

2017/18 BUDGET AND COUNCIL TAX REPORT PRESENTATION

<u>Report of the:</u>	Head of Financial Services
<u>Contact:</u>	Lee Duffy
<u>Annexes/Appendices (attached):</u>	Annexe 1: Overview of 2017/18 Estimates Annexe 2: Updated Four Year Financial Plan Annexe 3: Updated Efficiency Plan
<u>Other available papers (not attached):</u>	Budget Book 2017/18 Policy Committee Budget Reports 2017/18

REPORT SUMMARY

This report provides an update on the preparation of the budget for 2017/18, following the announcement of the provisional local government finance settlement. The report seeks any final guidance from the Panel prior to the preparation of the 2017/18 Budget and Council Tax report for the Council meeting on 14 February 2017.

RECOMMENDATION

That the Panel provides the Director of Finance and Resources with any final guidance needed to finalise the 2017/18 Budget and Council Tax report:

- (1) Notes the provisional Government financial settlement and changes to the criteria for the award of New Homes Bonus grant and its impact on future funding
- (2) Notes the latest position on Retained Business rates and the funding available for 2017/18
- (3) Confirms support that there will be no use of working balances (revenue reserves) in the 2017/2018 Budget
- (4) Agrees to support a recommendation to Council of a council tax increase of £4.95 for a Band D equivalent property
- (5) Notes the updated four year Financial Plan and Efficiency Plan (Cost Reduction Plan

Notes

1 Implications for the Council's Key Priorities, Service Plans and Community Strategy

- 1.1 The Medium Term Financial Strategy includes the following objectives for Council Tax and the revenue budget:-

Council Tax

- Ensure that Council Tax stays below the average payable of the Surrey Districts

Budget Position

- Produce a balanced revenue budget each year.
- Maintain a minimum working balance of £2.5 million at 31 March 2020.
- Maintain a prudent level of strategic reserves and a minimum of £1 million in the Corporate Projects Reserve.
- Utilise reserves pro-actively to manage major risks to Council's finances.

2 Introduction

- 2.1 Service estimate reports have been prepared for each of the three policy committees. The estimates are contained in the draft Budget Book 2017/18 which has been issued to all Councillors.
- 2.2 The overall budget target for 2017/18 was agreed at Strategy & Resources Committee on 27 September 2016 as follows:-
- 2.2.1 Estimates are prepared including options to reduce organisational costs by £556,000, to minimise the use of working balances and maintain a minimum working balance of £2.5m in accordance with the medium term financial strategy.
- 2.2.2 That at least £200,000 additional revenue is generated from an increase in discretionary fees and charges, based on minimum overall increase in yield of 3% in 2017/18.
- 2.2.3 That a provision for 2017/18 pay award is made of £180,000 which represents 1% pay increase and 0.6% for progression.
- 2.2.4 That further efficiencies be identified to address the anticipated budget shortfall of £220,000 in 2017/18.
- 2.2.5 That the Capital Member Group seeks to limit schemes included within the capital expenditure programme that enable the retention of agreed minimum level of capital reserves.

- 2.3 The estimates were prepared on the basis of budget guidelines agreed by the Council last September, except for the pay budget which includes a provision for a 1.5% pay award.
- 2.4 The funding of the capital programme was agreed in December, subject to schemes being supported by the policy committees in the January Committee cycle.
- 2.5 Subject to the decisions of the policy committees, the proposed increases to discretionary fees and charges are estimated to generate £198,000 in 2017/18.
- 2.6 The policy committees have also received detailed service estimates and proposals for fees and charges. All of these proposals are reflected in the Budget Book 2017/18 which has been made available in the Members Room. The Panel will be advised if there are any changes recommended to the estimates presented and the impact on the overall budget position.
- 2.7 The general fund summary position as contained in the 2017/18 Budget Book reflects the draft service estimates with no use of working balances. There are, however, external financing income levels that still need to be finalised:-
- The 2017/18 final local government finance settlement, including revenue support grant
 - The level of business rates that will be retained by this Council
 - Revenue from council tax depending on the level of any increase for next year
- 2.8 This report:-
- provides details of the provisional 2017/18 local government finance settlement
 - provides analysis on the current position of business rates
 - suggests council tax options for inclusion in the budget report

3 Provisional Government Funding Proposals

- 3.1 The Government made an offer of a fixed, four-year Local Government Finance Settlement in February 2016, covering the years 2016/17 to 2019/20. The offer made to each local authority is conditional on the authority producing and publishing an Efficiency Plan that will outline how it will achieve its objectives within the available resources set in the settlement.

