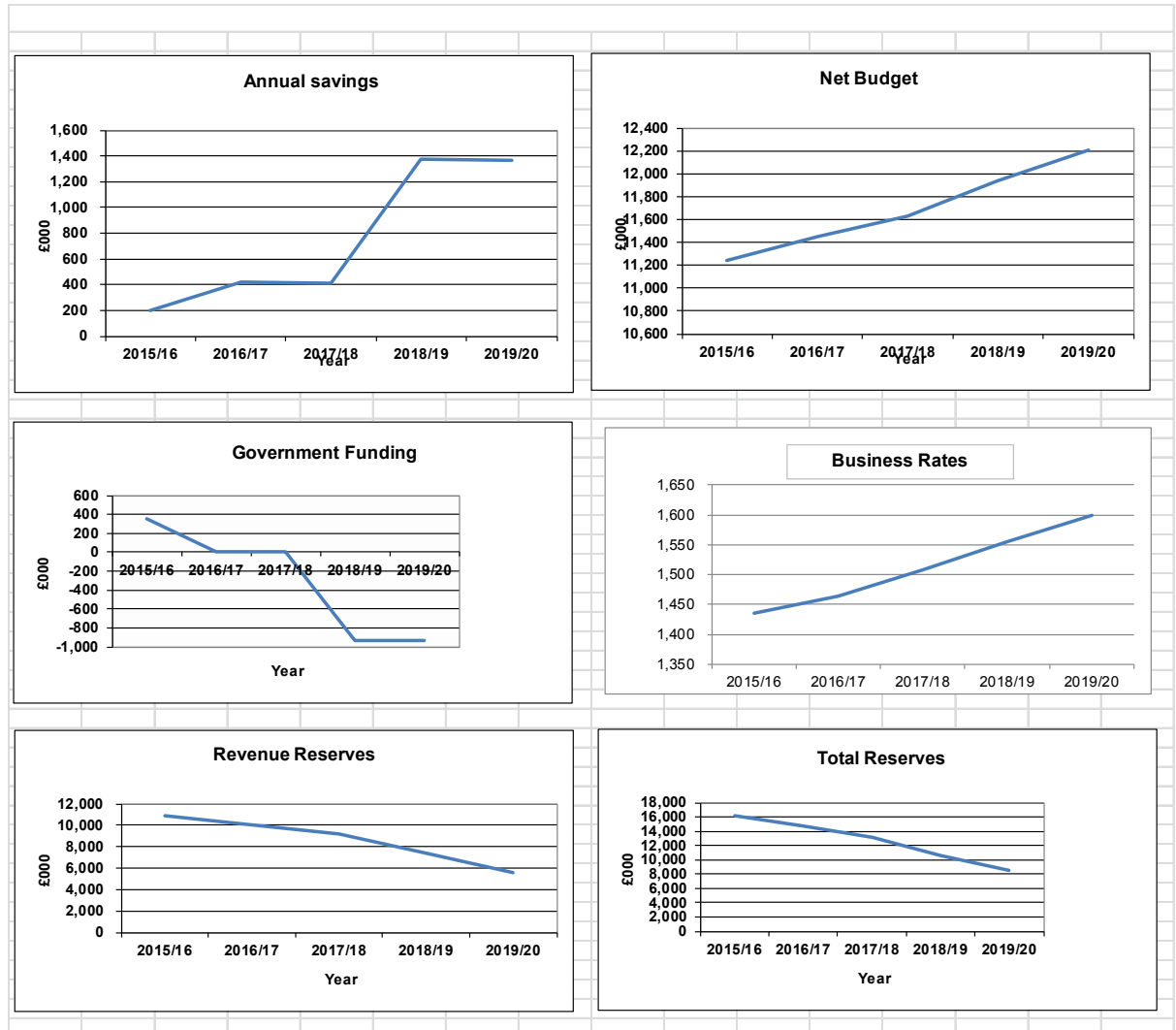
88. The graphs show the projected outcomes in 2016/17 using a 1.94% increase in Council Tax.



89. The outcome from this scenario is that savings will be relatively modest until 2019/20 when they will rise to £1.6m due to the negative tariff coming in. Whether this will be offset in part by the 100% localisation of business rates is not known at the moment. This forecast 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.

