

General Fund Estimates 2017/18

Summary

To consider and recommend to Council the General Fund Revenue Estimates for the financial year 2017/18.

Portfolio - Finance

Date Signed Off: 18 January 2017 (by the Leader)

Wards affected

All

Recommendation

- (i) The Executive is advised to RECOMMEND to Council that the 2017/18 General Fund Revenue Budget of £10,507,079 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 be unchanged for 2017/18 compared to 2016/17;
- (iii) The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of a £5 increase in Council Tax for a Band D Property for 2017/18 as recommended by the Sec 151 Officer.
- (iv) The Executive is asked to NOTE
 1. that the budget contains £645,000 per paragraph 11 chargeable to reserves set aside for this purpose;
 2. that a minimum revenue payment of £1.389m has been allowed for to repay debt;
 3. that the Council no longer receives Revenue Support grant which has reduced Government funding by £357,000;
 4. the provisional NNDR baseline of £1,464,663 and the final settlement on will be reported to Council at its meeting on 22nd February 2017;
 5. that a full report, setting out Council Tax proposals for 2017/18 will be presented to Council on 22nd February 2017.
 6. that although investments have been made further savings and income generation through investment will be required as a result of anticipated reductions in Government funding in the future.

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| 7. the increase in the Council tax base generated from the development of new housing which delivers an extra £85,000 a year in Council Tax |
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1. Resource Implications

2017/18 Budget

- 1.1 The budget has been prepared on the assumption that Council Tax will be increased by £5 per band D property, being the maximum permitted without requiring a referendum. Should this not be the case then other options can 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 From 2017/18 the Council will receive no Revenue Support Grant from Central Government to pay for its services. This includes funding for services transferred by Central Government to the Council such as the Local Council Tax Support Scheme which replaced Council Tax benefit.
- 1.4 The net cost of Services for 2017/18 is £736k lower than last year. This is due to the significant investments the Council made in property during the year. More details on the effect of this is explained later in this paper. As a result of this investment there is no longer a need for a general savings target nor does the Council have to use any of its New Homes Bonus this year to support the revenue budget.
- 1.5 Wages and salaries budgets have increased this year following many years of real terms reductions. This reflects the creation of new posts to manage the new investment property function of the Council but also to take account of pressures the Council is facing in respect of pensions and competitive wage costs. The budget has therefore risen to cover these associated costs.
- 1.6 The summary budget is shown in Annex A. A full set of budget pages detailing each service are available on the “Escene” and in the Member’s room.
- 1.7 In line with the Council’s strategy to increase income 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
- 1.8 The previous Chancellor George Osborne announced a four year local Government settlement in his 2015 Autumn Statement. Authorities could agree to the settlement if they submitted an efficiency plan. Over 97% of Councils across the country agreed to the settlement since it was thought that a guarantee of sorts was better than no guarantee at all and that without a guarantee, Government funding was more likely to go down rather than up. Surrey Heath reluctantly agreed to the settlement however the Council did

object in the strongest terms to the “negative Tariff” in 2019/20 which is effectively a “tax” on the residents of the borough by Government. It is likely that this will be reviewed as part of the work in connection with the 100% localisation of business rates due to come in in the same year but we are assuming no change to this position in the financial forecast.

- 1.9 The figures announced last year for 2017/18 were confirmed in the provisional settlement announced on the 15th December 2016 and have been used in calculation of this budget.
- 1.10 The Government consulted during the year on the future of the New Homes Bonus (NHB). Although it was confirmed that the scheme would continue the Government wanted to “sharpen” the incentive. Details of the changes are outlined later in this paper however the provisional settlement indicated that Surrey Heath would receive £1.226m in 2017/18 compared to £1.421m in the previous year. It is worth stating again that NHB is not new money but rather top sliced business rates which are then redistributed to those Councils which build the most houses.
- 1.11 Expenses totalling £645k are being charged directly to reserves set aside for this purpose and this is explained in more detail later in this paper. The General fund is estimated to be at least £2m at the end of 2017/18 if the savings and budget are delivered as shown.

Future Resource Implications

- 1.12 The Department for Communities and Local Government (DCLG) as part of the autumn settlement in 2016 published a “multi-year settlement” so that Councils would know the amount of funding they can expect to 2019/20. Surrey Heath loses its general revenue support grant this year and furthermore has a negative tariff amounting to almost £1m imposed on it in 2019/20. Like a number of Councils Surrey Heath has been pursuing a policy of increasing income through property investment to maintain services and this will need to continue in to the future.
- 1.13 The Government published the results of its consultation on New Homes bonus as part of the settlement announced on the 14th December 2016. These impact of these changes are explained later in this paper however Surrey Heath will loss over £4m over the next 3 years with a loss of £500k in 2017/18 alone rising to £1.3m by 2021/22 when compared to the original NHB scheme.
- 1.14 The Government announced in the late 2015 that by 2019/20 Councils nationally would retain 100% business rates. This does not mean that each Council will retain what it collects individually – there will still be a reallocation of SHBC Business Rates to other parts of the country – but rather all of the money collected will be passed to Local Government in some way or another. The Council took part in a consultation on the principles of the new scheme in 2016 however no further information as to how the localisation will actually operate has been released. It is highly likely that Surrey Heath will not see any increase in its funding as a result of the change – in fact if the negative tariff proposal is

adopted then Surrey Heath could eventually keep no business rates at all - and there are likely to be a number of new responsibilities passed down as well. The Council will also carry a significant portion of the risk from revaluations, business closures etc which could lead to increased volatility in income.

