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Simon Young, Solicitor
Head of Legal and Democratic Services



To: All Members of the Council

Dear Councillor

COUNCIL - TUESDAY, 14TH FEBRUARY, 2017

Please find attached the following report for the meeting of the Council to be held on Tuesday, 14th February, 2017.

This is a revised version of Item 06 (Budget and Council Tax 2017/18) published earlier in the week. This version takes into account Surrey County Council's decision on its Council Tax Precept. The decision necessitated amendments to the main body of the report and Appendix 13.

Revisions have been highlighted throughout the report and relevant Appendix in yellow.

06 (a) **Budget and Council Tax 2017/18 (as amended) (Pages 3 - 84)**

We have also taken the opportunity to amend typographical errors brought to our attention in Appendix 14 (page 83 attached refers). The reference to the distribution of income has been amended to read "2016/17 to cover 2015/16" and the word "surplus" changed to "deficit" with reference to the sum of £176,536.

For further information, please contact Fiona Cotter, tel: 01372 732124 or email: fcotter@epsom-ewell.gov.uk

Yours sincerely

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Head of Legal and Democratic Services

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BUDGET AND COUNCIL TAX 2017/18

<u>Report of the:</u>	Director of Finance and Resources
<u>Contact:</u>	Lee Duffy
Urgent Decision?(yes/no)	Yes
If yes, reason urgent decision required:	Statutory Requirement to Set Council Tax
<u>Annexes/Appendices</u> (attached):	See List of Appendices
<u>Other available papers</u> (not attached):	Estimate files held in Finance Directorate

REPORT SUMMARY

- This report fulfils the statutory requirement to agree a budget for 2017/18, 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 £4.95 per annum (Band D property) an equivalent of 2.7% increase.
- Financial Policy Panel made no recommendation to Council but requested that the report includes three options for Council Tax (a freeze, an increase of 1.98% and an increase of £4.95)

RECOMMENDATIONS

See (1) to (10) below

Notes

1. That it be noted that, under delegated powers, the Director of Finance and Resources calculated the amount of the Council Tax Base as 32,324.01 (Band 'D' equivalent properties) for the year 2017/18 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 2016/17 and the revenue estimates for 2017/18
 - b) The capital programme for 2017/18 and the provisional programme for 2018 to 2020, as summarised in the capital strategy statement.

- 3. That the fees and charges recommended by the policy committees be approved for 2017/18.**
- 4. That the Council Tax Requirement for the Council's own purposes for 2017/18 is £6,045,236.**
- 5. That the Council receives the budget risk assessment at Appendix 6 and notes the conclusion of the Director of Finance and Resources that these budget proposals are robust and sustainable as concluded in this report.**
- 6. That the Council receives the Director of Finance & Resources' Statement on the Reserves as attached at Appendix 8.**
- 7. That the Council agrees the Prudential Indicators and Authorised Limits for 2017/18 as set out in Appendix 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 2017/18 in accordance with sections 31 to 36 of the Act:**
 - a) £53,806,686 being the aggregate of the amounts which the Council estimates for the items set out in section 31A(2) of the Act**
 - b) £47,761,450 being the aggregate of the amounts which the Council estimates for the items set out in section 31(A)3 of the Act**
 - c) £6,045,236 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) £187.02 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	887.70	1,035.65	1,183.60	1,331.55	1,627.45	1,923.35	2,219.25	2,663.10

SURREY POLICE AUTHORITY

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	149.71	174.67	199.62	224.57	274.47	324.38	374.28	449.14

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 2017/18 for each of the categories of dwellings.

EPSOM AND EWELL BOROUGH COUNCIL

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	124.68	145.46	166.24	187.02	228.58	270.14	311.70	374.04

AGGREGATE OF COUNCIL TAX REQUIREMENTS

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	1,162.09	1,355.78	1,549.46	1,743.14	2,130.50	2,517.87	2,905.23	3,486.28

1 Introduction

- 1.1 The Council is required to agree a budget for 2017/18 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
 - 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 2017/18 and future years as a basis for determining council tax.
- 1.5 The Financial Policy Panel on 2 February 2017 recommended that budget options based on a council tax increase of 0% (freeze), 1.98% and up to £5 per annum on band d equivalent property. These options are shown in the report.
- 1.6 The budget report is based on a recommended increase of £4.95 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.
- 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 2017, 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 2016/17

	Published Policy Book 2016/17	Mid-Year Forecast 2016/17	Variance
	£000	£000	£000
Strategy & Resources Committee	2,348	2,235	
Asset Rents (Landlord Account)	(2,879)	(2,879)	
Environment Committee	1,990	2,051	
Community & Wellbeing Committee	6,268	6,226	
Total	7,727	7,633	-94

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

Favourable:

- Salaries savings arising from vacant posts
- Homelessness costs reduced
- Increased income from car parking
- Additional income from acquisition of new investment property
- Higher than anticipated returns from treasury management

Adverse:

- Planning income
 - Cemetery income
- 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 2016/17 the Council will make a contribution back to working balances of £94,000.
- 3.4 The working balance carried forward at 31 March 2016 was £3.2 million. Using the service income and expenditure position as recently reported to the policy committees, the forecast working balance for 31 March 2017 is £3.3 million.
- 3.5 Members will note that the Council planned to use £500,000 of New Homes Bonus to fund services in 2016/17 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 2017/18. 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 2017/18 revenue budget and the capital investment programme comprise the Council's spending plans for the forthcoming year.
- 4.2 The Budget Targets for 2017/18 were agreed at Strategy & Resources Committee on 27 September 2016 as follows:-
- 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.
 - 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.
 - That a provision for 2017/18 pay award is made of £180,000 which represents 1% pay increase and 0.6% for progression.
 - That further efficiencies be identified to address the anticipated budget shortfall of £220,000 in 2017/18.
 - 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 2016: Review of local taxation level and budget targets (including efficiency savings, efficiency plan, staffing and income levels):
- October 2016: treasury management, an update of funds held on s106 and CIL
- December 2016: capital programme and capital reserves:
- February 2017: business rate retention

5 2017/18 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 following papers have been made available in the Members' Room:-

- The fees and charges for all policy committees
- The capital programme proposals

5.3 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 **Appendix 1** to this report.

5.4 The main year-on-year changes in the cost of service provision are detailed in **Appendix 2** to this report.

5.5 The comparison to the 2016/17 published budget is also shown in the table below at committee total level:-

POLICY COMMITTEE BUDGETS 2017/18

	2016/17 Published Budget	2017/18 Recommended Budget	Variance
	£000	£000	£000
Strategy & Resources Committee	2,348	2,403	
Asset Rents (Landlord Account)	(2,879)	(2,879)	
Environment Committee	1,990	1,877	
Community & Wellbeing Committee	6,268	6,244	
Total	7,727	7,645	- 82
External Funding (Council Tax, Revenue Support Grant, retained Business Rates)	(7,727)	(7,645)	82
Shortfall of income to cover planned expenditure & required use of Working Balance	0	0	0

Staff Budget

- 5.6 A total of £11.2 million of staff costs, staff on-costs and agency costs have been included in the policy committee estimates compared to £11.5 million in 2016/17. This will form the salary control total for budget monitoring purposes, subject to adjustments needed where service changes are agreed by the Council.
- 5.7 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.
- 5.8 The Strategy and Resources Committee agreed a 1.5% pay award for April 2017.
- 5.9 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

- 5.10 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 2017/18. 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 2017/18. 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 £198,000 is attached at **Appendix 3**.

7 Economic Indicators

- 7.1 The latest Treasury economic indicators (December 2016) are shown at **Appendix 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 **Appendix 6**.
- 9.2 The highest service financial risks remain the demands for housing and homelessness prevention
- 9.3 **Appendix 7** 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 2017/18 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 announcement of a four year settlement last year has provided a clearer picture of the levels of core funding for this Council until 2020. However, this year the Government undertook a review of funding for Councils from New Homes Bonus and this has resulted in significant cuts to this source of income for Epsom and Ewell Borough Council. As a result of the reduced levels of funding available from New Homes Bonus the updated Financial Plan makes provision for the reduction in allocation of grant to finance services over the next 3 years.

9.6 Government intends to further review the method of awarding New Homes Bonus grant funding for 2018/19 and this could result in a further reduction allocation for future years.

9.7 There continues to be doubts over whether growth in business rates income can be achieved. The Council operates in a difficult financial environment and risks remain high in the long term.

10 Revenue Budget Overview 2017/18

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 2016/17 was £7,727,000. The budget requirement for 2017/18 is calculated as follows:-

Net Expenditure on Services	£000	External Finance	£000
Gross Expenditure	46,440	Revenue Support Grant	0
		Transitional Grant	83
		Retained Business Rate Income	1,237
Gross Income	- 38,795	Small Business Rate Relief Grant	290
		Collection Fund Deficit (business rates)	-111
		Collection Fund Surplus (council tax)	101
Net Expenditure	7,645	External Finance	1,600
T/F from Working Balance	0	Council Tax Income	6,045
Budget Requirement	7,645	Income from grant and Council Tax	7,645

10.2 The reduction in the Budget Requirement (net spending) is 1.1%.

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 2017/18 is £6,045,236 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.