90. The set of graphs below illustrate the projected outcomes from 2016/17 using a £5 increase in Council Tax for the whole of the forecast period



91. The outcome from this scenario is that savings again will be relatively modest until 2019/20 when they will rise to £1.4m due to the negative tariff coming in. What is worth noting is that the adoption of the £5 increase rather than 2% changes the savings required by almost £200k by 2020/21. This shows that for the longer term financial security of the Council the slightly higher increase is preferable..
92. The detailed forecasts are included in Annex A.

Members are asked to NOTE the outcome of the financial forecast and the challenges it contains and the impact or the choice of Council tax increase and the effect this may have on the future financial sustainability of the Council

Risks to the Proposed Budget

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

Income Projections

94. 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. There is also a risk that the council may receive reduced property rents if tenants were to leave and not be replaced. This risk increases as the Council invests in property.

Achievement of savings

95. The savings in the budget may be difficult to achieve given the level of savings found in the past.

Inflation

96. Price inflation is currently low however the Council is experiencing wage pressures in a number of professional areas.

Funding Risks

97. 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 2016/17 BUDGET

98. 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.

99. The Council's Chief Financial Officer confirms he is satisfied that the preparation of the 2016/17 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.

100. 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 2016/17 budget and the adequacy of Reserves, Provisions and the General Fund Working Balance

Conclusion

101. Since austerity came in in 2010 Surrey Heath has pursued a policy of grow, save and charge in order to maintain services. To do this the Council has:
- Save by reducing headcount by 20% by increasing productivity, reducing sickness, sharing staff and use of technology;
 - Charge rent by increasing income from assets. In particular Surrey Heath House now contributes £250k to the budget from tenants;
 - Grow by investing in property to generate income. Ashwood House and St Georges;
 - Save by services becoming better at contracting and increasing charges;
 - Grow by Investing in income generating services such as the 3g pitch;
 - Grow by delivering new housing to not only increase Council Tax income but also New Homes Bonus;
102. These changes, together with lots of smaller initiatives, has meant that the Council has been able to deliver a balanced budget whilst losing significant amounts of Government Grant.
103. The Government made no secret of the fact that it was their intention to remove revenue support grant from Councils and many councils had the dream of becoming "self sufficient" i.e. with no reliance on central government funding. Indeed Surrey Heath only had £1m left and it was assumed that the grant element of £600k, which excludes the grant for the Council Tax Support scheme which was promised would remain in place, would disappear. What came as a complete surprise in the provisional settlement was that not only was the grant going in only 2 years, including money for the Council tax Support, but we were also moving into negative grant as well.
104. Due to lobbying by the sector the impact of this has been softened by the giving of a transitional grant for 2 years and the ability to increase Council tax by £5. Although the negative grant does not now come in until 2019/20 it is clear that it is still the Government's intention to have a mechanism to take money from Local Government when they transfer 100% of business rates to the sector. Surrey Heath will still be paying £933k across to the Government in 2019/20. What this means is that whatever efforts the Council makes it possibly can never become "self sufficient" and free from Government financial control as it will always be required to pay a "tax" to operate. This

may be offset by the way the 100% retention operates and hence the setting of baselines will be crucial since these could make or break individual councils.

