

Budget and Council Tax 2018/19

Report of the:	Chief Finance Officer
Contact:	Lee Duffy
Annexes/Appendices (attached):	Listed in report conclusion
Other available papers (not attached):	Estimate files held in Finance Directorate

Report Summary

This report fulfils the statutory requirement to agree a budget for 2018/19, comprising both revenue and capital expenditure plans, and to set a Council Tax for the year. The council tax recommendation is for an increase of 2.98%. Financial Policy Panel made no recommendation to Council but requested that the report include options for a Council Tax freeze and an increase of 2.98%.

Recommendations

See (1) to (10) below

1. That it be noted that, under delegated powers, the Chief Finance Officer calculated the Council Tax Base as 32,658.06 (Band 'D' equivalent properties) for the year 2018/19 calculated in accordance with the Local Government Finance Act 1992, as amended (the "Act").
2. That the following estimates recommended by the policy committees be approved:-
 - a. The revised revenue estimates for the year 2017/18 and the revenue estimates for 2018/19
 - b. The capital programme for 2018/19 and the provisional programme for 2019 to 2021, as summarised in the capital strategy statement.
3. That the fees and charges recommended by the policy committees be approved for 2018/19.
4. That the Council Tax Requirement for the Council's own purposes for 2018/19 is £6,289,942.

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5. That the Council receives the budget risk assessment at Annexe 6 and notes the conclusion of the Chief Finance Officer that these budget proposals are robust and sustainable as concluded in this report.
6. That the Council receives the Chief Finance Officer Statement on the Reserves as attached at Annexe 8.
7. That the Council agrees the Treasury Management Strategy, Prudential Indicators and Authorised Limits for 2018/19 as set out in Annexe 11 including:-
 - a. Affordability Prudential Indicators
 - b. The actual and estimated Capital Financing Requirement
 - c. The estimated levels of borrowing and investment
 - d. The authorised and operational limits for external debt
 - e. The treasury management prudential indicators
8. That the following amounts be now calculated for the year 2018/19 in accordance with sections 31 to 36 of the Act:
 - a. £56,138,698 being the aggregate of the amounts which the Council estimates for the items set out in section 31A(2) of the Act
 - b. £49,848,756 being the aggregate of the amounts which the Council estimates for the items set out in section 31(A)3 of the Act
 - c. £6,289,942 being the amount by which the aggregate at 8(a) above exceeds the aggregate at 8(b) above, calculated by the Council, in accordance with section 31A(4) of the Act, as its council tax requirement for the year.
 - d. £192.60 being the amount at 8(c) above divided by the amount at 1. above, calculated by the Council, in accordance with section 31(B) of the Act, as the basic amount of its council tax for the year
9. To note that Surrey County Council and Surrey Police Authority have issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwellings in the Council's area as indicated in the table below:-

SURREY COUNTY COUNCIL

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	940.86	1,097.67	1,254.48	1,411.29	1,724.91	2,038.53	2,352.15	2,822.58

SURREY POLICE AUTHORITY

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	157.71	184.00	210.28	236.57	289.14	341.71	394.28	473.14

10. That the Council, in accordance with Section 30 to 36 of the Local Government Finance Act 1992, hereby sets the aggregate amounts shown in the tables below as the amounts of Council Tax for 2018/19 for each of the categories of dwellings.

EPSOM AND EWELL BOROUGH COUNCIL

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	128.40	149.80	171.20	192.60	235.40	278.20	321.00	385.20

AGGREGATE OF COUNCIL TAX REQUIREMENTS

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	1,226.97	1,431.47	1,635.96	1,840.46	2,249.45	2,658.44	3,067.43	3,680.92

1 Introduction

1.1 The Council is required to agree a budget for 2018/19 and, having regard to the cost of service provision and estimates of income, the level of Council Tax for the coming year.

1.2 Legislation also requires:-

- The preparation of budget plans for a three year period

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- The setting of prudential indicators which determine the level of Council borrowing and capital expenditure, together with the treasury management strategy
 - The Council's Chief Finance Officer to report on the robustness of the estimates and the adequacy of the reserves
 - The Council to consider the risks in its budget strategy
- 1.3 The Council has now completed its review of service income and expenditure. The policy committees have considered their service estimates and they have recommended budgets, charges and capital investment for the next financial year.
- 1.4 This report provides an overview of the General Fund Revenue Account budget position for 2018/19 and future years as a basis for determining council tax.
- 1.5 The Financial Policy Panel on 6 February 2018 recommended that budget options based on a council tax increase of 0% (freeze) and an increase of 2.98%. These options are shown in the report.
- 1.6 The budget report is based on a recommended increase of 2.98%, £5.58 per annum (for Band D property) in council tax reflecting the final grant settlement figures received after the Financial Policy Panel met.
- 1.7 All options are consistent with the council tax policy of ensuring that council tax stays below the average payable of the Surrey Districts.

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

- 2.1 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.