- 1.15 What this does all mean is that economic development, and in particular hard development such as new housing and business construction, will remain key to the Council's ability to fund services in the future. The Council will need to maintain its focus on projects and investments which deliver financial rather than non-financial benefits if it is to address the challenges these changes present and thus protect services. It will also need to be able to act more commercially and react quickly to opportunities for investment as they arise.
- 1.16 The Council has over the years made significant internal efficiency savings however it is recognised that the scope for major reductions is severely limited. Hence the Council has concentrated on generating income in line with Key Priority 2 and its investment in property is an example of this however this does require the infrastructure in terms of staffing to support it. Investments made in 2016/17 should add £1.5m to income in 2017/18 and further purchases are being sought. The Council's objective has always been to generate enough income to be able to be free of Government funding. Whilst the possibility of the Council being "taxed" by the Government, through a negative grant, has made the task harder this does not make it any less worthy and this strategy will continue in the coming financial year. Services will still look for further efficiencies particular through collaboration and joint working – a recent example of which is the Joint Waste contract which should save £400k per year, but the scope to deliver significant savings through this route is limited.
- 1.17 Looking further ahead a number of Councils in the country have joined together to submit devolution bids to the Government. These deals usually consist of the government providing extra money for infrastructure in order to deliver development. Surrey, together with East and West Sussex, are collectively the 3SC area and are putting together a bid to Government for additional infrastructure investment in the area. Broadly speaking in exchange for Councils delivering development as per their local plans Government is being asked to fund infrastructure to support this development. As the proposal rests on match funding current proposals indicate that 10% of growth in council tax and business rates beyond 2020 will be earmarked to support this Bid. It is also possible to support the bid by levying an additional precept but at the moment this can only be done by an elected mayor. The 3SC bid is unlikely to impact in the next financial year but it could have implications beyond that.
- 1.18 Finally it is reasonable to assume that the Government will continue to pursue a strategy where limited public funds in two tier areas are diverted from the lower to the upper tier to support social care and education. This means that Districts must raise substantial levels of funding themselves if they are to maintain services and this could lead to a review of local government in two tier areas.

Key Issues

2. Introduction

2.1 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 2017/18
- gives details of the Government grant settlement for 2017/18
- includes a financial projection going forward

2.2 2017/18 marks the first year that the council will receive no Revenue Support Grant from Government for its services. All the council's services will now be paid by local taxation (Council Tax and business rates) as well as any income the Council can generate itself.

3. General Fund Estimates 2017/18

3.1 This year services were asked to prepare their budget for 2017/18 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 2016/17 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

3.2 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.

3.3 A summary of the budgetary position is as follows:

	Note	£000	£000
2016/17 Net Cost of Services			11,523
Grant treated as revenue	a		296
Supplementary Estimates			95
Budget Carry Forwards			304
Prior Year one off items removed			-360
			11,858
Variations to Original Estimate:			
Savings and income		-6,343	
Increased Expenditure		3,616	
Change in portfolios			-2,727
			9,131
Employment and pensions	b	340	
Internal asset charges	c	129	
Minimum Revenue payment	d	1,187	
Non portfolio changes			1,656
2017/18 Net Cost of Services			10,787

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

3.5 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 and the numbers represent movements rather than actuals.

- a. This is the grant received to pay for Disabled Facilities Grants which is being treated as a revenue grant
- b. This relates to changes in employment costs, such as the vacancy margin, and pensions
- c. The asset charge depends on the number of assets held, their valuation and the depreciation policy. Under local Government accounting rules we are not allowed to charge this to Council Tax and it is therefore reversed out as an accounting entry.
- d. This represents the Minimum Revenue Payment that is required in order to ensure that revenue funds are put aside for the repayment of debt.

3.6 Provided the actual expenditure, including savings, meets the budget the General Fund will be unchanged at the end of 2017/18 at about £2.0m. This is considered to be a prudent level.

4. Funding from Business Rates

4.1 The Government announced last year that Councils would receive 100% of business rates rather than the 50% at present. Although the Local Government

as a whole keeps all of the business rates this is not the case on an individual Council by council basis. A high level consultation was carried out by Government in March 2016 on the new scheme but as yet no details have been published. What is clear is that 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. Under the current scheme for every additional £1 collected above the initial baseline 50p goes to Government to be redistributed as grants such as New Homes Bonus etc, 10p goes to Surrey CC, 20p levy 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 £110k.