11.3 The following table shows the spending assessment figures announced for 2017/18.

GOVERNMENT FUNDING	2016/17 Actual £000	2017/18 Final Settlement £000
Formula Grant Funding (Revenue Support Grant)	417	0
Business Rates Baseline Funding	1,300	1,324
Transitional Grant	93	83
Government Settlement Funding Assessment	1,810	1,407 (- £403k, -22%)

11.4 The government's funding assessment was reduced by £403,000 or 22% in 2017/18.

11.5 The latest settlement figures received show that there are 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.

	2016/17 £'000	2017/18 £'000	2018/19 £000	2019/20 £000
Final Settlement				
Revenue Support Grant	417	0	0	0
Retained Business Rates - Baseline	1,300	1,324	1,364	1,407
Government Baseline Funding	1,717	1,324	1,364	1,407
Transitional Grant	93	83	0	0
Tariff Adjustment	0	0	0	-624
Government Settlement Total	1,810	1,407	1,364	783

11.6 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 £783,000 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 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.

Grants	2016/17 £'000	2017/18 £'000
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

12.2 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%.

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 The level of grant awarded has steadily increased from when it was introduced in 2011/12, with the council receiving £2.1 million in 2016/17.

Grant Allocation	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
2011/12	108	108	108	108	108	108
2012/13		500	500	500	500	500
2013/14			344	344	344	344
2014/15				595	595	595
2015/16					411	411
2016/17						158
Total Grant	108	608	952	1,547	1,958	2,116

13.3 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.

13.4 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

- 13.5 The provisional payment for 2017/18 is £1,554,000 and compares to the forecast included within the Financial Plan of £2,116,000.
- 13.6 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.
- 13.7 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

- 13.8 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 from grant for 2019/20 and 2020/21.
- 13.9 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 2017/18 government settlement includes £1,407,000 for this Council as a 'settlement funding assessment' comprising £1,324,000 Business Rates Baseline funding and £83,000 transitional grant.
- 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 2016/17 £000	EEBC Budget 2016/17 (NNDR1) £000	EEBC Latest Forecast 2016/17 £000	EEBC Budget 2017/18 (NNDR1) £000	
Rates Collectable	23,894	24,025	23,884	24,675	
Less: payable to central government	-11,947	-12,013	-11,942	-12,338	50%
Less: payable to SCC	-2,389	-2,402	-2,388	-2,467	20% of local share
NNDR Baseline	9,558	9,610	9,554	9,870	Rates kept before tariff
Less 'Tariff'	-8,258	-8,258	-8,258	-8,431	Tariff set by govt to go to 'top-up authorities'
Retained Business Rates	1,300	1,352	1,296	1,439	
Less: loss of 50% of underlying growth		-136	-110	-202	
Est. of Retained Business Rates	1,300	1,216	1,186	1,237	
Add back: Small Business Rate Relief Grant		219	223	290	Separate grant funding for extension of SBRR
EEBC Income including relief grants	1,300	1,435	1,409	1,527	

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 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 2016	684
Planned use to partially offset 2016/17 deficit and levy payment	-164
Forecast balance 31 March 2017	520
Planned use to partially offset Prior Year Deficit (2015/16 deficit £80k & 2016/17 deficit £31k)	-69
Forecast balance 31 March 2018	451

14.7 Central Government has again set the Safety Net on individual council levy rates at 92.5% of baseline funding. The safety net for 2017/18 is £1,226,000 compared to the budget forecast of £1,527,000 (including section 31 business relief grants) providing a worst case loss of business rates compared to the budget of £301,000 next year.

15 Reserves

15.1 The reserves as contained in the audited financial statements at 31 March 2016 may be summarised as follows:-

	Balance 31 March 2015 £000	Balance 31 March 2016 £000	
Capital Receipt Reserves	4,082	4,968	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	612	2,526	Receipts available for funding of infrastructure improvements
Earmarked Strategic Reserves	6,347	7,287	Provisions for future expenditure or against identified liabilities
Working Balance	3,333	3,171	General Fund working balance

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

15.3 The levels of revenue reserves are set out in **Appendix 7**.

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

	Capital Reserves £'000
Balance brought forward at 1 April 2016 *	4,388
Earmarked for Property Acquisition	- 275
Estimated use to fund 2016/17 capital expenditure	- 1,751
Estimated Balance at 31 March 2017	2,362
Planned use for 2017/18 programme	- 643
Allowance for Receipts in Year	0
Note: excludes allowance for programme slippage	
Estimated Balance at 31 March 2018	1,719

** Excludes £580,000 earmarked for Horton Chapel / Hospital Cluster*

15.5 The Council is required to consider the level of its reserves in setting its budget. The Director of Finance's statement of the adequacy of the financial reserves is attached at **Appendix 8**.

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

- No use of the General Fund Working Balance to fund services
- £643,000 of capital reserves to fund the capital programme (including spend to save schemes subject to approval of business case)

16 Financial Forecast

16.1 The following financial forecast comprises an update of the forecast in the Financial Plan 2016-2020 to take account of the 2017/18 budget proposals and central government public sector spending plans.

	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</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	8,581	8,365	8,566	8,383
Pay & Prices Increases	+ 380	+ 370	+ 370	+ 370
Contingency for Service Changes and Pressures	+ 471	+ 395	+ 174	+ 100
Increases in Fees & Charges	- 200	- 200	- 200	- 210
Contributions from reserves/provisions	- 225	+ 225	0	0
Star Chamber / Service Savings	- 642	- 589	- 527	0
Forecast Net Cost of Services	8,365	8,566	8,383	8,643
Interest on Balances	- 220	- 220	- 220	- 220
Use of New Homes Bonus	- 500	- 500	- 303	- 196
<i>Funding Shortfall</i>	<i>0</i>	<i>- 37</i>	<i>- 436</i>	<i>- 559</i>
Transfer from Working Balance	0	0	0	0
Forecast Net Expenditure	7,645	7,809	7,424	7,668
Formula Grant Forecast	0	0	0	0
Transitional Grant	83	0	0	0
Business Rates Forecast	1,527	1,558	1,589	1,620
Tariff Adjustment	0	0	- 625	- 625
Council Tax Income Forecast	6,045	6,251	6,460	6,673
Collection Fund Surplus / (Deficit)	- 10	0	0	0
Collection Fund Income	7,645	7,809	7,424	7,668

16.2 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 2017/18 and 2018/19 but is expected to reduce to £303,000 in 2019/20.
- Council tax charges have been increased by £4.95 for a band D equivalent property per annum and other charges by 3% per annum

- Savings and the development of new income streams have been identified of £2,707,000 over the four years (2016/17 to 2019/20) as part of the budget process.
- Further savings of around £400,000 will need to be found between 2018 and 2020 if a balanced budget is to be achieved at the end of this period.

16.3 The Council needs to deliver a total of over £2.2 million over the next three years if it is to achieve a balanced budget by 2020 and a programme of reviews has been implemented to deliver the necessary savings over this period.

17 Capital Programme

17.1 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 2016.

17.2 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.

17.3 The updated capital strategy statement is attached at **Appendix 10** and includes a summary of proposed investment for 2017-2020.

17.4 A capital investment programme of £1,249,000 is recommended for 2017/18 and the following funding is required to allow the schemes in this programme to be completed:-

17.5 Use of Capital Reserves for the core programme and for spend to save schemes, subject to policy committee approval to business cases: £622,000

17.6 Use of central government grant: £535,000

17.7 Use of revenue reserves: £25,000

17.8 Schemes will also be carried forward from the 2016/17 programme where not completed by 31 March 2017.

18 Prudential Indicators and Authorised Limits for 2017/18

18.1 The Local Government Act 2003 introduced a system of capital controls for local authorities. Details of the regulations are set out in **Appendix 11** to this report.

18.2 The Council has been debt free since 1994 However on 21 November 2016, the Council granted approval for borrowing to finance a Commercial Property Acquisition Fund.

18.3 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 2017/18.

18.4 Prudential Indicators and Authorised Limits have been proposed in the appendix on this basis and on the basis of the capital strategy recommended to the Council.

19 Council Tax Options

19.1 The current Surrey District Council Tax levels are shown at **Appendix 12**.

19.2 The policy in the Medium Term Financial Strategy is to ensure that Council Tax stays below the average of the Surrey Districts.

19.3 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 2% before needing to hold a referendum. The recommendation in the budget report is for an increase of £4.95 per annum, which represents a 2.72% increase.

19.4 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.

19.5 A range of council tax increases are illustrated at **Appendix 13**. All options are based on the service estimates in the Budget Book 2017/18 and the estimate reports presented to the policy committees in January 2017.

19.6 Council tax for the £4.95 increase and the other options requested by the Financial Policy Panel are shown in the table below.

Increase:	0%	1.98%	£4.95 Recommendation
Council Tax	£182.07	£185.67	187.02
Increase per annum	£0	£3.60	£4.95
Increase per week	0p	7p	10p
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

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

20 Consultation with Non-Domestic Ratepayers

20.1 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 2017/18 budget will be identified at the meeting.