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- Utilise reserves pro-actively to manage major risks to Council's finances.

3 Current Year Position

- 3.1 The 'probable outturn' comprises a revised forecast for the current year ending 31 March 2018, based on the mid-year budget review. The following table summarises the financial performance anticipated for the year as reported to each of the policy committees.

POLICY COMMITTEES' BUDGETS 2017/18

	Published Policy Book 2017/18	Mid-Year Forecast 2017/18	Variance
	£000	£000	£000
Strategy & Resources Committee	2,402	2,105	
Asset Rents (Landlord Account)	(2,879)	(2,879)	
Environment Committee	1,878	2,126	
Community & Wellbeing Committee	6,244	6,248	
Total	7,645	7,600	(45)

- 3.2 Service expenditure variations have been reported to the responsible committees. The main issues affecting financial performance for the current financial year:-

Favourable:

- Homelessness costs reduced
- Contingency set aside for the impact of benefit reforms on services unlikely to be required in 2017/18.
- Additional income from acquisition of new investment property through Commercial Property Investment Company (EPPIC)

Adverse:

- Building Control income

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- Income from existing investment properties rent reviews.
 - Costs of exiting ICT shared service with Elmbridge BC
- 3.3 The budget included no planned use of the working balance to finance services. For the purpose of preparing this budget report it has been assumed that in 2017/18 the Council will make a contribution back to working balances of £45,000
- 3.4 The working balance carried forward at 31 March 2017 was £3.3 million. Using the service income and expenditure position as recently reported to the policy committees, the forecast working balance for 31 March 2018 is £3.4 million.
- 3.5 Members will note that the Council planned to use £500,000 of New Homes Bonus to fund services in 2017/18 and this draw-down has still been assumed in the forecast position.
- 3.6 Variations from budget as identified during the year have been taken into account in preparing estimates for 2018/19. Areas of significant concern have also been reported to the relevant policy committee so that a plan of action can be agreed.

4 Budget Strategy

- 4.1 The 2018/19 revenue budget and the capital investment programme comprise the Council's spending plans for the forthcoming year.
- 4.2 The Budget Targets for 2018/19 were agreed at Strategy & Resources Committee on 26 September 2017 as follows:-
- Estimates are prepared including options to reduce organisational costs by £588,000 subject to government grant announcement, to minimise the use of working balances and maintain a minimum working balance of £2.5 million in accordance with the medium term financial strategy.
 - 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 2018/19.
 - That a provision for pay award is made of £228,000 that represents an increase to the staffing budget of 1.5%.
 - That further savings and efficiencies be identified to address the budget shortfalls of £90,000 in 2018/19, £577,000 in 2019/20 and £791,000 in 2020/21.

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- 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.

4.3 The Financial Policy Panel has received regular updates and given guidance on the preparation of the estimates. For more detail, Councillors may wish to refer to background papers on these agendas. The following specific agendas may provide useful background to the budget review programme:-

- September 2017: Review of local taxation level and budget targets (including efficiency savings, efficiency plan, staffing and income levels):
- December 2017: treasury management, capital programme and capital reserves:
- February 2018: finance settlement, business rate retention, income from the Council's Commercial Property Company and council tax

5 2018/19 Revenue Budget

- 5.1 The draft Budget Book was issued to all Councillors in January and was available when the estimates were considered by the policy committees.
- 5.2 The detailed fees and charges proposals and capital appraisals for all policy committees can be found on the appropriate policy committee agenda (January committee cycle). The estimates for services, as recommended by the policy committees, are summarised at **Annexe 1** to this report.
- 5.3 The main year-on-year changes in the cost of service provision are detailed in **Annexe 2** to this report.
- 5.4 The comparison to the 2017/18 published budget is also shown in the table below at committee total level:-

POLICY COMMITTEE BUDGETS 2018/19

	2017/18 Published Budget	2018/19 Recommended Budget	Variance
	£000	£000	£000
Strategy & Resources Committee	2,402	2,697	
Asset Rents (Landlord Account)	(2,879)	(2,879)	

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Environment Committee	1,878	1,948	
Community & Wellbeing Committee	6,244	6,017	
Total	7,645	7,783	+ 138
External Funding (council tax, revenue support grant, retained business rates)	(7,645)	(7,783)	(138)
Shortfall of income to cover planned expenditure & required use of Working Balance	0	0	0

Staff Budget

- 5.5 A total of £11.5 million of staff costs, staff on-costs and agency costs have been included in the policy committee estimates compared to £11.2 million in 2017/18. This will form the salary control total for budget monitoring purposes, subject to adjustments needed where service changes are agreed by the Council.
- 5.6 The budget includes the full staffing costs for Nonsuch JMC and Epsom & Walton Downs Conservators where the Council's liability is 50% and 60% respectively.
- 5.7 The Strategy and Resources Committee agreed a pay award provision of £246,000 for 2018/19 in November 2017.
- 5.8 It is anticipated that a two per cent staff vacancy margin, staff turnover savings net of temporary staff cover, will be required to manage staff costs within the control total.