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3.2 The Council agreed to accept the offer of the four year settlement and rename the Cost Reduction Plan, agreed in the Medium Term Financial Strategy, the Efficiency Plan.

3.3 Details of the provisional local government finance settlement for 2017/18 were sent by e-mail to all councillors on 16 December 2016.

3.4 The following table shows the provisional settlement figures:-

2017/18 SETTLEMENT FUNDING ASSESSMENT	Revenue Support Grant	Transitional Grant	Baseline Funding (Business Rates)	Total
	<i>£000</i>	<i>£'000</i>	<i>£000</i>	<i>£000</i>
Total	0	83	1,324	1,407

3.5 The following table compares the provisional 2017/18 settlement funding with the current year (2016/17) final settlement figures:-

Reduction in Funding	<i>£000</i>	<i>£000</i>
2016/17 Funding Settlement	1,810	
2017/18 Provisional Assessment	1,407	- 403 (- 22.3%)

3.6 The latest settlement figures received show that there only minor changes to the four year settlement provided in February 2016. The latest settlement includes a tariff adjustment of £624,000 in 2019/20 and there still remains uncertainty on how the changes to business rates proposed for 2020/21 will impact on this Council.

	<i>2016/17</i>	<i>2017/18</i>	<i>2018/19</i>	<i>2019/20</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£000</i>
Provisional Settlement				
Revenue Support Grant	417	0	0	0
Retained Business Rates - Baseline	1,300	1,326	1,368	1,417
Tariff Adjustment	0	0	0	(625)
Government Baseline Funding	1,717	1,326	1,368	792
Transitional Grant	93	83	0	0
Government Settlement Funding Assessment	1,810	1,409	1,368	792

<i>Projections within Financial Plan</i>				
Revenue Support Grant	417	0	0	0
Retained Business Rates - Baseline	1,300	1,324	1,364	1,407
Tariff Adjustment	0	0	0	(624)
Transitional Grant	93	83	0	0
Total Funding	1,810	1,407	1,364	783
Changes in Funding	0	2	4	9

4 Core Spending Power

- 4.1 In its spending announcements the Department of Communities and Local Government (DCLG) also refers to changes in 'spending power'. This is a term used to measure the impact of all government grant changes on local authority budgets. Core Spending Power is different from Government funding as this includes income received from council tax and New Homes Bonus Grant.

	2016/17 £'000	2017/18 £'000
Grants		
Revenue Support Grant	417	0
Transitional Grant	93	83
Retained Business Rates	1,300	1,326
Total Grant Funding	1,810	1,409
New Homes Bonus	2,120	1,558
Council Tax*	5,829	6,066
	7,949	7,624
Core Spending Power	9,759	9,033

*figure from provisional financial settlement

- 4.2 Nationally the reduction in spending power for 2017/18 is 1.1%. Epsom and Ewell Borough Council's spending power will reduce by 7.4%.

5 New Homes Bonus

- 5.1 The Council additionally benefits from the award of New Homes Bonus grant, based upon the number of new residential properties in the borough in the preceding year, with a supplement for affordable housing.

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- 5.2 As expected for 2017/18 New Homes Bonus allocations and details of the consultation on the future of the scheme have been announced. The number of years that the scheme will be based upon (currently 6 years' in 2016/17) will reduce to 5 years in 2017/18 and 4 years from 2018/19 onwards. The scheme will now also only reward growth in homes above 0.4% per annum.
- 5.3 The changes have resulted in a significant reduction in the overall award with this grant falling by nearly £700,000 for 2017/18 and by even more for 2018/19.

	Award under original scheme £'000	Award under revised scheme £'000
2012/13	500	0
2013/14	344	344
2014/15	596	596
2015/16	411	411
2016/17	158	158
2017/18	212	45
Grant Award	2,221	1,554

- 5.4 The provisional payment for 2017/18 is £1,554,000 compares to the forecast included within the Financial Plan of £2,116,000.
- 5.5 Under the New Homes Bonus protocol, £500,000 of this grant has been allocated to help fund services in 2017/18 and the balance of £1,054,000 will be made available for capital investment or corporate projects.
- 5.6 Further significant reductions in funding available from New Homes Bonus are expected for 2018/19 through to 2019/20 and the latest projections show that by 2019/20 there will be insufficient New Homes Bonus available to fund services as agreed under the protocol.

	2018/19 £'000	2019/20 £'000	2020/21 £'000
2015/16	411	0	0
2016/178	158	158	0
2017/18	45	45	45
2018/19*	50	50	50
2019/20*		50	50
2020/21*			50
Projected Grant	664	303	195

* forecast

5.7 The reduced levels of grant for New Homes Bonus need to be incorporated into the updated Financial Plan with funding available to fund services reduced to levels of expected grant for 2019/20 and 2020/21.