21 Collection Fund

21.1 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.

21.2 Where a deficit or surplus in the 2016/17 Collection Fund is estimated in respect of Council Tax items, the amount is to be apportioned in 2017/18 between authorities that precept on the collection fund in accordance with the ratio of their 2016/17 precepts.

21.3 The calculation of the estimated position on the Council's 2016/17 Collection Fund in respect of Council Tax items is detailed at **Appendix 14**.

21.4 A surplus of £100,580 is forecast for this Council and will be credited to the General Fund Revenue Account for 2017/18.

21.5 The business rates retention scheme was introduced under the 2012 Local Government Finance Act and requires the allocation of estimated surpluses and deficits for 2016/17 in 2017/18. A deficit of £110,647 is forecast for this Council and will be charged to the General Fund Revenue Account for 2017/18. The calculation is shown in **Appendix 14**.

22 Precepts

22.1 Precepts have been issued by Surrey County Council and Surrey Police Authority upon Epsom and Ewell Borough Council, as the billing authority.

22.2 A schedule of precept dates has been agreed with the precepting authorities, details of which are attached at **Appendix 12**.

23 Council Tax Recommendation

23.1 The budget target included an increase of £4.95 per annum on a band d equivalent property in Council Tax.

23.2 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 a £4.95 increase per annum in council tax (band D equivalent), which represents an increase of 2.72%.

23.3 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 2017/18	£	£
Budget Requirement		7,644,974
Revenue Support Grant	0	
Transitional Grant	82,624	
Non Domestic Rates retained	1,237,674	
Small Business Rate Relief Grant	289,507	
External Support:		(1,609,805)
Sub-Total		6,035,169
Add: Collection Fund Deficit (business rates)		110,647
Less: Collection Fund Surplus (council tax)		(100,580)
Council Tax Requirement		6,045,236

23.4 Precepts have been recommended as follows:-

Awaiting confirmation	£	%
Surrey County Council	43,041,036	76
Surrey Police	7,259,003	13
Epsom and Ewell Borough Council	6,045,236	11
Total	56,345,275	

23.5 In accordance with Regulation 3 of the local authorities (Calculation of Tax Base) Regulations 2012, the Council calculated the amount of 32,324.01 as its Council Tax base for the year 2017/18. This represents the number of Band D equivalent properties.

23.6 The requirements which are to be placed upon the Collection Fund, translated into a Council Tax for each property band are detailed at **Appendix 14**. This covers options of 0%, 1.98% and £4.95 per annum (Band D equivalent).

23.7 Based on the recommendation in this report, the change in the council tax levy per Band D equivalent dwelling, when compared to 2016/17 would be as follows:-

Recommendations	2016/17	2017/18	Variation	
	£	£	£	%
Surrey County Council	1,268.28	1,331.55	63.27	4.99
Surrey Police Authority	220.19	224.57	4.38	1.99
Epsom & Ewell Borough Council	182.07	187.02	4.95	2.72
Total	1,670.54	1,743.14	72.60	4.35

24 Robustness of the Estimates

24.1 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.

24.2 The Director of Finance and Resources as 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.

24.3 The policy committees have received detailed estimates of revenue and capital expenditures for 2017/18 and have also received assessments on the main financial risks.

24.4 It is the Director of Finance and Resources' 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.

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

24.6 The Director of Finance and Resources considers that the budget proposals for 2017/18 are robust and sustainable.

- 24.7 The updated financial forecast (**Appendix 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 at least £2.2 million by 2019/20. Given the withdrawal of grant funding from central government in 2017/18, and the uncertainty over business rate retention forecasts, the Council will need to update the financial forecast and review its spending plans as part of the 2018/19 budget review process.
- 24.8 The major challenge in the Financial Plan over the next three years is the delivery of the £1.8 million of savings already identified and finding a further £400,000 reduction in the Council's net expenditure by 2020.

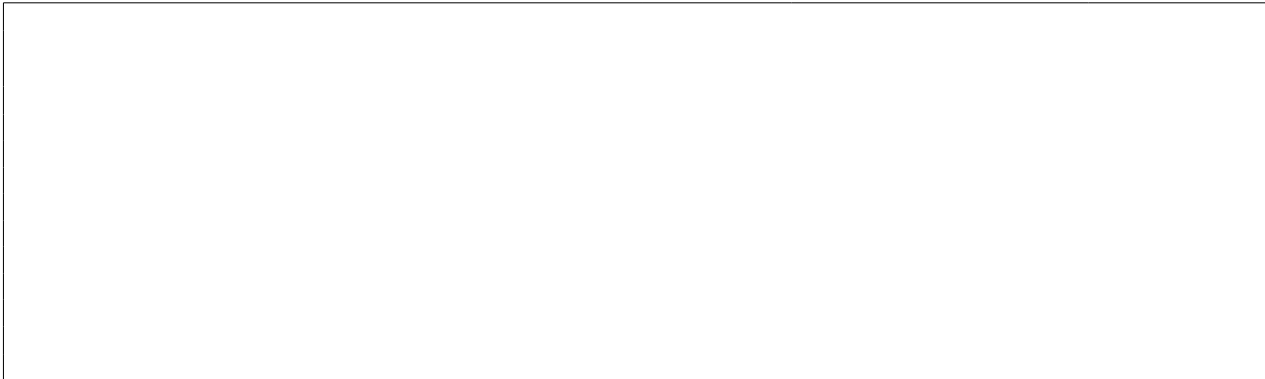
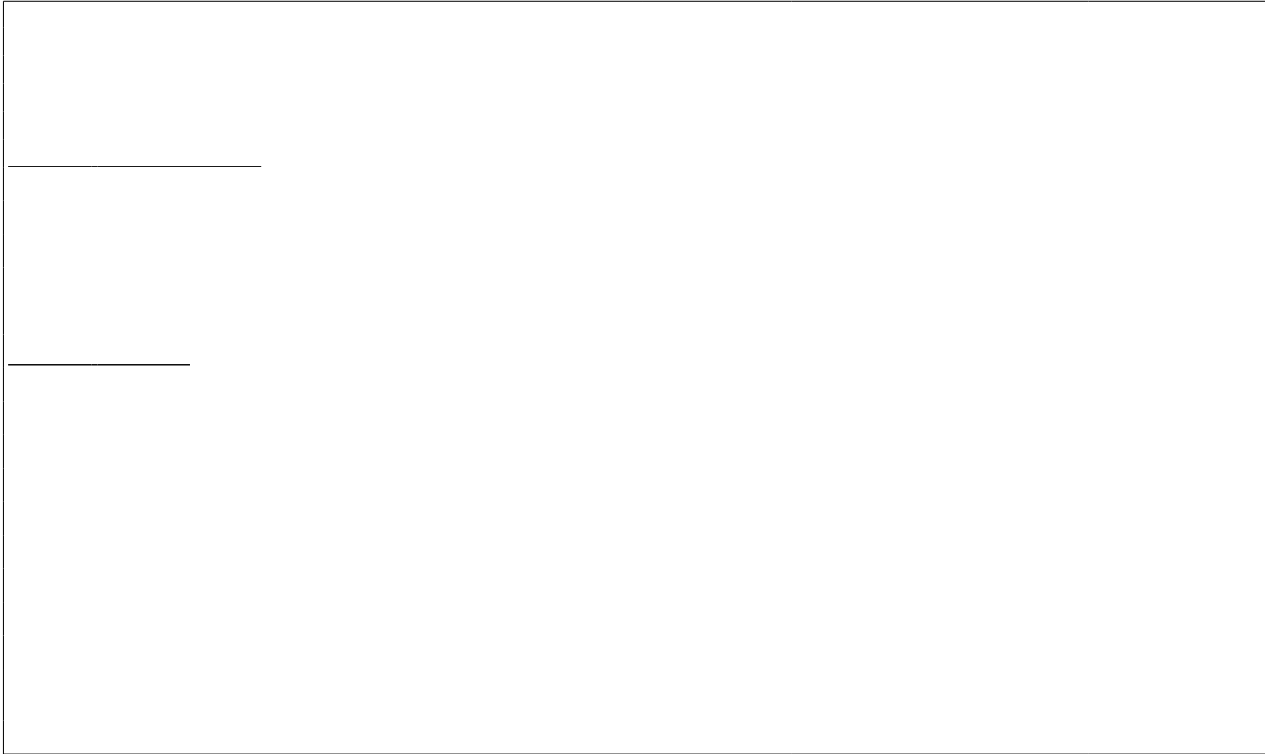
25 Conclusions

- 25.1 Last year the Council reviewed its financial position and agreed a new four year financial plan. This provided an estimate of the resources available for services compared to the cost of those services over the next four years.
- 25.2 The priorities in the Corporate Plan will guide the allocation of resources through service plans and annual service targets.
- 25.3 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 for 2017/18.
- 25.4 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.
- 25.5 The settlement removes RSG funding for this Council and from 2017/18 and the Council will only receive funding through either its share of retained business rates and new homes bonus. However, Government announced as part of the provisional settlement, changes to the award of New Homes Bonus grant, the changes result in a significant reduction in the allocation of funding for this Council, with this Council losing out on £700,000 grant for 2017/18 with further reductions anticipated in the future.
- 25.6 There is still a risk to the Council's finances that the Government could still reduce New Homes Bonus grant and our share of business rates that we can retain and therefore increase the funding gap to achieve a balanced budget for these years.
- 25.7 It remains a priority to review identified savings included within the updated Four Year Cost Reduction Plan totalling £2,707,000 and where feasible expedite the delivery of any of the savings in to 2017/18.