Pensions

- 5.9 Following the 2016 pension fund valuation there is no increase to the level of employer's pension on-cost. No additional provision has been made for deficit funding in 2018/19. The next valuation will be based on the Surrey Pension Fund position at 31 March 2019.

6 Fees and Charges

- 6.1 Each policy committee has received a report on fees and charges for 2018/19. Income from the recommended charges has been included in the committee estimates.
- 6.2 A summary of the additional income from increases in discretionary charges included in the budgets recommended by the Committees, totalling £248,000 is attached at **Annexe 3**.

7 Economic Indicators

- 7.1 The latest Treasury economic indicators (December 2017) are shown at **Annexe 5**.

8 Equalities Implications

- 8.1 The Council will fulfil its statutory obligations and comply with its policy on equalities.
- 8.2 The budget proposals where they involve a reduction in service to users will require an equalities assessment.
- 8.3 Assessments will be required for service changes where identified in service plans.

9 Risk Management

- 9.1 A financial risk assessment was completed for each of the policy committee revenue budgets. The main financial risks have been included in a corporate budget risk assessment at **Annexe 6**.
- 9.2 The highest service financial risk is the Council's increased exposure to investment properties including the associated income streams from tenants.
- 9.3 **Annexe 6** also identifies the means of managing the risks identified. In relation to the size of the working balance and the capital reserves, which act as a contingency against such risks, the overall level of revenue budget risk in 2018/19 is deemed to be medium.
- 9.4 A higher risk remains with the financial outlook due to the state of the UK public finances and the impact of Brexit on the national and local economy, which could result in the need for further government public spending cuts.
- 9.5 The Government's four year settlement has provided a clearer picture of the levels of core funding for this Council until 2020. However, the funding for Epsom and Ewell Borough Council from New Homes Bonus will reduce in future years and the updated Financial Plan makes provision to remove this as a source of funding for services by 2021/22
- 9.6 The Government has consulted on potential changes to borrowing which could limit Council investment in the acquisition of commercial properties and could impact on opportunities for future income generation.

10 Revenue Budget Overview 2018/19

10.1 The Council's budget requirement can be measured by the amount of Council expenditure that will be financed from external finance (revenue support grant and retained business rates) and from council tax income.

10.2 The budget requirement comprises gross expenditure on services, less gross income from services, less the planned use of revenue reserves.

10.1 The Budget Requirement in 2017/18 was £7,645,000. The budget requirement for 2018/19 is calculated as follows:-

Net Expenditure on Services	£000	External Finance	£000
Gross Expenditure	48,486	Revenue Support Grant	0
		Retained Business Rate Income	1,203
Gross Income	- 40,703	Small Business Rate Relief Grant	329
		Collection Fund Deficit (business rates)	-180
		Collection Fund Surplus (council tax)	141
Net Expenditure	7,783	External Finance	1,493
T/F from Working Balance	0	Council Tax Income	6,290
Budget Requirement	7,783	Income from grant and Council Tax	7,783

10.2 The increase in the Budget Requirement (net spending) is 1.8%.

10.3 In April 2012 central government brought in a new measurement of spending defined at the 'Council Tax Requirement'. This is the estimate of tax to be raised i.e. Band D tax level multiplied by the council tax base (the number of Band D equivalent properties). The Council is required to show this information in the council tax leaflet.

10.4 The Council Tax Requirement for 2018/19 is £6,289,942 subject to any budget changes made at the Council meeting.

10.5 The Council tax requirement will change each year due to:-

- Increases/decreases in domestic properties
- Increases/decreases in council tax

11 Local Government Finance Settlement

- 11.1 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 in the settlement.
- 11.2 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 (which is shown in **Annexe 4**).
- 11.3 The following table shows the spending assessment figures announced for 2018/19.

GOVERNMENT FUNDING	2017/18 Actual <i>£000</i>	2018/19 Final Settlement <i>£000</i>
Business Rates Baseline Funding	1,326	1,366
Transitional Grant	83	0
Government Settlement Funding Assessment	1,409	1,366 (- £43k, - 3.1%)

- 11.4 The government's funding assessment was reduced by £43,000 or 3.1% in 2018/19.
- 11.5 The latest settlement figures received shows a slight change to the four year settlement provided in February 2016, the settlement figure for 2019/20 shows the Baseline figure for business rates being reduced by £12,000 when compared to the original settlement.
- 11.6 The latest settlement still includes a tariff adjustment of £625,000 in 2019/20 and there still remains uncertainty on how the changes to business rates proposed for 2020/21 will impact on this Council.