- 4.2 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 2017/18 to 2019/20

	2016/17	2017/18	2018/19	2019/20
	Final	Provisional	Assumed	Assumed
	£000	£000	£000	£000
Baseline - assumed minimum collected	34,310	33,475	34,553	35,783
Less: 50% to Government	-17,155	-16,738	-17,276	-17,891
Less: 10% to SCC	-3,431	-3,348	-3,455	-3,578
Share for SHBC	13,724	13,390	13,821	14,313
Less Fixed Tariff	-12,289	-11,925	-12,309	-12,747
Business Rates for SHBC	1,435	1,465	1,512	1,566
Less Tariff Adjustment	0	0	0	-933
Remining share of Business Rates	1,435	1,465	1,512	633
%age share	4.2%	4.4%	4.4%	1.8%
Safety Net	1,328	1,355	1,398	1,448

- 4.3 The above table reflects the figures released in the provisional settlement on the 14th December 2016. It is difficult to predict with any accuracy what will happen beyond 2019/20 as details are awaited as to how the 100% localisation of business rates will work. The application of a negative tariff in 2019/20 reduces the level of business rates received substantially. It is likely that this will increase in future years meaning that it Surrey Heath could well receive no business rates at all in the future. Representations have been made to government by Surrey districts that Councils should receive at least 5% of any business rates collected under the new scheme. Whether this has had an impact remains to be seen.
- 4.4 Under the current scheme 40% of the lost income from any revaluations, irrespective as to which year they relate, falls on the borough together with any interest due. Although the total losses are capped in that a minimum safety net level of business rates it guaranteed it is possible for any gains to be wiped out

by the cost of appeals well before the safety net level is reached. The Government has introduced a time limit on claims and a whole new process of check and challenge is being used for appeals related to the 2017 revaluation. The 2017 revaluation is likely to lead to a significant number of appeals thus making income levels difficult to predict. Whilst some sectors in the borough such as retail have seen values fall other areas such as offices have seen steep increases.

- 4.5 Councils can “pool” together for Business Rates which means that they are treated as one combined unit for the application of the levy and safety net for that particular year. The levy, equivalent to 50% of gains the borough gets from growth, can be reduced through pooling. The Surrey treasurers engaged consultants to advise on the best combination of authorities in Surrey for a pool and it was found that a pool consisting of Surrey Heath, 4 other districts, the county and LB Croydon delivered the best financial outcome for 2017/18. This was because of the growth that Surrey Heath has achieved in its Business Rates base and which is therefore subject to the levy.
- 4.6 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%	1,005	201
Baseline NDR +2%	670	134
Baseline NDR +1%	335	67
Baseline NDR	0	0
Baseline NDR - 1%	-340	-110
Baseline NDR - 2%	-670	-110
Baseline NDR - 3%	-1,005	-110

- 4.7 The Council has worked hard to increase economic growth in the borough and to ensure that all properties that attract business rates are placed on the register and billed and hence it is likely that this year there will be a surplus on business rates. To reflect this an additional £200k has been included in the budget in addition to the base line set by Government.

5. Local Government Settlement 2017/18

- 5.1 As part of the multiyear settlement announced last year the Council was informed that it would receive no grant in 2017/18. This was confirmed in the provisional settlement published in December 2016. In 2019/20 the settlement

shows that the grant may become negative but this may be changed in the light of the introduction of the localisation of business rates. The table below includes the settlement as it has been announced so far.

	Final	Final	Final	Final	Final	Provisional	Anticipated	Anticipated
	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	1,465	1,512	1,586
Transitional Grant					133	84	0	
Tariff adjustment								-933
	3,143	2,785	2,745	2,295	1,925	1,549	1,512	653
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	1,925	1,549	1,512	653

5.2 Members should note that not only has there been a steep reduction in funding over the last 5 years but that this is set to continue going forward. In addition the grant that was given in compensation for the transfer of Council tax benefit to Councils in 2013/14 and which was then rolled in to the Revenue Support Grant has now disappeared completely. The funding allocated for parishes for the same reason has now also gone.

6. Council Tax

6.1 Council Tax will be set by the Full Council at its meeting on the 22nd February 2017.

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

- 5% - For those Councils with Adult Social Care responsibilities
- £5 or 2% for Shire Districts – whichever is the higher
- Parishes are not included with in the capping legislation

6.3 Any Council which sets a precept above the capping limits will have to hold a local referendum on the proposed increase in Council tax. These can cost a substantial amount of money.

6.4 The budget has been prepared on the assumption that Council Tax will be increased by £5, the maximum allowed, however members can chose any amount up to this level. Any change in the increase would need to be covered by additional income and savings

6.5 The current Surrey Heath band D Council Tax is £201.30. The table below shows the effect on an increase of £5. This would be equivalent to an increase of 2.48%. For information a £1 increase raises approximately £37,300.

6.6 **The Council is at liberty to set whatever level of Council Tax it wishes.**
Increases deemed to be “excessive” i.e. over £5 will trigger a local referendum (at the Council’s expense) on the increase requested.

6.7 Surrey County Council has indicated that it may set a precept above the capping limit which will probably lead to a referendum. Were SCC to do this then Council tax bills would be issued at the higher precept level and only reissued were the referendum result reject the increase.