- 25.8 The Council has been able to prepare a balanced budget through a range of changes to services, increases to income and an increased use of new homes bonus. Revenue reserves are sufficient to manage further variations in income and expenditure.
- 25.9 The major challenge for this Council is the delivery of the £1.8 million of savings identified in the Cost Reduction Plan over the next 3 years (2017/18 to 2019/20) and whether of any of these can be brought forward to match the cuts in Government funding and the need to identify further savings of around £400,000 by 2019/20.
- 25.10 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.
- 25.11 The main financial risks identified for next year's budget are set out in **Appendix 6** to this report.
- 25.12 The draft budget is based on a £4.95 annual increase (Band D equivalent) in council tax with options of 0% and 1.98%. The proposed budget will still require cost reduction but the increase would help to maintain the resources needed for service delivery in the medium term.
- 25.13 The Council will maintain its council tax policy under any of the option presented with the tax being below the Surrey average.

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REVENUE BUDGET 2016/17 - RISK ASSESSMENT

STRATEGY & RESOURCES COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Reducing projected net expenditure	All	High	Fail to deliver reducing projected expenditure by £3.3 million over 4 years by March 2020. Further efficiencies to be identified in 17/18	Delivery of the MTFS and the Efficiency Plan Reduce organisational costs by £556,000	Delivery of the MTFS delivering further efficiency savings and cost reductions	L1
External Funding	0 (RSG) 1.5 (New Homes Bonus)	Medium	Diminishing government grants reduced in year.	Not all New Homes Bonus committed in year Retain a minimum £1 million of New Homes Bonus to mitigate any further losses in grant funding	Delivery of the MTFS delivering further efficiency savings and cost reductions	L1

STRATEGY & RESOURCES COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Failure to control Salaries Costs	11.4	High	<p>Not achieving 2% vacancy margin.</p> <p>Additional costs of agency/temporary staffing.</p> <p>Service or project pressures.</p>	To deliver an agreed Organisational Development Strategy to drive culture, change, build capacity and improve performance	To deliver an agreed Organisational Development Strategy	L2&L3
Increasing potential prudential borrowing	80	High	<p>Over borrowing at incorrect rates</p> <p>Investment with poor returns</p> <p>Cost of borrowing increases</p>	<p>Borrowing to invest decisions</p> <p>Robust business cases</p> <p>Agree governance arrangements and robust reporting</p> <p>Borrow through the PWLB</p>	Delivery of the MTFS delivering further efficiency savings and cost reductions	L8

STRATEGY & RESOURCES COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Increasing net revenue streams	1.2	High	Failure to achieve the required rental returns from newly acquired commercial property investments funded by borrowing	To establish a working group to evaluate the options for establishing one or more companies to acquire, hold and trade in property and ensure governance arrangements are in place.	Delivery of the MTFS delivering further efficiency savings and cost reductions	L2
Maintain secure investment of reserves and cash balance through the Treasury Management: Strategy	0.2	Low	Generate a sound return on cash Safeguard capital sums invested	Annual review of Treasury Management Strategy Use of external fund manager in accordance with treasury management policy Interest equalisation reserve Monthly review of fund performance	Delivery of the MTFS delivering further efficiency savings and cost reductions	L1

STRATEGY & RESOURCES COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Maintain secure investment of reserves and cash balance through the Treasury Management: Strategy				Review of market risks using treasury management advisers		
Effect of Welfare Changes	1.8	High	<p>Increased demand for benefit payments due to welfare changes</p> <p>Adverse impact on recovery of housing benefit overpayments due to transfer to Universal Credit</p> <p>Homelessness number are decreasing but have a high impact on costs</p>	<p>Monthly monitoring of benefit performance indicators</p> <p>Quarterly monitoring of subsidy position</p> <p>Increasing bad debt provision for claimant arrears</p> <p>Continue to implement projects to reduce homelessness costs</p>	Delivery of the MTFS delivering further efficiency savings and cost reductions	n/a

STRATEGY & RESOURCES COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Pension funds	28.1 (Deficit as at 31 March 2017)	Med	The deficit is not addressed over the next 20 years	Pension fund deficit payments are at £818k for the next three years until 2019/20	Delivery of the MTFS delivering further efficiency savings and cost reductions	n/a
Asset Management	0.6 (exp) 1.3 (inc)	High	Operational property is not fit for purpose. No increase in the income generated from commercial property. Optimisation of property for service to residents Insufficient reserves to fund major works to council assets	Asset Management Plan Property maintenance and prioritised repairs programme Monitor tenant requirements and rent levels Reviewing the Planned Maintenance Programme and Prioritised Backlog Maintenance Programme with a need to fund works from revenue and not capital	Maximising returns from properties Increasing returns on investment properties by £50k	L8

STRATEGY & RESOURCES COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Retained Business Rates	1.4	High	Valuation Officer appeals backlog Increase in Business Rates Reliefs Collection Rate Increase in tariff payable to Central Government	Prudent forecasting of rates collectable and impact of valuation appeals New monitoring and reporting arrangements Business Rates Equalisation Reserve	At least 99% of business rates to be collected	n/a
Land Charges	0.2	Med	Economy impacting on local land charge income Legal restrictions on local land charges Transfer of land charges to Central Government	Annual review of charges Monthly monitoring of income Monitor and respond to government proposals / regulation Management of claims	n/a	n/a

STRATEGY & RESOURCES COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Housing Benefit Subsidy	22.1	Med	<p>Reduced recovery rate on benefits paid out</p> <p>Increased demand for benefit payments due to recession</p> <p>Staff retention/ recruitment</p> <p>Welfare benefit changes</p> <p>Move to Universal Credit</p>	<p>Additional staffing resources from Corporate Project Reserve</p> <p>Monthly monitoring of benefit performance indicators</p> <p>Quarterly monitoring of subsidy position</p> <p>Recruitment and retention programme</p> <p>Increasing bad debt provision for claimant arrears</p>	<p>Processing of new benefit claims in 22 days and change in circumstances in 11 days</p>	n/a
Council Tax Income	5.6 (EEBC element)	Med	<p>Collection rates due to economy & changes to council tax benefits</p> <p>Cash flow</p>	<p>Billing & recovery arrangements designed to support collection targets, additional resource for local council tax support scheme</p>	<p>98.40% of Council Tax collected</p>	n/a

STRATEGY & RESOURCES COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Council Tax Income				Collection performance reported to Directors monthly. Collection Fund separately managed on behalf of precept authorities (SCC & SP)		
Failure to obtain best value in purchasing goods and services	9.0	High	Poor value for money in goods and services purchased and contracts.	New guidelines and procedures for project management, procurement and contract management. All Key Projects to be monitored by Leadership Team Introduction of e-tendering	Reviewed by Leadership Team	L2

ENVIRONMENT COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Off Street Parking Income	3.8	Med to High	Income from off streetcar parks is exposed to adverse weather and economic conditions that can have significant effect on Outturn.	Monthly monitoring and work analysing individual car park performance against target.	n/a	n/a
Domestic and Trade Waste Collection	1.7	Med to High	Income from waste recycling fees is exposed to changes in market prices and is therefore susceptible to sudden changes.	Monthly monitoring of income against target. Officers negotiate, where possible, to fix the prices and optimise income	Introducing a premium weekly waste and recycling service as standard for all residents and encouraging more household waste. collection	L7
Highways	0.1	Low	Possible reductions of partner contributions due to budget cuts	Review of expenditure relating to highways agency spend to ensure full costs funded by SCC.	n/a	n/a

ENVIRONMENT COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Building Control	0.3	Med - Low	<p>Changes to economy further impacting on planning and building control income</p> <p>Private competition on Building Control Service has impacted adversely in recent years with the market is difficult to predict</p>	<p>Annual review of charges</p> <p>Monthly monitoring of income</p> <p>A review of building control is being undertaken to consider options for future provision of the service</p>	n/a	n/a
Place Development	0.4	Med-Low	<p>Single large applications can impact significantly on income. New fees and charges so volume based on estimate</p>	<p>Monthly monitoring including work analysing income against target.</p>	<p>Supporting developers to bring forward the development of town centre sites</p>	L9

COMMUNITY AND WELL BEING						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Homelessness	£1.48	Med	Increase in number of households requiring temporary accommodation	Proactive case management to prevent households becoming homeless where possible and to minimise time spent in temporary accommodation	Provide 6 additional units of temporary accommodation At least five households accommodated through the private sector leasing scheme by March 2017 Have no more than 60 households in temporary accommodation Housing allocation policy to be fully implemented	L10

COMMUNITY AND WELL BEING						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Homelessness	£0.5	Med	Reduced rental income following benefit changes and introduction of Universal Credit	Frequent monitoring of rent account to identify arrears promptly. Early identification of households likely to be affected by changes	As above	L10
Venues Income	0.99	Med	Not reaching budgeted level of letting income from venue	Promotion of venue hire. Close monitoring of lettings and income.	Membership of the Epsom Centre to increase to at least 120 members	L1

STATEMENT ON THE ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

1. Introduction

The Council has a legal duty to produce a balanced budget and must take all reasonable factors into account when doing so. Under the Local Government Act 2003 section 25(1) (b), the Section 151 Officer (Director of Finance and Resources) has a personal duty to advise the Council about the **robustness of the budget** and the **adequacy of the Council's reserves** when it considers its budget and council tax. The Act requires Members to have regard to this report in making their decisions.