	2016/17 <i>£'000</i>	2017/18 <i>£'000</i>	2018/19 <i>£000</i>	2019/20 <i>£000</i>
<u>Final Settlement</u>				
Revenue Support Grant	417	0	0	0
Retained Business Rates - Baseline	1,300	1,326	1,366	1,396

	2016/17 £'000	2017/18 £'000	2018/19 £000	2019/20 £000
Government Baseline Funding	1,717	1,326	1,366	1,396
Transitional Grant	93	83	0	0
Tariff Adjustment	0	0	0	-625
Government Settlement Total	1,810	1,409	1,366	771

11.7 The four year funding settlement sees the Council's core funding from RSG and retained business rates reduce from £2.3 million in 2015/16 to £771,000 in 2019/20 a cut in funding over the four years of £1.5 million or 65%.

12 Core Spending Power

12.1 In its spending announcements the Ministry of Housing, Communities and Local Government 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.

	2017/18 £'000	2018/19 £'000
<u>Grants</u>		
Transitional Grant	83	0
Retained Business Rates	1,326	1,366
Total Grant Funding	1,409	1,366
New Homes Bonus	1,557	834
Council Tax*	6,046	6,301
	7,603	7,135
Core Spending Power	9,012	8,502

*figure from provisional financial settlement

12.2 Nationally there is an increase in spending power for 2018/19 is 1.5%. However, for Epsom and Ewell Borough Council's spending power will reduce by £510,000 or 7.4%.

13 New Homes Bonus Grant

- 13.1 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.
- 13.2 As part of the financial settlement for 2017/18 the Government announced a change to the basis for calculating New Homes Bonus Grant. Originally the Council received a rolling 6 years of individual allocations; this has been reduced down to 4 years for 2018/19 alongside a further reduction by only awarding funding for growth in homes above the 0.4% per annum baseline.
- 13.3 The provisional payment for 2018/19 is £833,000 and compares to the forecast included within the Financial Plan of £665,000.
- 13.4 Under the New Homes Bonus protocol, £500,000 of this grant has been allocated to help fund services in 2018/19 and the balance of £333,000 will be made available for capital investment or corporate projects.
- 13.5 Further significant reductions in funding available from New Homes Bonus are expected for 2019/20 when projections show that there will be insufficient New Homes Bonus available to fund services as agreed under the protocol.

New Homes Bonus	2018/19 £'000	2019/20 £'000	2020/21 £'000
2015/16	411		
2016/178	158	158	
2017/18	45	45	45
2018/19	219	219	219
2019/20*		50	50
2020/21*			50
Projected Grant	833	472	364

* forecast

- 13.6 The reduced levels of grant for New Homes Bonus has been incorporated into the updated Financial Plan with reliance on this as a source of funding for services removed by 2021/22.
- 13.7 To manage the risk of a change in, or the end of, this specific grant it was agreed as part of the Medium Term Financial Strategy that a minimum level of £1 million of New Homes Bonus funding is retained within the Corporate Projects Reserve.

14 Business Rate Retention

- 14.1 The 2018/19 government settlement includes £1,366,000 for this Council as a 'settlement funding assessment' which is solely from Business Rates Baseline funding.
- 14.2 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.
- 14.3 The implementation of the Business Rate Retention scheme has generally been recognised as being turbulent for a number of reasons:-
- The economic environment is already difficult for many businesses
 - A very high level of outstanding appeals were with the Valuation Office dating back to the 2010 revaluation and even 2005 in some cases
 - The new system covers both rate reductions due to successful appeals as well as the reimbursement of rates back to the valuation date
- 14.4 The Financial Policy Panel recently received more information on the business rate collection forecast and the latest position is summarised in the table below:

	Gov't Baseline 2017/18 £000	EEBC Budget 2017/18 (NNDR1) £000	EEBC Latest Forecast 2017/18 £000	EEBC Budget 2018/19 (NNDR1) £000	
Rates Collectable	24,392	24,675	24,915	24,922	
Less: payable to central government	-12,196	-12,338	-12,458	-12,461	50%
Less: payable to SCC	-2,439	-2,467	-2,491	-2,492	20% of local share
NNDR Baseline	9,757	9,870	9,966	9,969	Rates kept before tariff
Less 'Tariff'	-8,431	-8,431	-8,431	-8,599	Tariff set by govt to go to 'top-up authorities'
Retained Business Rates	1,326	1,439	1,535	1,370	

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	Gov't Baseline 2017/18	EEBC Budget 2017/18 (NNDR1)	EEBC Latest Forecast 2017/18	EEBC Budget 2018/19 (NNDR1)	
Less: loss of 50% of underlying growth		-202	256	-167	
Est. of Retained Business Rates	1,326	1,237	1,279	1,203	
Add back: Small Business Rate Relief Grant		290	302	329	Separate grant funding for extension of SBRR
EEBC Income including relief grants	1,326	1,527	1,581	1,532	

14.5 The above table includes the estimate of income received from retained business rates plus government section 31 grant awarded to councils to compensate for the additional business rate reliefs.

14.6 The level of retained business rates income is based on the original method of redistribution. However, as a result of the Council being successful in becoming a pilot with Surrey and the other District Councils it is expected for the level of retained business rates funding available for 2018/19 to increase.