6 Budget Overview

6.1 The service estimates, as recommended to the policy committees, are contained in the Budget Book 2017/18.

6.2 The Budget Book currently shows no use of working balances: however, this is based on the expectation that the Council acquires a further commercial property, generating a net rental income of c£100,000. If the acquisition does not proceed then officers will be tasked with finding the equivalent savings from within the proposed 2017/18 revenue budget prior to the start of the new financial year.

6.3 There are a number of risks arising from unsettled budget items:-

- The estimate of retained business rates
- The pay settlement currently included at 1.5% (for decision by Strategy and Resources on 7 February)
- The council tax decision
- The continuing impact of welfare changes on budgets such as homelessness and housing benefits
- Net rental income included for still to be acquired property and assumes disposal of interest in Ebbisham Centre

- 6.4 The Strategy and Resources Committee budget currently includes a £50,000 general contingency to mitigate any unforeseen costs in implementing changes to services identified as part of the 2017/18 budget process, or due to unforeseen additional expenditure on agreed policies and priorities. This budget reduces the need for services to hold their own individual contingencies.

7 Council Tax Options

- 7.1 As part of the Government four year settlement it allowed a relaxation of the capping limits for council tax, allowing District Councils to increase their council tax by either £5 per annum (property D equivalent) or 2% before needing to hold a referendum.
- 7.2 For financial planning purposes, the Medium Term Financial Strategy includes an annual council tax increase of £4.95 for a band D equivalent property.
- 7.3 Within the Budget Book, income from the council tax charge has been increased by £4.95 for a band D equivalent property.
- 7.4 To the average band 'D' council tax payer (those not receiving discounts or support) the charge for borough services is currently £182.07 per property.
- 7.5 For the Council's finances, revenue from council tax provides critical income to pay for services, assisting in replacing funding lost from government revenue support grant.
- 7.6 The Panel may feel it's appropriate for options of 0%, 1.98% and 2.72% to be included in the budget report.
- 7.7 **Annexe 1** comprises an overview of the draft budget for 2017/18 showing the impact of different council tax options, with increases shown between 0% and £4.95 for a band D property.
- 7.8 The Panel may wish to consider the following options in the budget report.

Increase:	0% (Freeze)	1.98%	2.72% (£4.95 increase on Band D)
Council Tax	£182.07	£185.67	£187.02
Increase per annum	£0	£3.60	£4.95
Increase per week	0p	7p	10p

Increase:	0% (Freeze)	1.98%	2.72% (£4.95 increase on Band D)
Income Generated 2017/18	£0	£116,000	£160,000
Adjustment needed to Draft Budget Book	£160,000 adverse	£44,000 adverse	0
Income Generated Future Years Council Tax Base	0	£116,000	£160,000

7.9 At the time of writing this report it appears likely that Surrey County Council will trigger a referendum to consult on increasing their share of council tax by 15%, a further update to the Panel on the County's position will be provided when this has been confirmed. At the time of writing this report Surrey Police position is unclear. The Surrey County Council and Surrey Police Authority charges (precepts) will be determined early in February.

8 Financial Outlook as a Context for Council Tax and Budget Decisions

8.1 The Financial Plan 2016-2020 was approved by the Council in February 2016 and contains a detailed four year financial forecast.

8.2 The Council's Medium Term Financial Strategy, also approved last February, reflects the public spending figures in central government's four year settlement. The strategy anticipates that savings of £3.2 million will be required between 2016 and 2020.

8.3 The Council also approved as part of the MTFS an Efficiency Plan (previously called the Cost Reduction Plan) this specified where and in which year the total of £3.2 million needed to be achieved. As of February 2016 £2.3 million of savings had been identified, leaving savings of £900,000 still to be found over the four year period.

8.4 The four year Plan also assumed the following:-

- The forecast covers existing services plus makes contingencies for government reforms
- £500,000 of New Homes Bonus receipts are used to fund revenue services.
- Council tax charges have been increased by £5 per annum for a band D property and other charges by 3% per annum

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8.5 The four year forecasts has been updated and shown below, figures will need further revision once the final grant settlement figures are available and to take account of latest forecasts of retained business rates.