To assist Chief Finance Officers in compiling these statements, CIPFA wrote to all Chief Finance Officers on 21 December 2011 providing further details of their responsibilities in respect of the budget setting process and in particular the statement on the robustness of the estimates and adequacy of reserves. This statement addresses the requirements as set out in the letter and Members should consider the content of this report carefully.

2. Robustness of the estimates

Robustness of the estimates is concerned with scrutinising detailed elements of the budget, weighing up all factors and taking a balanced view of the risks. Depending upon the level of assessed risk within the proposed budget, the Chief Finance Officer is expected to give consideration to the Council's contingency plans should savings not materialise. This report attempts to set out the risks associated with their achievement and the implications and contingency plans if the savings are not delivered as planned.

In terms of the robustness of the estimates presented for 2017/18, the following observations are made:

Preparation of the 2017/18 budget began last year with the development and approval of the new Four Year Medium Term Financial Strategy and Efficiency Plan. Income generating opportunities or revenue savings agreed as part of the MTFS for 2017/18 are included within next year's budget after assessing whether they are achievable, deliverable and acceptable. The Policy Committees in October 2016 considered savings or income generating items included within the Efficiency Plan, scheduled to be delivered in 2017/18. The 2017/18 budget incorporates £642,000 of savings identified from the Efficiency Plan.

The process for determining the 2017/18 budget has again required the majority of budgets to be cash limited. Contractual price rises and utility price increases have been incorporated but all non-pay budgets have been cash limited. The 2017/18 pay

award proposed by the Joint Staff Consultative Committee was agreed by Strategy and Resources Committee in January 2017 and a 1.5% pay award has been incorporated within the estimates for 2017/18.

The Council lost its debt free status this year when it was agreed to acquire commercial properties funded by 50 year PWLB loans. The benefits to this Council of these investment decisions has resulted in General Fund Services benefitting by £172,000 of net income. With any investment there are risks, the benefit from acquiring these properties remain as long as they are tenanted, paying full rent and being properly maintained.

When acquiring new properties careful consideration must be given to the impact on Council finances if the rental income from these properties cease. Each potential property acquisition needs to be assessed to its viability with clear alternative options for the property if the current tenants withdraw. The Council is transferring a proportion of the rental income from these newly acquired properties into a reserve to mitigate potential risks relating to losses income and or liabilities for any maintenance costs.

Maintenance of our buildings is also an increasing pressure which needs to be addressed and whilst increased provision has been made within the 2017/18 General Fund Revenue Budget the ten year maintenance programme currently being developed needs to be finalised and incorporated into future projections. With earmarked reserves having been utilised, uncommitted capital receipts at the minimum level and pressure on revenue funding, the opportunity to fund on-going maintenance is limited. A similar replacement programme for the Council's plant, vehicles and equipment also needs to be developed over the next twelve months and appropriate funding allocated.

No budget is without risk as even the most carefully set plans are subject to ever changing demands and unforeseen circumstances. A full risk assessment for the General Fund Revenue Budget is contained in Appendix 6. Throughout the budget setting process advice has been provided at various times concerning the estimates made and their underlying assumptions and risks. For example, the advice of the Council's treasury management advisers has been used in determining the interest received and payable on investment. Estimates have also taken account of the financial implications of the Council's Capital Programme and the level of financing required to meet the expenditure demanded. The Capital Programme for 2017/18 is fully funded as presented to Members and does not rely upon the realisation of further capital receipts.

Stringent budget monitoring will continue to be undertaken, with particular emphasis being placed on the achievement of income estimates, salary estimates and high-risk

expenditure items. Prompt response to in-year projected deficits will continue to be expected from Members and Senior Officers.

Both the understanding of the Council's financial position and the commitment to ensure delivery of budgets continue to develop across all service areas enabling the Council to be more effective in its financial planning. Members receive quarterly monitoring reports and the Chairmen of the Policy Committees receive a monthly update on financial issues facing the Council. All budget managers receive monitoring reports for their particular area. The financial monitoring system covers both revenue and capital expenditure. Ongoing training is being provided together with specific training events.

As with any budget there are uncertainties to plan for and manage and this remains the case even at this stage.

The 2017/18 budget continues to be affected by changes to how Non Domestic Rates are calculated and distributed which the government introduced in 2013. The new system seeks to provide a greater reward for those authorities which encourage business growth but also means the local authority shares to a much greater extent the risks associated with any loss of businesses. In considering the implications of this, the Council has sought to ensure a prudent approach to assessing the likely impact and also in anticipating the ongoing effect of the macroeconomic picture. To assist with the potential volatility of this income stream, a Business Rates Equalisation Reserve has been created. There are arrangements in place to monitor the ongoing effect and any changes which may affect this funding stream.

Another element of uncertainty relates to income. In terms of other income, these estimates are made looking at past levels of income achieved as well as trends throughout a year. Variances can increase income as well and often these positive variances cancel out the negative variances. However, there is still a real risk where significant levels of income are forecast. The fees and charges levied by the Council have been subject to a detailed review. Significant income budgets are subject to the same degree of rigorous monitoring as other budgets and any variations are reported through the monitoring processes in place. For 2017/18 the Council has taken the opportunity to adjust budgets where income received continually failed to meet the agreed budget. In addition where the Council is required to set fees and charges to ensure the full costs of the service are recovered it is important that the fees are regularly reviewed and prompt action is taken where either a deficit or surplus is projected.

With all Council's seeing a reduction in government funding, there is a risk that other organisations will look to reduce the funding given to Epsom and Ewell Council to provide services on their behalf or jointly.

To assist with mitigating the risks associated with budget preparation there is a contingency within the budget to allow for unforeseen events. Holding a central contingency pot means departmental sums are not required.

In regard to future years, the initial projections which will be refined over the coming months are as follows:

Financial Year	Annual Saving Required £'000	Cumulative Savings Required £'000
2018/2019	37	37
2019//2020	399	436

The above figures assumes an increase in Council Tax in 2017/18 of £4.95 (band d equivalent) and the same level of increase for 2018/19 and 2019/20, it also anticipates the achievement of the savings identified in Efficiency Plan which totals £1.8m over the next three years.

In conclusion, the 2017/18 General Fund estimates are considered to be robust on the basis that:

- a. Stringent budget monitoring, together with prompt responses to variances is actioned.
- b. Total net expenditure is maintained within approved budgets.
- c. Plans for generating additional income and reducing expenditure identified in the updated Financial Plan need to be developed for consideration during 2017/18. It is important that this is considered a high priority for this Council to ensure financial stability for future years.

3. Adequacy of Reserves

The requirement for financial reserves is acknowledged in statute (Local Government Finance Act 1992). There are also safeguards in place to prevent local authorities over-committing themselves financially. These include:

- The balanced budget requirement
- Chief Finance Officer's S114 powers
- The external auditor's responsibility to review and report on financial standing
- The prudential code for capital finance

The minimum prudent level of reserves that the Council should maintain is a matter of judgement. It is the Council's safety net – a contingency to cushion the impact of unexpected events or emergencies and a working balance to help cushion the impact

of uneven cash flows. Reserves can also be a means of building up funds, often referred to as earmarked reserves to meet known or predicted liabilities.

The consequences of not keeping a minimum prudent level of reserves can be serious. In the event of a major problem, or a series of events, the Council could be forced to cut spending during the year in a damaging and arbitrary way.

The level of reserves was reported to the Strategy and Resources Committee in June 2015, when the financial statements for 2014/15 were reported, and in September 2015, when the budget targets were agreed for 2016/17. A detailed review of the reserves was carried out by the Financial Policy Panel in September 2015. The minimum working balance in the Medium Term Financial Strategy stands at £2.5m to recognise the risk of using part of New Homes Bonus to finance General Fund services.

In the last few years, the government has increased local authority exposure to financial risk with the introduction of the Local Council Tax Support Scheme and localisation of business rates. The risk in part has been offset by reducing the collection rate for council tax, increasing the provision for bad debt, and by creating the business rate equalisation reserve. Having considered these risks, the conclusion is that minimum levels should remain as currently specified with the Medium Term Financial Strategy; namely

- General Reserve - £2.5 million
- Capital Receipts - £1 million
- Corporate Projects Reserve £1 million (New Homes Bonus)

The General Fund balance is anticipated to be £3.2 million at 31 March 2018. The projections assume no further withdrawals from the General Fund Balance.