105. On top of this the Government has decided that the New Homes Bonus which has been so successful in delivering housing growth is to be changed to enable a large part of the funds top sliced from Business Rates to pay for it to be diverted to the Better Care Fund – although not in Surrey. This will have a further impact on the Council's future funding although it is difficult to quantify at the moment as the final scheme has not been announced.
106. The transfer of all business rates income to Councils was seen as a major benefit to local authorities which would enable them to raise and collect money locally for use on local services. Sadly based on the current arrangements and taking into account the negative grant only 1.5% of business rates collected will actually remain in the borough in 2019/20 for local services – however it is likely that those arrangements will change radically between now and 2019/20. Clearly this will need to improve in the final scheme if it is to be any incentive whatsoever for economic growth.
107. Taking these matters as a whole the Financial forecast shows that the Council will need to achieve savings of between £1.4 and £1.6m by 2020. This is a real challenge and should not be underestimated but is not impossible. The changes to the provisional settlement have given more time and the real crunch will come in 2019/20 when £1m will be required. For example as a start £400k could come from contract savings, such as the Joint waste initiative, £200k in additional income from property and fees and say £200k from staffing (2.5%). A further £200k could come from increasing the tax base by 1% rather than 0.5% (184 additional units) as used in the projection which illustrates the financial importance of delivering new housing.
108. Hence it will be vital that the Council continues to pursue its strategy of grow, save and charge if it is to maintain services.
109. Grow means investing in services and assets that can generate an income. This could be in property but also new services. Grow also means delivering new housing which not only generates Council Tax but also increases economic activity. As stated above a 0.5% increase in tax base each year gives an additional £185k by 2019/20. Grow also means encouraging business to expand and locate in the borough
110. Save means working more efficiently. This can come from the way services are delivered, demand management, use of technology, contracting etc. Discretionary services will need to move more towards self funding. It also means that the way services are delivered whether in partnership, shared service, outsource will need to change.
111. Charge means introducing new chargeable services as well as selling our services to other bodies. .
112. The Settlement, although mitigated, indicates a clear strategy where limited public funds in two tier areas are being moved from the lower to the upper tier.

For example the New Homes Bonus fund is being reduced and transferred into the Better Care Fund. 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 may be addressed by Devolution but what is clear is 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 in the longer term. This in turn will force Districts to look at new arrangements if they are to maintain services.

113. The revision to the settlement is welcomed as it has given Councils more time to deal with the cuts which are still going to hit in 2019/20. This should enable them to put steps in place to not only generate income but also to look at what and how they do things and if they should work more closely together ready for the big reduction in funding in 2019/20. Devolution and the localisations of business rates may soften the impact of the cuts but if nothing changes then it will put into question the financial viability of this and many other Councils from 2019/20 onwards.

Legal implications

114. 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.
115. 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 for it to meet that expenditure.

Equality Implications

116. 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.
117. Where significant service changes are likely to occur as part of proposals included in budgetary proposals, the Council will consider conducting an 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.

118. Where a 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.

Set of Proposals A – 1.94% CouncilTax Increase

119. It is proposed that Members:

- i. NOTE that under delegated powers the Executive Head of Finance calculated the amount of the Council Tax Base as 36,890.20 (Band D Equivalent properties) for the year 2016/17 calculated in accordance with the Local Government Finance Act 1992, as amended;
- ii. NOTE expenditure totalling £746,900 be charged directly to reserves;
- iii. NOTE that £700,000 of the new homes bonus is being used to support the 2016/17 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 and MRP required;
- vi. NOTE that the Revenue Support Grant has been reduced by 67% compared to the previous year, will disappear by 2017/18 and be negative in 2019/20;
- vii. NOTE the 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 £600,000 is being declared;
- ix. NOTE the comments in respect of the robustness of the 2016/17 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 in respect of the budget gap and the potential impact on the future financial sustainability of the Council;
- 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 Executive Head of Finance, in consultation with the Portfolio Holder to amend the Local Land Charges fees and charges with the VAT change is confirmed by HMRC;
- xiii. RESOLVE that the Budget Requirement for 2016/17 be £11,002,268 as set out in paragraph 76;
- xiv. RESOLVE that the Council Tax Requirement for the Council's own purposes for 2016/17 be £7,382,034 as set out in paragraph 76 and;
- xv. RESOLVE that the Council Tax for 2016/17 (excluding special expenses and parish precepts) be set at £200.11 for a Band D property being an increase of 1.94% compared to 2015/16;
- xvi. DELEGATE to the Executive Head of Finance in consultation with the Portfolio Holder for Finance the decision as to whether the Council signs up to the Government's offer of a settlement guarantee;

