

Strategy and Resources Committee

1 February 2018

Revenue Budget 2018/19

Report of the:	Chief Finance Officer
Contact:	Lee Duffy
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Annexes/Appendices (attached):	Annexe 1: Fees and Charges
Other available papers (not attached):	Budget Target Report (Strategy and Resources Committee) dated 26 September 2017 Draft Budget Book 2018/19

Report Summary

This report sets out estimates for income and expenditure on services in 2018/19.

Recommendation (s)

That the Committee:

- (1) Authorises the Chief Finance Officer to vary fees and charges for items generating income under £1,000 per annum and/or for one-off services or items;**
- (2) Recommends the 2018/19 service estimates (including the increases to fees and charges as set out in the report) for approval at the budget meeting of Full Council on 20 February 2018.**

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

- 1.1 The Medium Term Financial Strategy and Efficiency Plan aims to maintain the financial health of the Council whilst delivering the priorities in the Corporate Plan.
- 1.2 The Service Plan for the Corporate Priority "Managing Resources" includes service targets designed to maintain a balanced budget.

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2 Background

- 2.1 Government reductions to the revenue support grant, welfare benefit changes and the long term impacts of a weak economy continue to create pressure on Council finances and are likely to do so for the foreseeable future. The Council's budget strategy has been, as far as practical, to make operational and efficiency savings to minimise service reduction affecting residents.
- 2.2 The recommendation in this report is consistent with the Council's four year Medium Term Financial Strategy (MTFS) and Efficiency Plan for 2016/17 to 2019/20.
- 2.3 The overall Council revenue budget target for 2018/19 was agreed by Strategy & Resources Committee on 26 September 2017 as follows:-
 - Estimates should include options to reduce organisational costs by £588,000 in order to minimise the use of working balances and maintain a minimum working balance of £2.5m in accordance with the MTFS;
 - That at least £200,000 in additional revenue be generated from an increase in discretionary fees and charges, based on minimum overall increase in yield of 3% in 2018/19;
 - That a provision for 2018/19 pay award be made of £228,000 which represents an increase in the staffing budget of 1.5%;
 - That further efficiencies be identified to address the budget shortfalls of £90,000 in 18/19, £577,000 in 19/20 and £791,000 in 2020/21;
 - That the Capital Member Group seeks to limit schemes included within the capital expenditure programme in order to retain the agreed minimum level of capital reserves.
- 2.4 At the subsequent Strategy and Resources Committee meeting of 28 November 2017, members agreed to increase the 2018/19 pay award provision to £246,000.
- 2.5 The figures in this report are final and are representative of the local government finance settlement. Any subsequent changes to service estimates should either be self-financing or produce a saving within the Committee's overall recommended budget.
- 2.6 The service estimates for this Committee are to be included in the draft Budget Book 2018/19 that will be distributed to all Councillors.
- 2.7 Estimates have been prepared on the basis that all existing services to residents are maintained.
- 2.8 No general allowance for price inflation has been utilised for the revenue estimates 2018/19. However, where the Council incurs contractual inflationary uplifts, budgets have been adjusted accordingly.

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- 2.9 For pay inflation, a budgeted increase £246,000 has been allowed for within the Medium Term Financial Strategy, as agreed by this Committee on 28 November 2017.
- 2.10 Aside from income and rents, there are a limited number of services provided by the Committee for which fees and charges are levied. The impact of changes to Town Hall Room Hire charges and Land Charge tariffs have been estimated and incorporated in the estimates for 2018/19. The proposed tariffs are set out in Annexe 1 to this report.
- 2.11 The Council agreed a target to increase overall income from locally set fees and charges by a minimum of 3%, after making allowance for any further changes in service. Proposals have been included in a separate report on this agenda. Certain charges for Committees are being proposed at above-inflation levels, either to reduce service subsidy levels or to enable the Council to achieve a balanced budget.
- 2.12 To allow the Council to determine the budget and Council Tax in February, the Committee estimates have been presented as follows:-
- The Budget Book contains the service estimates for 2018/19.
 - All unavoidable cost increases and income reductions are reflected in the estimates.
 - All operational savings identified to date are reflected in the base estimates.
 - Recommended increases to fees and charges have been included within the Budget Book and the income estimates.
 - All increases in charges are subject to approval by the Council.