The unallocated capital receipts are anticipated to be just under £1.3 million at 31 March 2020. The Council will need to give consideration to how future capital expenditure can be resourced either through borrowing or generating additional receipts.

The Council has other reserves ear-marked for specific purposes and these are detailed in Appendix 7.

With the Council acquiring commercial property to generate income to protect front line services, consideration has been given as to whether it would be appropriate to increase the minimum level of the General Fund Balance to recognise the Council's increased exposure to risk should the current tenants withdraw. Given that the Council is transferring a proportion of the rental income into a reserve to mitigate the potential risk relating to lost income and or liabilities for any maintenance costs, it has

not been deemed necessary. However this should be reviewed as the portfolio increases.

Having undertaken the review of reserves and given the economic and financial environment the Council is working within during 2017/18 it is believed that the Council is operating at an acceptable level of reserves.

Kathryn Beldon
Director of Finance & Resources



EPSOM AND EWELL BOROUGH COUNCIL

**CAPITAL STRATEGY STATEMENT
February 2017**

Capital Investment 2017/18 to 2019/20

1. Introduction

The Council's Capital Strategy provides a framework for asset planning and for decisions on capital investment – expenditure on larger projects or schemes which generally leads to improved corporate or community assets.

The Financial Policy Panel provides guidance on the level of investment that is consistent with the Council's Medium Term Financial Strategy. The programme will be reviewed annually so that an investment programme is maintained and investment options reassessed with specific reference to the Priorities in the Corporate Plan, the Community Strategy and the Asset Management Plan.

The development of the Capital Strategy and the Asset Management Plan assists the Council in major investment decisions. The Asset Management Plan was updated in February 2015 to reflect progress made on property and energy management.

The Council on the 21 November agreed a new strategy for Property Investment which included the creation of a Commercial Property Acquisition Fund with up to £20m financed from prudential borrowing. The approved additional capital expenditure for acquisition of investment properties within the Borough is intended to secure long term income streams for the Council. The approval of individual investments has been delegated to the Investment Property Group

Due to the current public sector funding environment the main capital programme 2017-2020 has been limited to the core capital programme which comprises mandatory and other prioritised expenditure, investment that can be funded from external funds and is classed as a high priority and 'Spend to Save' schemes that will provide future savings in future years.

2. Development of the Capital Strategy

Member and officer capital groups have been established to oversee the main capital programme and monitor capital schemes. The Capital Member Group is made up of Members nominated by the Financial Policy Panel, supported by the Head of Financial Services and attended by the Director of Finance & Resources as appropriate. The Officer Capital Management Group (OCMG) is chaired by the Head of Financial Services and comprises representatives of the main service, operational, procurement and policy areas.

Service and financial planning timetables are submitted to Financial Policy Panel annually. The Capital Strategy is presented to the Council for approval each year.

3. Main Capital Programme 2017-20

Based on the available capital resources and subject to external funding, including grants and developer contributions, and securing revenue savings, Council approved the following programme for 2017-20 in February 2017.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total £'000
LED Lighting Bourne Hall	21	0	0	21
Improvement Works (Depot Rd) & Pay Machines (Depot Rd & Upper High St) Car Parks	174	0	0	174
Waste Strategy containers (The Big Switch)	25	0	0	25
ICT programme of work	250	0	0	250
ICT Legal Case Management System	20	0	0	20
ICT Financial Management System Upgrade	0	67	0	67
Epsom Business Hub	0	30	0	30
Container and bin replacement	68	0	0	68
Ashley Centre Car Park-Upgrade levels 4a & 4b with deckshield waterproofing	0	184	0	184
Hope Lodge Car Park Extension	0	97	0	97
Disabled Facility Grants *	535	535	535	1,605
Rosebery Park Pond Refurbishment	110	0	0	110
St Mary's Church Wall repair	0	63	0	63
Alexander Recreation Ground - Tennis & Basketball Court Refurbishment	46	0	0	46
Total	1,249	976	535	2,760

* Subject to revenue funding being identified and/or additional external funding

In addition schemes may be added where:-

- there is a carry forward from 2016/17 with specific funding already allocated
- new schemes supported by a business case (self-financing), or
- they can be funded by additional external funding sources e.g. Section 106 agreements or specific grants

Funding for the approved programme is set out below.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total £'000
Capital Reserves and Receipts	622	441	0	1,063
Government Grants	535	535	535	1,605
Section 106 Contributions	46	0	0	46
Revenue Reserves	25	0	0	25
Capital Reserves for Spend to Save Schemes	21	0	0	21
Total	1,249	976	535	2,760

4. Use of Capital Reserves

The Council's financial position is reviewed annually following the closure of accounts and prior to service and financial planning for the following year. This includes a review of the projected capital receipts reserve position and other sources of funding for capital schemes.

The Council's Medium Term Financial Strategy targets a minimum balance of capital reserves of £1 million to be used as a contingency for unplanned capital commitments over the next four years. This minimum balance is subject to annual review and may be varied:-

- where capital receipts generated from sale of assets have an adverse impact on the revenue budget, e.g. loss of rental income, or
- for changes in revenue budget targets requiring differing levels of investment income
- where major developments or land disposals take place

Due to the low level of receipts from the disposal of property assets since 2009, the Capital Member Group has limited investment from reserves to high priority and spend-to-save schemes. The forecast of reserves at 31 March 2018 is £2.0 million. This assumes full delivery of the 2017/18 capital programme and no new capital receipts.

5. Capital Resources

Potential capital resources have been identified from

- capital reserves at the end of March 2018

- approved sales of property assets, subject to market recovery
- use of new homes bonus grant
- use of CIL
- external funding, including grants and commuted sums

The Council will use new receipts from developers for CIL to part finance Plan E and the potential Kiln Lane Link Road projects.

The Council needs to achieve additional receipts from sale of assets or other external funding if additional capital investments identified in future years are to proceed. The Council will review its property through the Asset Management Plan.

The Council seeks to maximise partnership funding in the delivery of its key priorities and will commit capital reserves to: -

- finance prioritised capital investment where funding is not available from other sources
- attract partnership funding and/or to achieve partnership objectives
- finance investment that is 'self-funding', for example investment that improves performance and reduces running costs or investment in the maintenance of service assets

The Council will seek to maximise effective investment from all potential funding sources. External sources of financing include monies received in negotiations on the Hospital Cluster site, Section 106 agreements, CIL, government grants for Disabled Facilities, partnership funding from other Local Authorities or Public and Voluntary organisations.

6. Criteria for Assessing Capital Programme Priorities

The following criteria have been used for appraising future capital investment options and reviewing the on-going capital programme. As a minimum all investment proposals must meet one of the following baseline criteria: -

- investment where there is a guarantee of the scheme being fully externally funded and is classed as a high priority
- investment required to meet Health and Safety or other new legislative requirements
- investment required to continue to deliver the services of the Council (e.g. minimum level of building maintenance)

- investment in 'Spend to Save' schemes that will generate cost savings or additional income generation, providing;
 - there is payback of the capital invested within 5 years (up to 7 years for energy reduction initiatives);
 - there is a low risk of not achieving return on investment
 - there is a clear definition of the cost/benefits of the scheme

Prior to schemes being assessed for approval, a detailed project appraisal must be completed and recommended by the appropriate policy committee. A standard capital appraisal form has been developed which requires details of the scheme (cost estimates, revenue impact, project management resources and expected timescales). It also requires an explanation of how the scheme fits within the baseline criteria. In recommending investment proposals policy committees must ensure they can fund any additional operational costs from within their revenue budget targets.

Where schemes are prioritised for inclusion in the capital programme prior to a detailed evaluation of revenue costs, commitments will not be made until estimates of operational costs have been evaluated and financing in the revenue budget identified. The Council will continue to develop a whole life costing approach to project appraisal.

Capital schemes funded wholly or in part from external sources e.g. Government Grants, Section 106 monies, CIL or other contributions are also subject to the same requirements in respect of meeting the baseline criteria and the completion of project appraisals recommended by the policy committee.

Schemes can be included within the capital programme subject to a detailed business case being submitted to the relevant service committee. These schemes can only progress once approval is granted for the project by the policy committee.

Separate criteria exist to evaluate proposed individual property acquisitions that are funded from the Property Acquisition Funds.

7. Timetable for Approval of Capital Programme

The timetable and process for approval of capital programme following annual review is as follows:-

- update on level of resources / reserves at end of previous year reported to Financial Policy Panel and Strategy and Resources Committee in June and July
- Members nominated onto the Capital Member Group by the Financial Policy Panel
- a forecast of resources reported to Financial Policy Panel and Strategy and Resources Committee in September

- budget targets agreed by the Council in September
- officers in consultation with directors submit new or updated draft summary capital bids to the Capital Member Group to review in September
- Capital Member Group meets in September to agree approach and use the Capital Strategy criteria to decide which of the summary bids should be progressed into full bids for review in November
- Officers submit full capital bids to the Officer Capital Management Group to validate and be prioritised in October
- Capital Member Group reviews all bids in November and prepares recommendations on funding to Financial Policy Panel in early December
- prioritisation of all investment proposals within the available resources advised by Financial Policy Panel in December
- detailed scheme proposals and project appraisals, including identification of how any revenue funding requirements could be met for each scheme, recommended by policy committees in January
- capital programme to be recommended by policy committees in January
- capital programme for the following year and the remaining years of the four year capital programme agreed by Council in February

Any approved capital scheme which has not been committed by the mid-year point of the year in which funding is agreed is subject to review by the Capital Member Group / Financial Policy Panel.