7. Tax Base, Parish Support and Collection Fund

7.1 The tax base has risen during the year due to new houses being built as can be seen in the table below:

Council Tax Base

	2017/18	2016/17	Change
Bisley	1,566.16	1,513.05	53.11
Chobham	1,960.49	1,928.94	31.55
Frimley and Camberley	23,664.75	23,382.72	282.03
West End	2,027.92	2,013.81	14.11
Windlesham	8,098.72	8,051.68	47.04
Total	37,318.03	36,890.20	427.83

7.2 This increase in the tax base will create additional council tax income of £85,000 and shows the value in financial terms of delivering new housing.

7.3 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 2016/17 despite the fact that it is no longer funded by central government. This is shown in the table below:

Support for Parishes due to the LCTSS

Parish/Town	Support given in 2016/17 & 2017/18
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

7.4 Due to better than predicted collections and additional properties it is predicted that the collection fund will be in surplus at the end of 2016/17. The Sec 151 officer has therefore determined that a surplus of £2,000,000 can be declared for the year. Of this £1,501,127 will be paid to Surrey County Council, £260,615 to the police and the remaining £238,258 to the borough. This will be used to support the budget for 2017/18

8. Investment income

8.1 The 2017/18 estimates include a provision of £300k for investment income.

9. Pensions

9.1 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 2016. As a result of this review no increase in contributions is being proposed for 2017/18.

10. Items funded from reserves

10.1 As in previous years £645,000 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
- £20,000 for community safety using Crime and Disorder Partnership funding
- £150,000 for property maintenance from reserves
- £100,000 from reserves to support survey work in the Town Centre.
- £50,000 from reserves for Family support

11. Funding transferred to Reserves

11.1 Unused new homes bonus of £1.2m is budgeted to be transferred to reserves

12. Minimum Revenue Payment (MRP)

12.1 MRP is an amount required under the Prudential Regulations to be charged to revenue to pay back debt. In the budget £1,389,000 has been allowed to meet this requirement in accordance with the Council's MRP policy.

13. New Homes Bonus (NHB)

13.1 In 2010 the Government introduced an incentive to encourage house building. This rewarded local authorities for the number of houses they constructed and also provided an additional payment for any affordable units built. The payment was calculated each year using the tax base growth and was originally paid in the 6 years following the increase in the base. i.e. if a house was completed in year 1 then the council would receive payments in years 2 to 7.

13.2 The Government announced in the spring that New Homes Bonus would be continued indefinitely but that they were looking at ways of "sharpening" the incentive. This was backed up by a consultation which suggested ways of reducing the cost of NHB.

13.3 In December the Government announced a number of changes to the NHB going forward. These are as follows:

- In 2017/18 the incentive will be paid for 5 years rather than 6;
- In 2018/19 and onwards the incentive will be paid for 4 years rather than 5;
- There will be an assumed housing delivery of 0.4% of the tax base each year (0.25% in the original consultation – this change costing £0.8m over 4 years). For Surrey Heath this is equal to 149 units which will not qualify for NHB
- From 2018/19 NHB will not be allowed on homes granted on appeal. This means that councils will be financially penalised for not approving housing;
- From 2018/19 NHB will probably not be granted if no local plan is in place.
- The additional payment of £350 New Homes Bonus per year for each affordable Band D housing unit delivered is unchanged

13.4 The levels of grant anticipated over the next few years as a result of these changes provided houses are built at the same rate as currently is shown in the table below:

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m	£m	£m
Original scheme	1.275	1.421	1.735	1.696	1.777	1.771
Revised scheme	1.275	1.421	1.226	0.724	0.486	0.449
Difference	0	0	0.509	0.972	1.291	1.322

- 13.5 The purpose of these changes is to save £250m from NHB which can then be diverted to the Better care fund for adult social care. Surrey Councils in total have lost £6.241m of NHB but Surrey CC has only received back £4m as additional grant for Adult Social care meaning there has actually been a net outflow of funds from Surrey.
- 13.6 It is worth stating that NHB is not “new” money and instead comes out of redistributed local authority funds – mainly by top slicing business rates. However it is becoming an increasingly important source of revenue for those areas that want to build housing.
- 13.7 The Government has assumed that New Homes Bonus is there to support on-going services and indeed include it in their calculation of “Core Spending Power” which lists the resources councils have to deliver services. However due to the investment the Council has made in property none of the NHB is required this year to fund the revenue budget and so it has all been put in to reserves.

14. Impact of Property Purchase in 2016/17

- 14.1 The Council made substantial investments in property in 2016/17 which have had a positive impact on the budget as shown in the table below:

New Property Investment contribution to General fund						
			Albany	Mall	Hof	Total
			£000	£000	£000	£000
Rent			1,101	3,710	1,079	5,890
Property costs			50	160		210
Professional costs			8	220		228
			58	380	0	438
Profit before interest			1,043	3,330	1,079	5,452
Interest costs			-320	-1,872	-370	-2,562
Profit after interest			723	1,458	709	2,890
Minimum Revenue Payment						-1,389
Contribution to general fund						1,501

This has meant that the Council has been able to cover reductions in grant, wages, pension pressures and general savings targets and balance the budget without resorting to the use of New Homes Bonus.