Business Rates Pilot

14.7 In October a bid was submitted on behalf of Surrey which included all the Districts and County to become a pilot for Business Rates Retention for 2018/19.

14.8 In agreeing for this Council to be part of the Pilot it was done so on the understanding;

- All authorities will receive a guaranteed gain of £0.5m from money set aside from the separate financial stability/sustainability and economic regeneration pots;
- Finance officers clarify the distribution of the funding under financial stability/sustainability to ensure openness and fairness;
- Finance officers clarify the funding mechanism for economic regeneration to ensure openness and fairness.

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- 14.9 It was announced within the Government's Financial Settlement that Surrey's bid to become a pilot for Retained Business Rates for 2018/19 had been successful. Details on the funding retained under the Pilot are unavailable in time for agreeing the 2018/19 budget. Therefore, the Budget Report is based on the original method of redistribution of business rates income.
- 14.10 A report will go to Strategy & Resources in Committee in April providing the Council with more information on the Pilot and the impact that this has on the Council's finances.

Business Rates Equalisation Reserve

- 14.11 The Council agreed to set up a Business Rate Equalisation Reserve in 2013/14 to help manage the fluctuations in business rates retained under the new arrangements. The following estimate is made of that reserve:-

Business Rate Equalisation Reserve Forecast	£000
Balance 31 March 2017	864
Planned use to partially offset 2016/17 deficit and levy payment	-70
Forecast balance 31 March 2018	794
Planned use to partially offset Prior Year Deficit	-65
Forecast balance 31 March 2019	729

15 Funding Received from Commercial Property Investment Company (EEPIC)

- 15.1 Council agreed on 19th September 2017 to set up a Local Authority Property Investment Trading Company with one of its primary objectives to enable the acquisition of investment properties outside the Borough that will generate additional income for the Council.
- 15.2 Since the inception of the Company (EEPIC), the company has acquired two properties outside the Borough and these are budgeted to deliver a benefit to the Council's General Fund for 2018/19 of £805,000.
- 15.3 It was agreed when acquiring properties it is prudent to set aside a proportion of the annual net income in to an Investment Property Income Equalisation (PIE) Reserve to safeguard against any unforeseen eventualities, e.g. loss of rent or default. The levels of funds and contributions to this reserve will be reviewed annually as part of the budget process to ensure they are sufficient to meet the objectives.

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- 15.4 It should be noted that the two commercial property acquisitions made in 2016/17 were made through the Council and not by EEPIC and therefore do not feature in the table below.

2018/19 Budget	Expenditure £'000	Income £'000	MRP £'000	Net Total £'000
Marlow net income	571	-1,712	339	-802
Arlington Square net income	595	-1,770	279	-896
Costs	147			147
Taxation	245			245
Sub-total net income	1,588	-3,482	618	-1,306
Budgeted contribution to PIE reserve				501
Net income in 2018/19 revenue budget				-805

- 15.5 The Government has consulted with Councils to review how Local Authorities are using borrowing to finance the acquisition of assets outside of its boundaries. There is growing concern in Central Government that Councils are taking on large amounts of debt to acquire income generating assets that have no local connection to the Borough and are exposing local council taxpayers to significant risks if these investments become financial unviable.
- 15.6 The consultation was issued in order to try and curb Councils from carrying out these type of investments and encourage more investment within the boundary of the Local Authority, principally by making changes around the application of MRP.
- 15.7 The Minimum Revenue Provision (MRP) is the minimum amount which the Council must be charge to the revenue account each year and set aside as provision for repaying external loans and meeting other credit liabilities.
- 15.8 Officers will continue to monitor the proposals and, once any impact is established, it will be communicated to S&R Committee.
- 15.9 As a result of the uncertainty surrounding MRP and the need to maintain a minimum level of capital reserve of £1 million as agreed in the Council's Financial Plan, the 2018/19 Budget utilises £540,000 of the dividend income to finance schemes within the capital programme for 2018/19 rather than use the Council's diminishing capital receipts.

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15.10 However, if changes are enforced to the Council's MRP Policy the dividend from EEPIC will be used to offset the impact of this change and reduce the proposed funding available for capital schemes.

16 Reserves

16.1 The reserves as contained in the audited financial statements at 31 March 2017 may be summarised as follows:-

	Balance 31 March 2016 £000	Balance 31 March 2017 £000	
Capital Receipt Reserves	4,968	4,893	Receipts from the sale of assets earmarked for capital programme commitments and invested under the Treasury Management policy. Includes £580k earmarked Hospital Cluster Receipt.
Community Infrastructure Levy	2,526	3,835	Receipts available for funding of infrastructure improvements
Earmarked Strategic Reserves	7,287	9,353	Provisions for future expenditure or against identified liabilities
Working Balance	3,171	3,334	General Fund working balance

16.2 The policies for the reserves are contained in Section 3 of the Financial Plan 2016-2020 approved by Council in February 2016.