Any approved capital scheme where additional capital or revenue costs are identified prior to commencement of the scheme should be referred back to the relevant policy committee and, if additional funding is required, to Strategy and Resources Committee as soon as possible during the year.

Investment proposals funded wholly from external sources or relating to property acquisitions may be submitted for approval at any time during the year. The investment requirements and funding available from CIL, Section 106 and Hospital Cluster monies are reviewed annually in December by Financial Policy Panel.

8. Borrowing Strategy

In 2016/17 the Council agreed to borrow up to £20 million to fund the acquisition of commercial property that provide the Council with a long term rental income. The Council may decide to increase this level of borrowing if new investment opportunities arise.

The Council does not anticipate borrowing for capital projects other than the acquisition of investment properties and the Medium Term Financial Strategy requires that the Council maintains a minimum level of £1 million of capital reserves. However, during this period a borrowing strategy may need to be developed in preparation of the 2020-2024 Medium Term Financial Strategy. Subject to the levels of

new receipts generated, income generated from the new community infrastructure levy and uncommitted new homes bonus grant, there may be a need to borrow to finance part of the main capital programme.

9. Approach to PFI and Procurement

The majority of capital schemes fall below a level of investment normally relevant to PFI. PFI options will be actively considered on any major investment decisions of significant financial value e.g. projects with a cost over £5 million.

The Council has developed its Procurement Strategy. As part of this strategy a number of principles and guidelines have been developed to assist all managers including capital scheme budget holders in the purchase of goods and services. The main areas covered include review of procurement options, risk/benefit analysis, risk management, potential for partnership, cost and quality options and assessing the need for specialist skills.

10. Managing and Monitoring the Capital Programme

Detailed monitoring and performance review of the capital programme is the responsibility of the Officer Capital Management Group, overseen by Directors on a quarterly review basis and by the Capital Member Group during the annual review. The officer group sets performance and delivery targets for the year, reviews monitoring information and recommends action where appropriate for reporting to Directors, Members, the Financial Policy Panel and policy committees.

Financial monitoring reports are submitted to Members on a quarterly basis. This includes expenditure monitoring, uncommitted balances held on s106 funds and progress on capital receipts against income targets. Budget monitoring reports show the projected outturn and profiled spend for each scheme, highlighting significant variations and slippage and identifying recommended action. Summary reports are sent to all Members at the end of each quarter and recommended changes to the programme are submitted to committees during the year. Financial Policy Panel will consider major variances from revenue or capital programmes.

Detailed information on the delivery of individual schemes, including assessment of financial and delivery risks and profile of works and expenditure during the year, is agreed with budget holders. This will form the basis against which schemes are monitored during the year. For those schemes considered as most significant, a detailed timetable and milestones will be agreed by the relevant committee at the beginning of the financial year.

For major schemes the Council will employ external consultants to assist in project management.

The Council conducts post implementation reviews on certain capital projects, specifically where the scheme has a high cost or value or there has been a significant variation in cost or time to implement.

APPROVAL OF PRUDENTIAL INDICATORS AND AUTHORISED LIMITS FOR 2017/18

1. Introduction

The Local Government Act 2003 introduced a system of capital controls for Local Authorities, and came into effect from April 2004. The key principle of the system of controls is that local authorities have the freedom to borrow for capital investment purposes providing that they can demonstrate that borrowing is affordable, sustainable and prudent.

The previous system of credit approvals, Basic Credit Approvals (BCA) and Supplementary Credit Approvals (SCA), was abolished and there is no restriction on capital investment, subject to government reserving powers to restrict borrowing for national economic reasons. With the abolition of the BCA/SCA framework, capital investment is supported through supported capital expenditure (revenue) which is incorporated in the capital finance Formula Spending Share calculations in a similar way to that of credit approvals.

In addition the Act requires all local authorities to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code approved in September 2003 and updated in September 2004. The Code is a professional code that sets out a framework for self-regulation of capital spending. It sets out the approach that all authorities must take in undertaking integrated medium term revenue and capital budget planning and a set of indicators that must be considered and/or approved in order to demonstrate that annual capital investment and treasury management decisions are affordable, sustainable and prudent.

Members' involvement through the process is essential in order that the Council can demonstrate that capital expenditure plans are affordable, external borrowing is prudent and sustainable and that treasury decisions are taken in accordance with good practice. The structure and content of the budget report has been modified to comply with the requirements of the Code.

To facilitate the decision making process and support capital investment decisions the Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators. These indicators are mandatory, but can be supplemented with local indicators if this aids interpretation and many will cover three years forward. The indicators cover affordability, prudence, capital expenditure, external debt and treasury management. These indicators will also form the basis of in year monitoring and reporting.

The indicators are purely for internal use by the Council and are not to be used as comparators between councils, as any comparisons will be meaningless. In addition the indicators should not be taken individually; rather the benefit from monitoring will arise from following the movement in indicators over time and the year on year changes.

This Annexe provides a commentary on each Prudential Indicator relevant to the Council and sets out the indicators for approval as part of the Council's budget setting for 2017/18.

2. Affordability Prudential Indicators

Prudential indicators are required to assess the affordability of the capital investment plans. These indicators provide an indication of the impact of the capital investment plans on the overall Council finances.

Ratio of Financing Costs to Net Revenue Stream

This indicator has been calculated as debt interest, borrowing refinancing costs, minimum revenue provision and net of investment income and divided by the General Fund (GF) budget requirement for the GF element of costs.

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2016/17 Probable	2017/18 Estimate	2018/19 Estimate	2019/20 Estimate
General Fund	-1%	11%	11%	11%

Incremental Impact of Capital Investment Decisions on the Council Tax

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax levels. The incremental impact looks at the loss of interest which could be generated on the funds being used to finance the proposed capital programme.

Incremental Impact of Capital Investment Plans on Council Tax Band D	2016/17 Probable £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Proposed Capital Programme	24,274	1,249	976	535
Estimated Interest earned on short term investments	1.25%	1.50%	1.75%	2.00%
Estimated Tax Base	32,013	32,324	32,324	32,324
Incremental Impact on Band D Council Tax	£9.48	£0.58	£0.53	£0

(Note that the Council Tax base is still being assessed for 2017/18 onwards and therefore the 2016/17 base is used for this indicator – important to note that this indicator is for illustrative purposes as a worse-case scenario and does not actually mean an increase to Council Tax at that level for Epsom and Ewell Borough Council).

3. Capital Expenditure and the Capital Financing Requirement

The Prudential Code requires the calculation of the Council's Capital Financing Requirement (CFR). This figure represents the Council's underlying need to borrow for a capital purpose, and the change year on year will be influenced by the capital expenditure in each year and how it is financed. The expected movement in the CFR over the next

three years is dependent on the level of supported and unsupported capital expenditure decisions taken during the budgeting cycle.

The supported element of capital expenditure is that expenditure financed from existing reserves or capital receipts plus borrowing that is the supported capital expenditure under the previous capital controls regime. The unsupported element is the freedom allowed under the Prudential Code for capital expenditure financed from borrowing.

The Council's expectations for the CFR in the next three years are shown in the table below, with the associated expectation for funding for the movement. This forms one of the required prudential indicators. Included also is the related capital expenditure figures for each year, split between supported and unsupported spending, and the expected external debt for each year. Both these are also mandatory prudential indicators.

A key risk of the plan is that the level of government grant and other sources of funding have been estimated and are therefore subject to change.

The Council has been debt free since 1994. However on 21 November 2016, the Council granted approval for borrowing to finance a Commercial Property Acquisition Fund.

As a result, the CFR for the Council, which was previously nil, increases in 2016/17 to £20 million.

The Council is asked to approve the actual and estimated CFR and actual debt figures set out below.

	2015/16 Actual £'000	2016/17 Probable £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Capital Expenditure:					
Total Capital Expenditure	2,999	24,274	1,249	976	535
Capital Financing:					
Capital reserves	756	1,752	643	441	-
Capital grants	273	354	535	535	535
Other capital contributions	1,495	2,108	46	-	-
Revenue	475	60	25	-	-
Total Capital Financing	2,999	4,274	1,249	976	535
Capital Financing Requirement (CFR)	nil	20,000	20,000	20,000	20,000
Movements in CFR	nil	20,000	nil	nil	nil
External Debt:					
Borrowing	nil	20,000	nil	nil	nil
Other long term liabilities	nil	nil	nil	nil	nil
Total External Debt at 31 March	nil	20,000	20,000	20,000	20,000

4. External Debt

A key control over the Council's activity is to ensure that over the medium term net borrowing will only be for a capital purpose. The Council needs to ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of additional capital financing requirement for the years 2015/16 to 2018/19.

The table below sets out the actual and estimated levels of borrowing and investment up to 2019/20.