- 14.2 It is worth stating that although there are risks around property investment and the income it generates without it a number of services would need to be cut to reflect the reductions in Government Funding set out earlier in this paper

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.

Inflation

- 16.3 There is no general allowance for inflation in this budget. Cost inflation has either been absorbed or budgeted for. Inflation is an increasing risk going forward as rates creep up.

Salaries

- 16.4 Whilst the Council has tried to limit the growth in wages it finds itself under increasing pressure from what the private sector is prepared to pay. This is particularly the case in professions such as planners, surveyors etc. This is causing upward pressure on wages which is becoming difficult to contain. In previous years services were told to operate within a cash limited envelope for wages and this meant that there was a savings target in wages for each services to achieve. This has now become unsustainable in the current climate and so these savings targets have now been removed in exchange for a 4% vacancy margin across the board with the difference being funded. Historically the Council has exceeded its vacancy margin of 3% so it is believed that this target should be achievable.

Business Rates Funding

- 16.5 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 2020/21. Whilst we do not have details beyond that it has been assumed that the reductions in that period will carry on beyond 2020/21.

- 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 possibly 2019/20 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 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.
- 17.5 The Council has invested significantly in property 2016/17 which is reflected in the forecast. It is likely that further investments will be made but these are not included as they cannot be quantified at this time, however this will be one of the ways in which any future funding gap could be addressed
- 17.6 Each Financial Forecast is made up of 4 parts as follows:

Revenue fund projection

- 17.7 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

- 17.8 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

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

Assumptions

- 17.10 The assumptions used in the forecast are set out below. It should be noted that these are only assumptions for the purposes of the financial model and should not be seen as an indication of policy for future years:

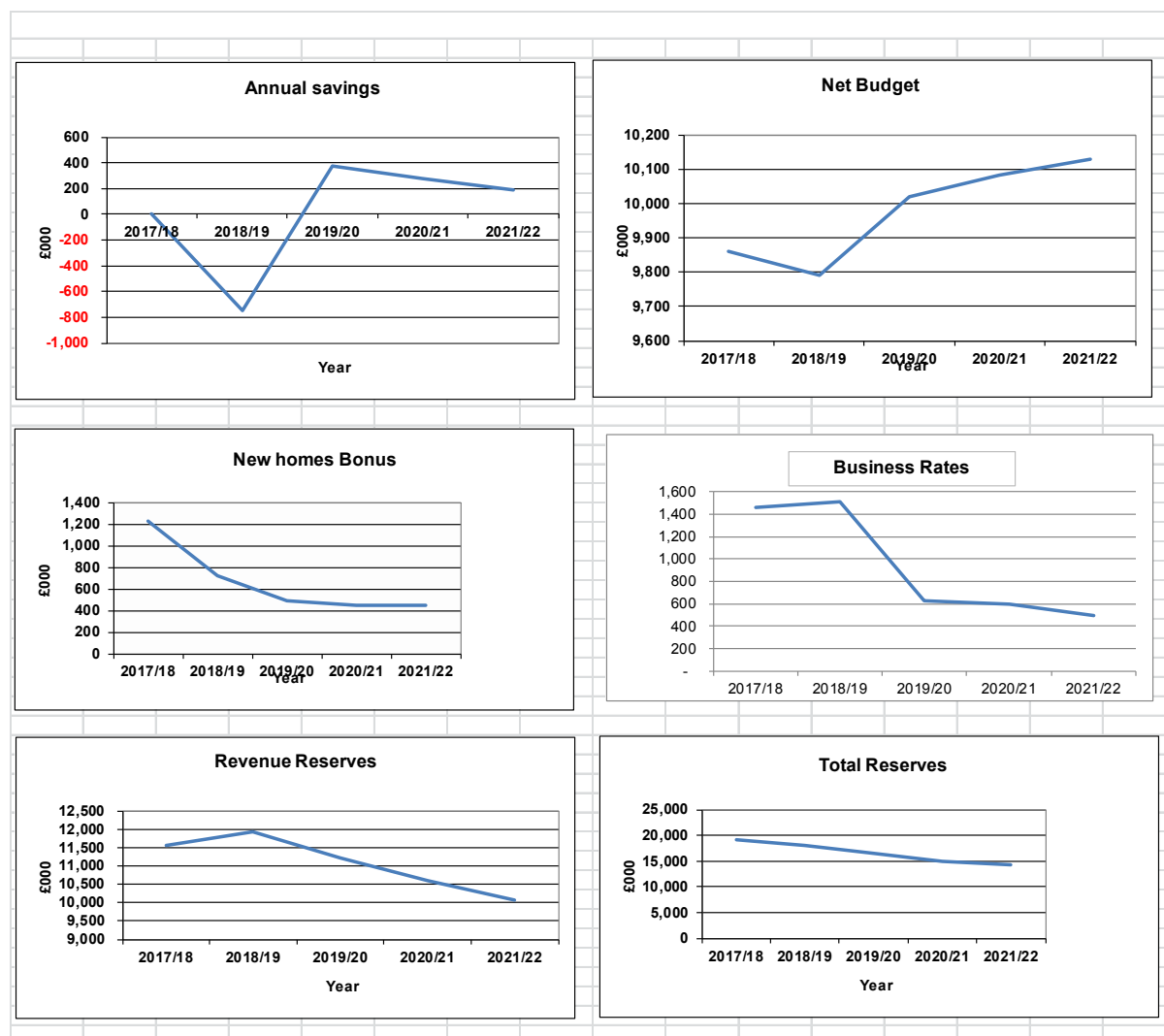
Forecast Assumptions

Category	Assumption
Inflation - wages	1.5%

Inflation - Expenses	1.5%
Investment Returns	1.5% to 2.0%
Government Funding	As per SR2015
Council Tax	£5 pa increase
Fees and Charges	2.0%

18. Financial Projection based on a Council Tax increase in 2017/18

18.1 The graphs show the projected outcomes for 2017/18 to 2021/22. The detailed schedules are in Annexe B



Explanation of Graphs

18.2 The meaning of the graphs is as follows:

- **Annual Savings** – It can be seen that there is a surplus in 2018/19 but that this changes to a deficit in 2019/20 as the negative grant comes in. This deficit falls as Council Tax and income rises

- Net Budget – The net budget falls slightly and then increases as inflation begins to add to costs
- New Homes Bonus – this reduces steeply as the changes to the incentive introduced by Government take effect
- Business Rates – These fall as the Government takes a greater and greater share of Business Rates generated within the borough
- Revenue reserves – These fall as they are used on the activities which they have been set aside for as well as capital expenditure
- Total reserves – These fall as reserves are spent

Conclusion

18.3 The outcome of the forecast is that savings of about £186k will be required by 2021/22 on the assumption that the reduced New Homes Bonus is used to support the budget. This will need to be covered by a combination of increases in the Council tax base and Business rates through new construction as well as income generation from commercial activities and savings in the delivery of services.

18.4 If the Council is unable to bridge the gap then services may have to be reduced or stopped to ensure that the budget remains in balance

19. Risks to be considered in relation to financial forecast

19.1 The forecast 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

The Council is heavily dependent upon income, in particular from property, to fund its budget..

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.

19.4 Council Tax increases

These forecasts assume that Council Tax will be increased by £5 or 2% whichever is the higher 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 increase over the period.

19.6 New Homes Bonus

The forecast assumes that this will be retained but reduced over the period in line with the settlement this year.

19.7 Interest Rates

Interest rates continue to be low reducing investment returns.

19.8 Inflation

Inflation of 1.5% pa has been built in the forecast. It has been assumed that any increase over this will be absorbed

19.9 Surrey County Council funding

There is a risk that funding received from Surrey CC for discretionary services and recycling may be cut or indeed removed. This would put an additional pressure on the Council unless these services were stopped

19.10 Legislative changes

Legislative changes, such as devolution, could have an impact on the council's future finances either in a positive or negative way. This has been ignored in the forecast but is a risk

19.11 Changes

It has been assumed in the forecast that there will be no changes to services. Transformation of services may be one of the ways that the funding gap is addressed.

20. Conclusions to be drawn from the Financial Forecast

20.1 This year marks the first year with no Government funding. It has been assumed that in future years the Council will become a net contributor to Government funds thereby adding a further cost pressure to the Council's finances. The Council will be more and more reliant on generating its own income to support services and the purchase of property in 2016/17 is a major step down this path. The way the Council operates will need to change in the future if core services are to be maintained.

20.2 The financial situation has changed completely when compared to the same time last year. The investment in property has contributed significantly to closing the financial gap. Although the forecast assumes that the whole of the New Homes Bonus will be used to support the budget on the whole the scale of the funding challenge has reduced significantly – this is despite further reductions in funding over the next few years. Surrey Heath has taken an approach of income generation rather than reduction in services to meet its financial challenges. This is not without risk but there seems to be little alternative if services are to be maintained. It will be important that further investments are made, as well as greater efficiencies realised, if the funding gap is to be eliminated completely.

20.3 Funding of capital continues to be a real issue. Capital receipts are very low and funding is being done through borrowing or from revenue reserves.

Services are being required to fund capital out of future savings to ensure that reserves are not run down.

21. The Next stage

21.1 At this stage, the following information is required before details of the level of Council Tax for 2017/18 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 and Crime Commissioner needs to determine his precept for the year.
- Details of all the Parish Precepts.
- Confirmation of the referendum limit of £5

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 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 use of property income to fund services
- 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 2017/18 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 The investment in property has transformed the Councils finances for 2017/18 and more of this will be required if future financial challenges are to be met. Despite the risks attached to this this is the only credible way that services can be maintained in the face of reductions in government funding. In anticipation of future reductions in funding from business rates members are urged to increase Council Tax by £5 this year the maximum permitted.