16.3 The levels of revenue reserves are set out in **Annexe 7**.

16.4 The following estimate is made of the Council's capital receipt reserves.

	Capital Reserves £'000
Balance brought forward at 1 April 2017	4,893
Estimated use to fund 2017/18 capital expenditure	- 1,794
Estimated Balance at 31 March 2018	3,099
Planned use for 2018/19 programme	- 685
Allowance for Receipts in Year	0

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	Capital Reserves £'000
Note: excludes allowance for programme slippage	
Estimated Balance at 31 March 2019	2,414

16.5 The Council is required to consider the level of its reserves in setting its budget. The Chief Finance Officer's statement of the adequacy of the financial reserves is attached at **Annexe 8**.

16.6 Next year's budgets include the following planned use of general reserves:-

- No use of the General Fund Working Balance to fund services
- £685,000 of capital reserves to fund the capital programme (including spend to save schemes subject to approval of business case)

17 Financial Forecast

17.1 The following financial forecast comprises an update of the forecast in the Financial Plan 2016-2020 to take account of the 2018/19 budget proposals and central government public sector spending plans.

	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>
	<u>Budget</u> <u>£000</u>	<u>Forecast</u> <u>£000</u>	<u>Forecast</u> <u>£000</u>	<u>Forecast</u> <u>£000</u>
Cost of Service b/f	8,634	7,928	8,042	8,596
Pay & Prices Increases	+ 480	+ 450	+ 490	+ 490
Contingency for Service Changes and Pressures	+ 555	+ 115	+ 250	+ 150
Increases in Fees & Charges	- 248	- 200	- 210	- 210
Changes to External Funding	+ 97	+ 155	+ 24	0
Star Chamber / Service Savings	- 1,590	- 406	0	0
Forecast Net Cost of Services	7,928	8,042	8,596	9,026
Interest on Balances	- 120	- 150	- 188	- 225
Contributions to / (from) reserves	475	100	100	100
Use of New Homes Bonus	- 500	- 473	- 185	0

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Forecast Net Expenditure	7,783	7,519	8,323	8,901
Business Rates Forecast	1,532	1,563	1,594	1,626
Tariff Adjustment	0	- 625	- 653	- 681
Council Tax Income Forecast	6,290	6,526	6,771	7,025
Collection Fund Surplus / (Deficit)	- 39	0	0	0
Collection Fund Income	7,783	7,464	7,712	7,970
<i>Funding Shortfall</i>	<i>0</i>	<i>- 55</i>	<i>- 611</i>	<i>- 931</i>

17.2 The Financial Plan provides more analysis behind the forecast including the assumptions used however key points to note are:-

- The forecast covers existing services plus makes contingencies for government reforms
- £500,000 of New Homes Bonus receipts are used to fund revenue services in 2018/19 but is expected to reduce to £364,000 in 2020/21. Use of New Homes Bonus as a source of funding for services has been removed from the updated Financial Plan in 2021/22.
- Council tax and other charges have been increased by 3% per annum
- The forecast does not assume any further income from new property acquisitions.
- The potential impact of any enforced changes by Central Government to MRP are not included within the latest forecast.
- The updated Plan excludes any gain from the successful bid to be a Retained Business Rates Pilot.
- Savings and the development of new income streams have been identified of £3,639,000 over the four years (2016/17 to 2019/20) as part of the budget process.
- Further savings of around £55,000 will need to be found in 2019/20 for a balanced budget to be achieved at the end of this period.

18 Capital Programme

18.1 The review of capital spending requirements was overseen by the Capital Member Group. The Financial Policy Panel considered the financing requirement for new capital investment in December 2017 and February 2018.

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- 18.2 A provisional three year forward programme was reported to the policy committees in the last committee cycle. Supported schemes have been included in the draft capital programme.
- 18.3 The updated capital strategy statement is attached at **Annexe 10** and includes a summary of proposed investment for 2018-2021.
- 18.4 A capital investment programme of £1,813,000 is recommended for 2018/19 and the following funding is required to allow the schemes in this programme to be completed:-
- 18.5 Use of Capital Reserves for the core programme is £685,000
- 18.6 Use of central government grant: £588,000
- 18.7 Use of revenue income from EEPIC: £540,000
- 18.8 Schemes will also be carried forward from the 2017/18 programme where not completed by 31 March 2018.

19 Prudential Indicators and Authorised Limits for 2018/19

- 19.1 The Local Government Act 2003 introduced a system of capital controls for local authorities. Details of the regulations are set out in **Annexe 11** to this report.
- 19.2 The Council agreed to borrow funds of up to £80m to finance the acquisition of commercial properties in 2016/17 and further borrowing of up to £300 million was approved in 2017/18 when it was agreed to establish a wholly owned property investment trading company.
- 19.3 The Financial Policy Panel has considered the capital financing requirements as part of the capital programme review and it is not anticipated that the Council will undertake any long term borrowing to finance the core capital programme in 2018/19.
- 19.4 Prudential Indicators and Authorised Limits have been proposed in the Annexe on this basis and on the basis of the capital strategy recommended to the Council.