3 Revised Estimates 2017/18

- 3.1 Before considering the revenue estimates for 2018/19, this section provides a summary of the forecast outturn for the current financial year. Variations identified with on-going effects have been taken into account in preparing next year's budget.
- 3.2 The Council's probable revenue outturn at Q2 monitoring for all Committees in 2017/18 anticipates an underspend of £45,000. This would effectively mean a contribution to working balances at year end of £45,000, assuming that this level of underspend continues through to 31 March 2018. The Council's working balance currently stands at £3,333,000 before any further contribution is made.
- 3.3 The probable outturn specifically for the S&R Committee only for 2017/18 is an underspend of £121,000, which is shown in the following table. The key reasons for the major variances are explained in the subsequent paragraphs.

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Service Group	Published Budget 2017/18 £'000	Current Approved Budget 2017/18 £'000	Probable Outturn 2017/18 £'000	Variation from Current Budget £'000
Democratic & Civic	694	758	763	5
Corporate Functions	722	682	683	1
Corporate Financial Management	471	425	336	(89)
Tax Collection & Benefits	1,299	1,418	1,364	(54)
Land Charges	(67)	(67)	(49)	18
Land & Property	(1,077)	(1,032)	(1,178)	(147)
Economic Dev. & Prosperity	135	107	91	(16)
Community Consultation	140	133	130	(3)
Other Accounts	86	(198)	(35)	164
Total	2,403	2,226	2,105	(121)

- 3.4 The current approved budget in the table above represents the published budget updated with authorised transfers of funds since the budget was approved in February 2017.
- 3.5 For Corporate Financial Management an underspend of £89,000 is forecast. This is comprised of £40,000 reduced interest on balances following use of reserves to fund property acquisitions and £31,000 additional expenditure following the use of property provisions to carry out remedial fire safety works. A favourable £100,000 variance is the provision for benefits reforms which will not be needed this year,
- 3.6 Tax collection shows a favourable variance of £54,000 following receipt of an unbudgeted Local Council Tax Support admin grant from the DCLG.
- 3.7 Land Charges income is projecting an adverse variance of £18,000 as a slowing housing market results in fewer land searches. It should be noted that a Council provision exists for anticipated drops in income and this will be utilised in 2017/18 to compensate for the loss of income. The Land Charges provision will stand at £80,000 after allowing for this.

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- 3.8 Land and property has a net favourable variance of £147,000. An additional net income stream from the EEPIC property at Marlow of £311,000 is offset by a projected net £71,000 overspend on transport activity, following increased spot hire of vehicles this year to smooth the major changeover to a new fleet; and an under recovery against budget for other property rentals of £110,000.
- 3.9 There is an adverse variance for Other Accounts of £164,000 and this exists due to a £60,000 overspend on ICT licences and other costs of exiting the IT shared service with Elmbridge BC. A further £100,000 budgeted contribution from S106 provisions to salaries will not be realised.
- 3.10 The Committee's probable outturn (estimated net expenditure) for 2017/18 is included in the draft Budget Book on each cost centre page, with a detailed analysis on variations to original budget. The outturn forecasts are all based on the quarter two budget monitoring reports used by all Managers.

4 Budget Proposals 2018/19

- 4.1 The service estimates are included in the draft Budget Book 2018/19, circulated to Councillors in January.
- 4.2 A summary of the Committee's revenue estimates for 2018/19 is set out below:

SERVICE GROUP	PUBLISHED BUDGET 2017/18 £'000	BASE POSITION 2018/19 £'000
Democratic & Civic	694	776
Corporate Functions	722	684
Corp Financial Management	471	1,275
Tax Collection & Benefits	1,299	1,369
Land Charges	(67)	(12)
Land & Property	(1,077)	(1,797)
Economic Dev. & Prosperity	135	96
Community Consultation	86	125
Other Accounts	173	153
Total	2,403	2,669

- 4.3 The following table comprises a summary of the main changes to the Committee's proposed budget 2018/19 compared with the published budget for 2017/18. Detailed changes from 2017/18 to 2018/19 are contained in the draft Budget Book 2018/19.