Set of Proposals B - £5 increase in Council Tax

120. It is proposed that Members:

- i. NOTE that under delegated powers the Executive Head of Finance calculated the amount of the Council Tax Base as 36,890.20 (Band D Equivalent properties) for the year 2016/17 calculated in accordance with the Local Government Finance Act 1992, as amended;
- ii. NOTE expenditure totalling £746,900 be charged directly to reserves;
- iii. NOTE that £700,000 of the new homes bonus is being used to support the 2016/17 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 and MRP required;
- vi. NOTE that the Revenue Support Grant has been reduced by 67% compared to the previous year, will disappear by 2017/18 and be negative in 2019/20;
- vii. NOTE the 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 £600,000 is being declared;
- ix. NOTE the comments in respect of the robustness of the 2016/17 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 in respect of the budget gap and the potential impact on the future financial sustainability of the Council;
- 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 Executive Head of Finance, in consultation with the Portfolio Holder to amend the Local Land Charges fees and charges with the VAT change is confirmed by HMRC;
- xiii. RESOLVE that the Budget Requirement for 2016/17 be £11,046,231 as set out in paragraph 76;
- xiv. RESOLVE that the Council Tax Requirement for the Council's own purposes for 2016/17 be £7,425,997 as set out in paragraph 76 and;
- xv. RESOLVE that the Council Tax for 2016/17 (excluding special expenses and parish precepts) be set at £201.30 for a Band D property being an increase of £5 compared to 2015/16;

- xvi. DELEGATE to the Executive Head of Finance in consultation with the Portfolio Holder for Finance the decision as to whether the Council signs up to the Government's offer of a settlement guarantee

Options

121. 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.
122. The Council can accept, amend or reject any of the proposals for levels of Council Tax as they see fit. Each 0.1% change 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 "referendum" principles if appropriate .

Recommendation A – Increase Council tax by 1.94%

123. It is recommended that Members:

- i. NOTE that under delegated powers the Executive Head of Finance calculated the amount of the Council Tax Base as 36,890.20 (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 £746,900 be charged directly to reserves;
- iii. NOTE that £700,000 of the new homes bonus is being used to support the 2016/17 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 and MRP required;
- vi. NOTE that the Revenue Support Grant has been reduced by 67% compared to the previous year, will disappear by 2017/18 and be negative after that
- vii. NOTE the 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 £600,000 is being declared;
- ix. NOTE the comments in respect of the robustness of the 2016/17 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 in respect of the budget gap and the potential impact on the future financial sustainability of the Council;

- 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 Executive Head of Finance, in consultation with the Portfolio Holder to amend the Local Land Charges fees and charges with the VAT change is confirmed by HMRC.
- xiii. RESOLVE that the Budget Requirement for 2016/17 be £11,002,268 as set out in paragraph 76;
- xiv. RESOLVE that the Council Tax Requirement for the Council's own purposes for 2016/17 be £7,382,034 as set out in paragraph 76 and;
- xv. RESOLVE that the Council Tax for 2016/17 (excluding special expenses and parish precepts) be set at £200.11 for a Band D property being an increase of 1.94% compared to 2015/16.
- xvi. DELEGATE to the Executive Head of Finance in consultation with the Portfolio Holder for Finance the decision as to whether the Council signs up to the Government's offer of a settlement guarantee

Recommendation B – Increase Council tax by £5

It is recommended that Members

- i. NOTE that under delegated powers the Executive Head of Finance calculated the amount of the Council Tax Base as 36,890.20 (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 £746,900 be charged directly to reserves;
- iii. NOTE that £700,000 of the new homes bonus is being used to support the 2016/17 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 and MRP required;
- vi. NOTE that the Revenue Support Grant has been reduced by 67% compared to the previous year, will disappear by 2017/18 and be negative after that
- vii. NOTE the 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 £600,000 is being declared;
- ix. NOTE the comments in respect of the robustness of the 2016/17 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 in respect of the budget gap and the potential impact on the future financial sustainability of the Council;
- 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 Executive Head of Finance, in consultation with the Portfolio Holder to amend the Local Land Charges fees and charges with the VAT change is confirmed by HMRC.
- xiii. RESOLVE that the Budget Requirement for 2016/17 be £11,046,231 as set out in paragraph 76;
- xiv. RESOLVE that the Council Tax Requirement for the Council's own purposes for 2016/17 be £7,425,997 as set out in paragraph 76 and;
- xv. RESOLVE that the Council Tax for 2016/17 (excluding special expenses and parish precepts) be set at £201.30 for a Band D property being an increase of £5 compared to 2015/16.
- xvi. DELEGATE to the Executive Head of Finance in consultation with the Portfolio Holder for Finance the decision as to whether the Council signs up to the Government's offer of a settlement guarantee

Officer recommendation

124. The Section 151 Officer would recommend that members increase Council Tax by £5, the maximum permitted without triggering a referendum in order to protect and maintain the Council's services and finances in the longer term. This will mean accepting recommendation B.