20 Council Tax Options

- 20.1 The current Surrey District Council Tax levels are shown at **Annexe 12**.
- 20.2 The policy in the Medium Term Financial Strategy is to ensure that Council Tax stays below the average of the Surrey Districts.

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- 20.3 The final Government Grant settlement announced a relaxation to capping limits for council tax, allowing District Councils to increase their council tax by either £5 per annum (property D equivalent) or 3% (previously 2%) before needing to hold a referendum. The recommendation in the budget report is for an increase of 2.98%, which represents an increase of £5.58 per annum on a Band D equivalent property.
- 20.4 The decision must take into account a number of factors including the medium term budget forecast including the level of savings already required to achieve a balanced budget in future years.
- 20.5 Two options for 2018/19 levels of council tax are illustrated at **Annexe 13**, a freeze in council tax and an increase of 2.98%. Both options are based on the service estimates in the Budget Book 2018/19 and the estimate reports presented to the policy committees in January and February 2018.
- 20.6 Council tax for the 2.98% increase and a freeze is illustrated in the following table.

Increase:	0%	2.98% Increase Recommendation
Council Tax	£187.02	£192.60
Increase per annum	£0	£5.58
Increase per week	0p	11p
Income Generated 2017/18	£0	£182,000
Adjustment needed to Draft Budget Book	£182,000 adverse	£0
Income Generated Future Years Council Tax Base	0	£182,000

- 20.7 The Borough Council will remain at the lower end of the range of Surrey District Council tax levels whatever option is decided.

21 Consultation with Non-Domestic Ratepayers

- 21.1 The Council has provided information about the Council's spending proposals and business rates reliefs on the web and promoted use through the Business Partnership. Any response specific to the 2018/19 budget will be identified at the meeting.

22 Collection Fund

- 22.1 In accordance with the Local Authorities (Funds) (England) Regulations 1992, the Borough Council as the billing authority is required to estimate on 15 January each financial year the surplus or deficit on its Collection Fund for that year in respect of Council Tax. The estimates are required to be made on an accruals basis in accordance with proper accounting practices.
- 22.2 Where a deficit or surplus in the 2017/18 Collection Fund is estimated in respect of Council Tax or Business Rates, the amount is to be apportioned in 2017/18 between authorities that precept on the collection fund in accordance with the ratio of their 2017/18 precepts.
- 22.3 The calculation of the estimated position on the Council's 2017/18 Collection Fund in respect of Council Tax items is detailed at **Annexe 14** and this shows a surplus on the Fund of £141,095 is forecast for this Council and will be credited to the General Fund Revenue Account for 2018/19.
- 22.4 The business rates retention scheme was introduced under the 2012 Local Government Finance Act and requires the allocation of estimated surpluses and deficits for 2017/18 in 2018/19. A deficit of £180,087 is forecast for this Council and will be charged to the General Fund Revenue Account for 2018/19. The calculation is shown in **Annexe 14**.

23 Precepts

- 23.1 Precepts have been issued by Surrey County Council and Surrey Police Authority upon Epsom and Ewell Borough Council, as the billing authority.
- 23.2 A schedule of precept dates has been agreed with the precepting authorities.

24 Council Tax Recommendation

- 24.1 The budget target included an increase of £4.95 per annum on a Band D equivalent property in Council Tax.
- 24.2 Following confirmation of changes in government funding and the council tax referendum rules, along with the need to minimise the use of working balances, the recommendation in this report is based on an increase of 2.98%.

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- 24.3 Based on this figure the Borough Council's calculation of the amount to be raised by way of Council Tax based on the proposed council tax requirement is as follows:-

Council Tax Requirement 2018/19	£	£
Budget Requirement		7,783,181
Revenue Support Grant	0	
Transitional Grant	0	
Non Domestic Rates retained	1,203,289	
Small Business Rate Relief Grant	328,942	
External Support:		(1,532,231)
Sub-Total		6,250,950
Add: Collection Fund Deficit (business rates)		180,087
Less: Collection Fund Surplus (council tax)		(141,095)
Council Tax Requirement		6,289,942

- 24.4 Precepts have been recommended as follows:-

Awaiting confirmation	£	%
Surrey County Council	46,089,994	77
Surrey Police	7,725,917	13
Epsom and Ewell Borough Council	6,289,942	10
Total	60,105,853	

- 24.5 In accordance with Regulation 3 of the local authorities (Calculation of Tax Base) Regulations 2012, the Council calculated the amount of 32,658.06 as its Council Tax base for the year 2018/19. This represents the number of Band D equivalent properties.