23.2 Any change relating to 2017/18 budget agreed by Executive will be adjusted for in the budget presented to Full Council on the 22nd February 2017. It should be noted that the income generated from even a £5 increase in Council tax just about covers half of the loss of Revenue Support Grant in this year. Hence without any income generation from other sources the Council would be forced to cut services to maintain a balanced budget.

24. **Proposals**

24.1 It is proposed that:

- (i) The Executive is advised to RECOMMEND to Council that the 2017/18 General Fund Revenue Budget of £10,507,079 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 be unchanged for 2017/18 compared to 2016/17;
- (iii) The Executive is asked to CONSIDER whether it wishes to make a recommendation to Full Council in respect of a £5 increase in Band D Council Tax for 2017/18 as recommended by the Sec 151 Officer.
- (iv) The Executive is asked to NOTE
 - 1. that the budget contains £645,000 per paragraph 11 chargeable to reserves set aside for this purpose;
 - 2. that a minimum revenue payment of £1.389m has been allowed for to repay debt;
 - 3. that the Council no longer receives Revenue Support grant which has reduced Government funding by £357,000;
 - 4. the provisional NNDR baseline of £1,464,663 and the final settlement on will be reported to Council at its meeting on 22nd February 2017;
 - 5. that a full report, setting out Council Tax proposals for 2017/18 will be presented to Council on 22nd February 2017.
 - 6. that although investments have been made further savings and income generation through investment will be required as a result of anticipated reductions in Government funding in the future.

7. the increase in the Council tax base generated from the development of new housing which delivers an extra £85,000 a year in Council Tax

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. It is 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	Annex A – 2017/18 Summary Budget Annex B – Financial Forecast
Background Papers	Revenue Estimates for 2017/18
Author/contact details	Kelvin Menon – Executive Head of Finance Kelvin.menon@surreyheath.gov.uk
Head of service	Kelvin Menon – Executive Head of Finance

	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			

ANNEX A

GENERAL FUND REVENUE ACCOUNT

2017/18 SUMMARY BUDGET

	2016/17	2017/18	Variance
	Budget	£5 Inc Budget	
	£	£	
Business	1,878,820	1,644,978	-233,842
Community	5,041,616	5,106,533	64,917
Corporate	1,520,080	1,501,660	-18,420
Finance	1,907,470	1,807,400	-100,070
Legal and Property	21,280	-719,390	-740,670
Town Centre and Regeneration		-1,784,860	-1,784,860
Regulatory	2,438,507	3,140,899	702,392
Transformation	865,680	583,420	-282,260
	13,673,453	11,280,640	-2,392,813
Less: Staff cost amendments	-92,676	192,906	285,582
Portfolio changes			0
Pension adjustment	-561,965	0	561,965
Add: Additional pension contribution	507,000	0	-507,000
Add: Minimum Revenue Payment	202,000	1,389,000	1,187,000
Internal asset charges reversed	-2,204,180	-2,075,410	128,770
NET COST OF SERVICES	11,523,632	10,787,136	-736,496
Less: Investment Interest earned	-300,000	-300,000	
Less: Savings Target	-197,344	0	
Add: Contribution to Parishes	19,943	19,943	
BUDGET REQUIREMENT	11,046,231	10,507,079	
Less: Collection Fund Surplus	-72,170	-238,258	
Less: Business Rates baseline	-1,435,359	-1,464,663	
Less: Additional Business Rates		-200,000	
Less: Rate Support Grant	-356,817	0	
Less: New Homes Bonus	-1,418,000	-1,226,266	
Less: Other Grants in settlement	-132,988	-84,448	
Add: Tfr to Reserves	718,000	1,226,266	
Less: Funding from Reserves	-746,900	-645,000	
Add: Parish Precepts	537,437	537,437	
COUNCIL TAX REQUIREMENT	8,139,434	8,412,147	
Less: Special Expenses	-176,000	-176,000	
Less: Parish Precepts	-537,437	-537,437	
OWN COUNCIL TAX REQUIREMENT	7,425,997	7,698,710	
<i>Band D equivalent Properties</i>	<i>36,890.20</i>	<i>37,318.03</i>	
<i>Base Council Tax per Band D property</i>	<i>£201.30</i>	<i>£206.30</i>	