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

Author and Head of Service: Kelvin Menon Executive Head of Finance
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REVENUE FUND PROJECTION 2016/17 to 2020/21

BASE MODEL - 1.94% COUNCIL TAX INCREASE

2016/17 £000		2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £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	(333)	(378)	(332)	(267)
	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	(103)	84	365	668
11,243	Total Budget to be funded	11,471	11,658	11,974	12,242
	Financed By				
357	Rate support Grant	0	0	-933	-933
133	Transitional Grant	85	0	0	0
746	Funding from reserves	974	974	974	974
1,435	Business Rates	1,464	1,507	1,555	1,600
7,382	Council Tax	7,567	7,757	7,952	8,151
72	Collection Fund Surplus	80	80	80	80
700	New Homes Bonus	600	600	600	600
176	Special Expenses	179	183	186	190
11,001	Total Finance	10,949	11,101	10,414	10,662
242	Funding Gap/Savings	522	557	1,559	1,580

**GENERAL FUND CAPITAL AND REVENUE BALANCES ESTIMATED 2016 TO 2021
WITH 1.9% 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
2,000	General Fund Working Balance	1,558	1,036	479	-1,080	-2,660
10,967	Total Other Revenue Reserves	9,865	8,913	7,926	5,937	3,927
17,504	TOTAL RESERVES	15,150	13,603	11,787	9,184	6,879

REVENUE FUND PROJECTION 2016/17 to 2020/21					
BASE MODEL - £5 COUNCIL TAX INCREASE					
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	(334)	(381)	(338)	(277)
	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	(104)	81	359	659
11,243	Total Budget to be funded	11,470	11,655	11,968	12,233
	Financed By				
357	Rate support Grant	0	0	-933	-933
133	Transitional Grant	85	0	0	0
746	Funding from reserves	974	974	974	974
1,435	Business Rates	1,464	1,507	1,555	1,600
7,426	Council Tax	7,648	7,873	8,100	8,328
72	Collection Fund Surplus	80	80	80	80
700	New Homes Bonus	600	600	600	600
176	Special Expenses	179	183	186	190
11,045	Total Finance	11,030	11,217	10,562	10,839
198	Funding Gap/Savings	440	438	1,405	1,393

CAPITAL EXPENDITURE FORECAST 2016 TO 2021

WITH £5 COUNCIL TAX INCREASE

	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

**GENERAL FUND CAPITAL AND REVENUE BALANCES ESTIMATED 2016 TO 2021
WITH £5 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
2,000	General Fund Working Balance	1,602	1,162	724	-681	-2,074
10,967	Total Other Revenue Reserves	9,909	9,039	8,171	6,336	4,513
17,504	TOTAL RESERVES	15,194	13,729	12,032	9,583	7,465

GENERAL FUND REVENUE RESERVE

CALCULATION OF THE MINIMUM REQUIREMENT

	Calculation Basis	%	Total	TOTAL £000
Base £000				
Provision for cash flow on expenditure Items				
Based on gross General Fund Expenditure	19,000	3%		475
Provision for shortfall in major income budgets				
Arena	200	3%	6	
Building control Fees	281	3%	8	
Car Park Income	2,200	3%	66	
Community alarms	250	3%	8	
Community Transport	200	3%	6	
Development Control	550	3%	17	
Housing	95	3%	3	
Licensing	150	3%	5	
Local Land charges	230	3%	7	
Meals on Wheels	165	3%	5	
Older peoples centres	160	3%	5	
Parks	300	3%	9	
Property Rents	2,000	3%	60	
Theatre	900	3%	27	
Waste and recycling	920	3%	28	
	<u>8,601</u>		<u>258</u>	258
Other Contingencies				
- Major Incident or business recovery				50
Cost of major enquiry				50
- Shortfall on Business Rates				100
Failure to achieve savings target		50%		135
TOTAL RESERVE REQUIRED				<u>£1,068</u>