	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
	<u>Budget</u>	<u>Draft Budget</u>	<u>Forecast</u>	<u>Forecast</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Cost of Service b/f	9,530	8,581	8,365	8,566
Pay & Prices Increases		+ 380	+ 370	+ 370
Contingency for Service Changes and Pressures		+ 471	+ 395	+ 174
Increases in Fees & Charges		- 200	- 200	- 200
Contributions from Reserves / Provisions		-225	+ 225	0
Star Chamber / Service Savings	-949	-642	- 589	- 527
Forecast Net Cost of Services	8,581	8,365	8,566	8,383
Interest on Balances	-220	-220	-220	-220
Use of New Homes Bonus	-634	-500	-500	-303
<i>Funding Shortfall</i>	0	-0	-37	-436
Transfer from Working Balance	0	0	0	0
Forecast Net Expenditure	7,727	7,645	7,809	7,424
Formula Grant Forecast	417	0	0	0
Transitional Grant	93	83	0	0
Business Rates Forecast	1,435	1,527	1,558	964
Council Tax Income Forecast	5,829	6,045	6,251	6,460
Collection Fund Surplus / (Deficit)	-47	-10	0	0
Collection Fund Income	7,727	7,645	7,809	7,424

8.6 Although progress has been made to reduce the level of unidentified savings required to balance the budget by 2019/20 from £895,000 originally in the MTFS to latest projection of £436,000 there is still work to be undertaken to achieve this objective.

9 Business Rates Retention

- 9.1 The current year (2016/17) settlement included £1,810,000 for this Council comprising of £417,000 Revenue Support Grant, £93,000 Transitional Grant and £1,300,000 Business Rates Baseline funding. Whilst the Revenue Support Grant and Transitional Grant were fixed, the business rate figure depended on rates actually collected in year.
- 9.2 The baseline funding distribution was based on the central government's Needs and Resources formula and was calculated to provide a neutral position, where there would be no Councils benefitting or penalised from the changes to the new funding regime. The following table shows an overview of central government's calculation of business rates retained by this Council contained within the 2016/17 funding settlement:-

<u>2016/17</u>	Gov't Baseline £'000	EEBC Budget £'000	EEBC Latest Forecast £'000	
Rates Collectable	23,894	24,025	23,884	
Less: payable to central government	(11,947)	(12,013)	(11,942)	50%
Less: payable to SCC	(2,389)	(2,402)	(2,388)	10%
Epsom & Ewell Share (NNDR Baseline)	9,558	9,610	9,554	40% of collection
Less 'Tariff'	(8,258)	(8,258)	(8,258)	Tariff set by govt. to go to 'top-up authorities'
	1,300	1,352	1,296	
Small Business Rate Relief Grant	0	219	223	Grant funding to offset relief given on business rates
EEBC Gross Share of Income prior to Levy	1,300	1,571	1,519	
Baseline Funding	1,300	1,300	1,300	Funding baseline set by central government
Estimated Growth above baseline	0	271	219	
50% Levy due to Government	0	136	110	
Net Retained	1,300	1,435	1,409	

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- 9.3 As reported last year, the Council anticipated that there would be some growth in business rates with a sum collected of £24,025,000 and with a sum of £135,000 anticipated as retained growth above the baseline funding level.
- 9.4 Until 2012/13 formula grant funding, including redistributed business rates, had been fixed in the local government finance settlement and this allocation was not varied during the year. Under the local retention scheme, councils enjoy gains or suffer losses from variations to the business rates collected, whether due to changes in collection rates or more/fewer businesses.
- 9.5 The business rates collected this year is currently forecast at £142,000 below the original budget forecast. There was also unfunded deficit brought forward from last year of £200,000. This results in a combined deficit on the fund of £342,000 with the Council's share being £110,000.
- 9.6 The funding position for 2017/18 still needs to be finalised, but based on provisional NNDR1 information, the Council can anticipate retaining £1,527,000 of income.

<u>2017/18</u>	EEBC Latest Forecast £'000	
Rates Collectable	24,675	
Less: payable to central government	(12,338)	50%
Less: payable to SCC	(2,467)	10%
Epsom & Ewell Share (NNDR Baseline)	9,870	40% of collection
Less 'Tariff'	(8,431)	Tariff set by govt. to go to 'top-up authorities'
	1,439	
Small Business Rate Relief Grant	290	Grant funding to offset relief given on business rates
EEBC Gross Share of Income prior to Levy	1,729	
Baseline Funding	1,326	Funding baseline set but central government
Estimated Growth above baseline	403	
50% Retained	201	
Net Retained	1,527	

- 9.7 The deadline for submitting the business rate estimates for 2017/18 is 30 January 2017 and officers are working on estimates using the experience of the impact of appeals and other variations to rates collected in 2016/17.
- 9.8 The Panel will note that the safety net threshold for 2017/18 is estimated at £1,226,000 compared to £1,527,000 used as income in the draft estimates. This limits the exposure of losses to £301,000 next year compared to the estimate used in the Budget Book.