- 24.6 Based on the recommendation in this report, the change in the council tax levy per Band D equivalent dwelling, when compared to 2017/18 would be as follows:-

Recommendations	2017/18 £	2018/19 £	Variation	
			£	%
Surrey County Council	1,331.55	1,411.29	79.74	5.99
Surrey Police Authority	224.57	236.57	12.00	5.34

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Epsom & Ewell Borough Council	187.02	192.60	5.58	2.98
Total	1,743.14	1,840.46	97.32	5.58

25 Robustness of the Estimates

25.1 The Local Government Act 2003 requires that when a local authority is agreeing its budget and precept, the Chief Finance Officer must report on the robustness of the estimates made for the purpose of the calculations.

25.2 The Council's Chief Finance Officer advises that:-

- The Council received the 2016/17 financial statements in good time, with an unqualified audit opinion
- The revenue and capital budget monitoring arrangements are effective for the purpose and all Members receive quarterly monitoring reports
- The Financial Policy Panel receives regular reports on financial and risk management, asset management and procurement issues and has been well placed to provide effective advice on the medium term financial strategy, the capital strategy and on financial planning leading to the preparation of the detailed service estimates.
- The policy committees have received detailed estimates of revenue and capital expenditures for 2018/19 and have also received assessments on the main financial risks.

25.1 It is the Chief Finance Officer's opinion that the assumptions used in preparing the estimates are realistic and that the committees should be able to meet their obligations within the proposed budget allocations.

25.2 A corporate budget risk assessment is appended to this report (**Annexe 6**), as is a statement on the level of reserves (**Annexe 8**).

25.1 The Chief Finance Officer considers that the budget proposals for 2018/19 are robust and sustainable.

25.2 The updated financial forecast (**Annexe 9**) identifies the need for further significant cost reduction and income generation as set out in this report so as to improve the forecast budget position by nearly £1 million by 2021/22. Given the reduction in grant funding from New Homes Bonus Grant and the uncertainty over business rate retention income, the Council will need to update the financial forecast and review its spending plans as part of the 2019/20 budget review process.

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- 25.3 The major challenge in the Financial Plan was the delivery of over £3 million of savings over the four years 2016 to 2020 and the 2018/19 estimates show that significant progress has been made in delivering these savings.
- 25.4 Although, all but £55,000 of the £2 million of savings or new income has been identified that will allow for balanced budgets for 2018/19 and 2019/20, the Council needs to ensure delivery of these items to enable the Council to meet its objective of setting annual budgets with no use of working balances.

26 Conclusions

- 26.1 The priorities in the Corporate Plan will guide the allocation of resources through service plans and annual service targets.
- 26.2 The proposed budget makes provision for all services next year and takes into account variations in income and expenditure this year, as well as changes to government grant funding. The budget also includes the full year effect of savings made last year and new efficiency savings and increases in income for 2018/19.
- 26.3 This Council agreed to accept Central Government's four year financial settlement which reduces core funding by 22% for 2017/18 and will fall by 57% by 2019/20. The level of cuts means that the Council will have to make significant reductions to its net cost of services to be able to deliver a sustainable balanced budget.
- 26.4 The Council has been able to prepare a balanced budget through a range of changes to services, increases to income especially from the acquisition of commercial property. Revenue reserves are sufficient to manage further variations in income and expenditure.
- 26.5 The major challenge for this Council is the delivery of the £2 million of savings and new income identified in the Cost Reduction Plan over the next 2 years (2018/19 to 2019/20) and the need to identify and deliver a potential further £1 million for the following 2 years (2020/21 to 2021/22).
- 26.6 Budget and Council Tax decisions for 2018/19 should be consistent with the draft Medium Term Financial Strategy and the Financial Plan for 2016 – 2020.
- 26.7 The main financial risks identified for next year's budget are set out in **Annexe 6** to this report.

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26.8 The draft budget is based on a 2.98% annual increase in council tax. The proposed budget will still require the delivery of cost reductions but the increase would help to maintain the resources needed for service delivery in the medium term.

26.9 The Council will maintain its council tax policy under any of the option presented with the tax being below the Surrey average.

26.10 For ease of reference, the Annexes attached to this report are listed below:

Annexe 1	Policy Committee Budgets 2018/19
Annexe 2	Main Changes to Service Budgets for 2018/19
Annexe 3	Income from increases to discretionary Fees and Charges
Annexe 4	Updated Four Year Efficiency Plan 2016/17 to 2019/20
Annexe 5	HM Treasury Economic Indicators
Annexe 6	Risk Assessment
Annexe 7	Reserves (Revenue and Capital)
Annexe 8	Chief Finance Officers' Statement on Robustness of Estimates and Adequacy of Reserves
Annexe 9	Financial Forecast 2018 – 2022
Annexe 10	Capital Strategy Statement
Annexe 11	Treasury Management Strategy, including Prudential Indicators & Authorised Limits
Annexe 12	Surrey District Council Tax levels 2017/18
Annexe 13	Council Tax Calculation 2018/19
Annexe 14	Council Tax Collection Fund & Business Rate Collection Fund

Ward(s) Affected: (All);