ANNEX B1

REVENUE FUND PROJECTION 2017/18 to 2021/22

2017/18		2018/19	2019/20	2020/21	2021/22
£000		£000	£000	£000	£000
Budget	Portfolio				
1,645	Business	1,645	1,645	1,645	1,645
5,107	Regulatory	5,107	5,107	5,107	5,107
1,502	Corporate	1,502	1,502	1,502	1,502
1,807	Community	1,807	1,807	1,807	1,807
-1,785	Town centre and Regeneration	-1,785	-1,785	-1,785	-1,785
-720	Legal and Property	-720	-720	-720	-720
3,141	Finance	3,141	3,141	3,141	3,141
583	Transformation	583	583	583	583
11,280		11,280	11,280	11,280	11,280
	Other items				
(2,075)	Internal Asset charges	(2,075)	(2,075)	(2,075)	(2,075)
20	Contribution to Parishes	20	20	20	20
1389	MRP funding	1389	1382	1419	1449
(645)	Reserves funding	(645)	(645)	(645)	(645)
0	Non recurrent costs		35		
9,969		9,969	9,997	9,999	10,029
	Base budget changes				
192	Wages Inflation	150	302	411	552
	Pension funding	100	200	200	200
	contract Inflation	135	272	411	552
	Fees and charges inflation	(140)	(283)	(428)	(577)
(300)	Investment returns	(275)	(270)	(259)	(329)
	Property Income increase	(50)	(100)	(150)	(200)
	SCC Grant reduction	100	100	100	100
	Joint waste savings	(200)	(200)	(200)	(200)
(108)	Total	(180)	22	85	99
9,861	Total Budget to be funded	9,789	10,019	10,084	10,128
	Financed By				
84	Transitional Grant	0	0	0	0
1,465	Business Rates	1,512	633	600	500
200	Business Rates Pooling				
7,698	Council Tax	7,925	8,153	8,383	8,615
	New Homes bonus	724	486	451	450
238	Collection Fund Surplus	200	200	200	200
176	Special Expenses	176	176	176	176
9,861	Total Finance	10,537	9,648	9,810	9,941
0	Funding Gap/Savings	-748	371	274	186

ANNEX B2**CAPITAL EXPENDITURE FORECAST 2016 TO 2022**

	Estimated 2017/18 £'000	Estimated 2018/19 £'000	Estimated 2019/20 £'000	Estimated 2020/21 £'000	Estimated 2021/22 £'000
Disabled Facilities Grants	600	600	600	600	600
London road Rec	25				
Refuse trucks	3,200				
dog Van	10				
community Bus	40				
GRAND TOTAL OF ALL SCHEMES	3,875	600	600	600	600
CAPITAL RECEIPTS RESERVE B/F	480	425	445	465	485
Add: Funding from Capital Revenue Reserve	0	0	0	0	0
Add: Funding from Loans	3,200				
Add: Government Grant	600	600	600	600	600
Add: Capital Receipts	20	20	20	20	20
Less: Capital Expenditure	(3,875)	(600)	(600)	(600)	(600)
CAPITAL RECEIPTS RESERVE C/F	425	445	465	485	505
CAPITAL REVENUE RESERVE B/F	9,672	9,322	8,972	8,622	8,272
Less: Reserves funding applied	(350)	(350)	(350)	(350)	(350)
Less Funding Required for Capital	0	0	0	0	0
CAPITAL REVENUE RESERVE C/F	9,322	8,972	8,622	8,272	7,922

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 B3

GENERAL FUND CAPITAL AND REVENUE BALANCES ESTIMATED 2017 TO 2022 WITH £5 COUNCIL TAX INCREASE

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	Estimated Balance 31-Mar-22 £000
Capital Reserves						
480	Capital Receipts	425	445	465	485	505
480	Sub Total Capital Reserves	425	445	465	485	505
Earmarked Revenue Reserves						
13	Atrium Public Art	11	11	10	10	9
850	Affordable housing	850	0	0	0	0
320	Atrium s106	280	250	200	150	100
90	Blackwater Valley & Developer Conts	80	70	50	30	0
9	Gum Machine	8	6	4	2	0
4	Chobham Partnership	0	0	0	0	0
288	CIL	200	200	200	200	200
600	Commuted Sums	500	400	300	250	250
250	Community Fund	200	150	100	50	0
100	Crime and Disorder Partnership	80	60	0	0	0
300	Deepcut Commuted Sums	280	270	250	230	220
50	Frimley 3G	75	100	0	25	50
35	Heathside Muga	0	0	0	0	0
180	Insurance	150	100	90	80	80
300	Land Drainage	250	200	150	100	50
0	Land Charges	0	0	0	0	0
80	new burdens	0	0	0	0	0
	New Homes Bonus	1,200	1,200	1,200	1,000	1,000
19	Old Dean Toddlers Playground	15	12	12	10	8
50	Personalisation	0				
150	Sec 106	100	70	50	30	10
550	Planning Tariffs	400	500	600	300	350
1,600	Reapirs and Property Fund	1,450	1,300	1,150	1,000	850
150	Recycling Fund	100	0	0	0	0
45	Remediation Fund	0	0	0	0	0
150	Surrey Family Support	0	0	0	0	0
1,300	SANGS	1,000	700	400	400	500
7,483	Total Earmarked Revenue Reserves	7,229	5,599	4,766	3,867	3,677
Other Revenue Reserves						
9,672	Capital Revenue Reserve	9,322	8,972	8,622	8,272	7,922
2,220	General Fund Working Balance	2,220	2,968	2,597	2,323	2,137
11,892	Total Other Revenue Reserves	11,542	11,940	11,219	10,595	10,059
19,855	TOTAL RESERVES	19,196	17,984	16,450	14,947	14,241