10 Updated Efficiency Plan

- 10.1 The majority of savings scheduled to be made within the Efficiency Plan have now either been made or in the process of being delivered. However, there are a few items within the original Plan that have either been deferred to a later year or removed from the Plan as it has been decided that at this time they will not proceed.
- 10.2 The updated Efficiency Plan can be found on Annexe 3, the major changes from the original approved as part of the Financial Plan last year are as follows;
- 10.2.1 Savings from operational efficiencies have increased by £57,000 over the four year period, £22,000 of the savings relating to 2017/18.
- 10.2.2 Capping discretionary rate relief has been removed from the Plan which was originally expected to deliver £22,000 of savings in 2017/18.
- 10.2.3 Additional income from the acquisition of commercial properties of £172,000 has been incorporated into the Plan.
- 10.2.4 The option to cease additional cuts to highway verges was not approved but other savings around the service have been agreed.
- 10.2.5 Homelessness costs have been reduced planning to save the Council £75,000 in 2017/18.
- 10.2.6 Parks savings totalling £15,000 deferred into 2018/19

11 Local Government Finance Settlement

- 11.1 Any changes in the finalised local government finance settlement will be made available to the Panel, once they have been issued or reported to all councillors if not available for the meeting.

12 Financial and Manpower Implications

- 12.1 The forecast budget position for 2017/18 is summarised in this report.
- 12.2 The staff budget will be finalised once the budget and council decisions are taken.
- 12.3 The planned transfers to reserves are as follows:-
- Approximately £1,054,000 of New Homes Bonus transferred to the Corporate Project Reserve for funding capital or corporate projects
- 12.4 The planned use of reserves includes:-
- The revenue budget incorporates £200,000 use of strategic reserves (£70,000 from the Business Rates Equalisation Reserve and £73,000 from the PPP Reserve) and no contribution from working balances to fund service expenditure;
 - Approximately £643,000 of capital reserves used to fund capital schemes (excluding carried forward schemes);
 - Use of £46,000 commuted sums / section 106 reserves to fund affordable housing and other revenue and capital schemes (excluding carry forward schemes);
 - Capital schemes to be funded from strategic revenue reserves £25,000.

13 Proposals

- 13.1 It is requested that the Panel provides the Director of Finance & Resources with any final guidance needed to finalise the 2017/18 budget and council tax report and specifically on the following proposal:-
- The Budget report includes the Council tax options as contained in this report

14 Risk Assessment and Conclusions

- 14.1 The Council is providing services during a period of sustained significant cuts to public spending that provide a higher than normal level of risk to Council finances and services.
- 14.2 Financial forecasting is particular difficult over the next four years due to predicting the impact of any benefit reforms on services provided by the Council.

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- 14.3 The provisional settlement removes RSG funding for this Council in 2017/18 and the Council will only receive funding through either its share of retained business rates or New Homes Bonus. However, there remains a risk to the Council's finances that the Government could still reduce our share of business rates that we can retain and therefore increase the funding gap to achieve a balanced budget for future years.
- 14.4 The 2017/18 revenue budget has been prepared without use of revenue reserves. Capital reserves will still be required to help fund the capital programme.
- 14.5 The major challenge in the Financial Plan is the delivery of the £3.1 million of savings to match the cuts in Government funding, of which £2.7 million has been identified but this still leaves further savings of £436,000 to be found by 2019/20.
- 14.6 Budget and Council Tax decisions for 2017/18 should be consistent with the draft Medium Term Financial Strategy and the Financial Plan for 2016 – 2020.
- 14.7 Public spending cuts continue to provide a higher than normal level of risk to Council finances.
- 14.8 Changes to Council resources under the Local Government Finance Act 2012 have transferred risks from central to local government and business rate retention in particular has provided significant funding uncertainty
- 14.9 The Council will continue to benefit from additional funding from the New Homes Bonus scheme but this source of funding is expected to reduce dramatically over the next couple of years with the introduction of a revised scheme. The revised four year forecast expects this to fall to around £200,000 by 2020/21, below the £500,000 annual planned use of NHB originally built into the MTFS.
- 14.10 Changes to the local government finance settlement for 2017/18 received after preparing this report will be tabled at the meeting, if available. Any changes to the figures will also be updated as required for the Budget report to Council.
- 14.11 The Budget and Council Tax Council meeting is on 14 February 2017.

WARD(S) AFFECTED: (All Wards);