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STRATEGY AND RESOURCES COMMITTEE		BUDGET £'000
Published Budget 2017/18		2,403
Service Group	Change	
All	Variation in pay, pension (IAS19) & support service recharges	181
Land & Property	Net receipt from Epsom & Ewell Property Investment Company	(806)
Land & Property	MRP adjustment	(181)
Land & Property	Operational property rentals relocated to service committees	165
Corporate Financial Management	Revenue contribution to capital schemes	540
Corporate Financial Management	Reduction in contribution to corporate project reserve	(889)
Corporate Financial Management	Reduction of New Homes Bonus receipt	888
Corporate Financial Management	Provisions for various contingencies	163
Corporate Financial Management	Net change to interest receipts	100
Tax Collection & Benefits	Additional contribution from business rates equalisation reserve	(23)
Democratic & Civic	Additional civic event and increased electoral expenses	26
Land Charges	Removal of contribution from Land charge provision	56
All	Other changes	46
Base Position 2018/19		2,669

- 4.4 Pay and pension costs include all charges for employees, including pension fund liabilities under International Accounting Standard 19, for this Committee. Support service recharges are for the provision of statutory and administrative services carried out by back office departments of the Council.
- 4.5 At Financial Policy Panel of 05/12/17, Members noted that the Council's capital receipts reserves would reduce to £1.87m by 31 March 2019, should all provisional 2018/19 schemes be funded from capital receipts. The agreed minimum threshold of capital receipts is £1m. In order to slow the depletion of capital reserves, FPP supported the proposal that any surplus revenue funds, arising principally from dividend income received from Epsom & Ewell Property Investment Company (EEPIC), should be allocated to fund the capital programme in 2018/19.

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- 4.6 A further opportunity to fund capital from revenue sources has been identified by officers, by amending the MRP calculation method used for the investment properties at Parkside and 70 East Street. Currently, the calculation uses the 'straight line' method, which spreads MRP payments evenly over the property assets' estimated 50 year life. The alternative 'annuity' method allows for lower MRP payments in the early years of the asset life, with compensating higher payments in later years. By changing to the annuity method, the MRP charge becomes more closely aligned to the expected future rental income benefits and generates a £181k saving in 2018/19. This amendment is within the Council's existing agreed MRP policy framework, therefore, Members are informed for information only.
- 4.7 In total, MTFS projections show that £540k revenue funds, subject to the risk identified in paragraphs 10.2 to 10.5, are available to fund the capital programme in 2018/19, specifically the following provisional schemes:
- 4.7.1 Financial Management System Upgrade: £65k
 - 4.7.2 Document Management System replacement: £50k
 - 4.7.3 ICT programme of work: £60k
 - 4.7.4 Replacement of Customer Relationship Management system and Data Warehouse: £250k
 - 4.7.5 Renewal of Town Hall lift controls: £80k
 - 4.7.6 Upgrade of Car Park credit card machines: £35k
- 4.8 The revenue contribution to capital will be reviewed annually to ensure the Council retains a balanced revenue budget position.
- 4.9 Further information on detailed budget changes is shown in the Budget Book which will be available for Council Members.
- 4.10 Operational / efficiency savings towards the Medium Term Financial Strategy and Efficiency Plan that were agreed by this Committee on 26 September 2017 have been included within the base position. The base position also includes changes identified by officers to reduce organisation costs.

5 Fees and Charges 2018/19

- 5.1 Fees and Charges with in the remit of this Committee are set out in **Annexe 1**.
- 5.2 In January 2013, the Committee agreed that the Director of Finance and Resources should have delegated authority to vary fees and charges for items generating income under £1,000 per annum and/or for one-off items not included in the fees and charges schedule. In order to reflect the current management structure, the Committee is asked to reconfirm this delegation to the Chief Finance Officer.

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- 5.3 Charges at the Town Hall for room hire and associated officer time fees have been raised between 3.3% and 4.9%. The budgeted income is £497.
- 5.4 Increases to Land Charge tariffs are between 3.2% and 7.8% with the only exception being LLC1 which has been increased from £22 to £25 – an increase of 13.6%. The new charge is now more comparable with other local authorities in Surrey. The annual budget for land charges is £120,000.
- 5.5 Changes to legislation with effect from 1 January 2018 prohibit the application of fees to payments made to the Council by credit card. This income stream has therefore been removed from the 2018/19 budget.

6 Financial and Manpower Implications

- 6.1 Consultation processes will be progressed should operational changes affect staffing levels or staff duties.
- 6.2 Any questions or queries with the Budget Book 2018/19 should be sent to relevant Officers in advance of this Committee meeting.
- 6.3 **Chief Finance Officer's comments:** *Financial implications are contained within the body of this report.*

7 Legal Implications (including implications for matters relating to equality)

- 7.1 The Council will fulfil its statutory obligations and comply with its policy on equalities.
- 7.2 **Monitoring Officers comments:** *There are no direct legal implications arising from this report. However, decisions taken about the budget will impact the services which can be delivered. It is important that statutory services are appropriately funded, which the recommended budget seeks to achieve*

8 Sustainability Policy and Community Safety Implications

- 8.1 Whilst there are no particular implications for the Sustainability Policy or the Community Safety Strategy arising out of this report, the allocation of resources by the relevant policy committees will be needed to deliver actions in these areas of work.

9 Partnerships

- 9.1 Many services are provided by the Council without the direct involvement of other agencies. There is, however, an increasing role for partnership working with others to achieve mutually agreed objectives. The benefits and risks need to be assessed in each specific case to ensure that value for money is secured and the Council's priorities are delivered in the most efficient and effective manner.

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10 Risk Assessment

10.1 In preparing the revenue budget estimates officers have identified the main risks facing the Committee in delivering services within the budget. These budgets will require careful management during the year.

Service	Risk	Budget Estimate 2017/18 £'000	Risk Management
Employee costs	Medium : Not achieving budgeted staff savings to meet the vacancy provision	11,335	Recruitment management Salaries monitoring
Treasury management – income from interest on balances	Medium: Achievement of budgeted return	120	Prudent budgeting Treasury Management Policy including use of specialist external advisers and fund managers Use of Interest Equalisation Reserve
Land and property	Medium: Loss of tenants and commercial rentals. Negative movements in the value of commercial property (EEPIC only).	2,562 EEBC 806 EEPIC	Asset Management Plan – property and rent reviews

10.2 A further risk has arisen following a recent DCLG consultation on proposed changes to Minimum Revenue Provision (MRP) guidelines. MRP is an annual charge against the general fund, to ensure resources are set-aside to repay any borrowing incurred for capital purposes. The consultation ended on 22 December 2017 and the outcome is not yet published. DCLG proposed in the consultation that, for directly owned assets, Local Authorities should spread MRP charges over a maximum of 40 years for buildings and 50 years for land from 2018/19.

10.3 Existing guidelines do not mandate a maximum term and EEBC currently spreads its MRP charges over 50 years. If implemented in its current form, the proposed change could increase the annual MRP charge at EEBC, and indeed at many other Local Authorities. This could impact the revenue funds available to support the capital programme.

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- 10.4 In this scenario, the Capital Programme report includes a proposal that any affected capital schemes, earmarked in paragraph 4.7 to be funded from revenue, would still proceed but revert to funding from capital receipts.
- 10.5 Officers will continue to monitor the DCLG's proposals and, once formalised, any changes will be incorporated into the Treasury Management Strategy presented to S&R Committee in April.

11 Conclusion and Recommendations

- 11.1 The Committee is asked to agree the service revenue estimates as set out in the draft Budget Book 2018/19. As noted in the body of the report, the impact of the changes in fees and charges has been incorporated into the revenue estimates.
- 11.2 The Council will consider the budget at its meeting on 20 February 2018.

Ward(s) Affected: (All Wards);