	2015/16 Actual £'000	2016/17 Probable £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
Gross Borrowing at 31 March	-	20,000	20,000	20,000	20,000
Investments at 31 March	(27,860)	(26,108)	(25,465)	(25,024)	(25,024)
Net Borrowing at 31 March	(27,860)	(6,108)	(5,465)	(5,024)	(5,024)
Capital Financing Requirement	-	20,000	20,000	20,000	20,000

The Director of Finance and Resources reports that the Council complied with the requirement to keep net borrowing below the relevant CFR in 2015/16 and no difficulties are envisaged for the current or future years. This view takes into account current commitments and plans in the budget report.

A further two Prudential Indicators control the overall level of borrowing. These are:

The Authorised Limit

This represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements.

The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the absolute maximum amount of debt that the Council can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The Operational Boundary

This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

In line with the Council's Financial Strategy and Capital Strategy which does not anticipate any borrowing over the four year period 2015-19 the operational boundary will be set at nil. An authorised limit has been set to take into account any potential short term borrowings which may arise during the year due to temporary cash flow shortfalls.

The Council is asked to approve the authorised and operational limits set out below.

	2015/16 Probable £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000	2019/20 Estimate £'000
<u>Authorised Limit for External Debt</u>					
Borrowing	5,000	25,000	25,000	25,000	25,000
Other long term liabilities	-	-	-	-	-
Total Authorised Limit for External Debt	5,000	25,000	25,000	25,000	25,000
<u>Operational Boundary for External Debt</u>					
Borrowing	-	20,000	20,000	20,000	20,000
Other long term liabilities	-	-	-	-	-
Total Operational Boundary for External Debt	-	20,000	20,000	20,000	20,000

5. Treasury Management Indicators

The purpose of the treasury management prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position. However if these are set to be too restrictive they will impair the opportunities to reduce costs or optimise investment income.

The treasury management service is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. It covers the borrowing and investment activities and the effective management of associated risks. Its activities are strictly regulated by statutory requirements and a professional code of practice, the CIPFA Code of Practice for Treasury Management in Local Authorities.

The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2011 Edition at its meeting on 13 April 2012 and Strategy and Resources Committee approved a revised treasury management policy statement and procedures in March 2015.

The treasury management policy requires an annual strategy to be reported to Strategy and Resources Committee outlining the expected treasury activity for the forthcoming year. In line with the CIPFA Code of Practice, two reports are produced, an interim and a final end of year report to provide information on actual activity for the year. In line with Department of Communities and Local Government (DCLG) guidance it is expected that an Investment Strategy will also be prepared for approval at the beginning of each year.

To reflect the setting up of a prudential borrowing funded £20 million Commercial Property Acquisition Fund, updated Prudential Indicators were approved by the 21 November Extraordinary Council. An updated Treasury Management Strategy will be presented to the March 2017 Strategy and Resources Committee

The introduction of the Prudential Code sees the replacement of the s45 limits imposed by the Local Government and Housing Act 1989, with four new prudential indicators:

Upper Limits on Fixed Rate Exposure

This indicator identifies a maximum limit for the Council's exposure to fixed interest rates for borrowing based upon the debt position net of investments.

Upper Limits on Variable Rate Exposure

This indicator identifies a maximum limit for the Council's exposure to variable interest rates for borrowing based upon the debt position net of investments.

Maturity Structures of Borrowing

This indicator sets out these gross limits on borrowing which are set to limit the Council's exposure to large fixed rate sums falling due for refinancing.

Total Principal Funds Invested for Periods Longer Than 364 Days

This indicator limits the amount of long term investments which can be sold in each year, to reduce the need for early sale of an investment.

Following the 21 November 2016 approval of £20 million prudential borrowing to fund a Commercial Property Acquisition Fund, the limit on fixed borrowing was set at £20 million. The limit will be increased to £80 million subject to approval of a further request to agree to an additional £60 million of borrowing to fund new property acquisitions. However, the limit on variable borrowing will remain nil. The limits on gross borrowing and investments at fixed and variable rates will be set as part of the Annual Treasury Management Strategy reported to Strategy and Resources in March.

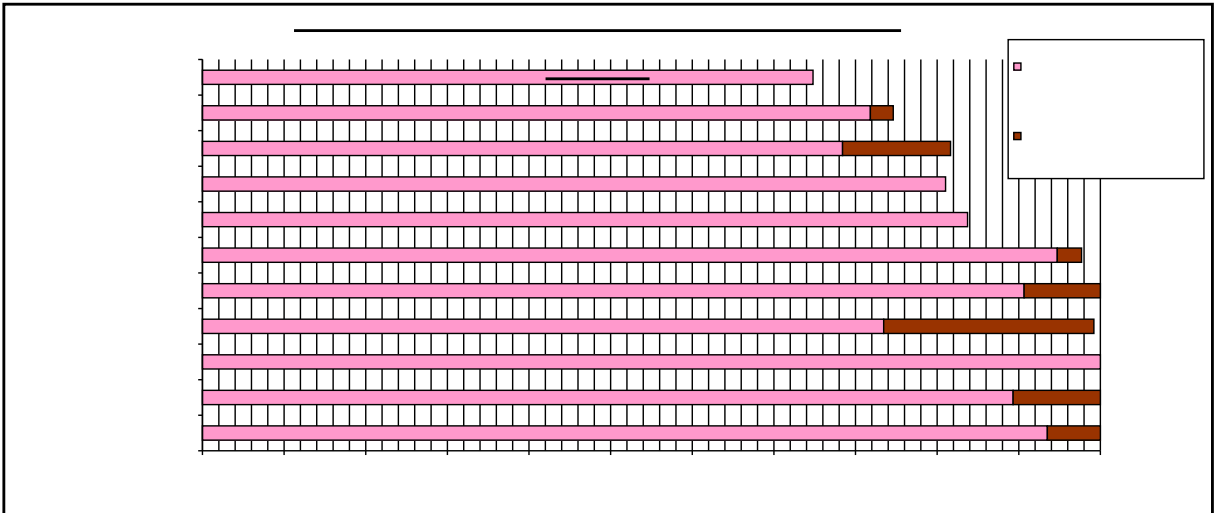
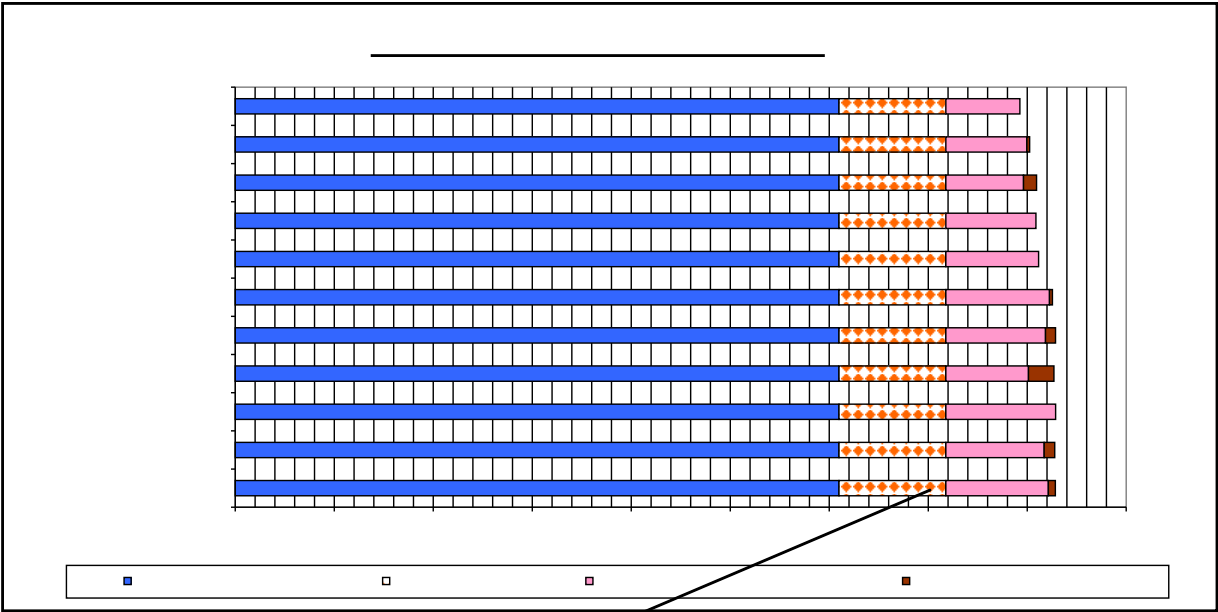
The November 2016 approved Property Investment Strategy anticipated borrowing, on a "case by case basis" from the PWLB, based on "Maturity repayment loans.

The limits on fund invested longer than 364 days is based on the forecast level of investments over the next three years.

The Council is asked to approve the treasury management prudential indicators set out below:-

	2016/17 Lower to Upper Limit £'000 or %	2017/18 Lower to Upper Limit £'000 or %	2018/19 Lower to Upper Limit £'000 or %	2019/20 Lower to Upper Limit £'000 or %
Limits on fixed interest rates borrowings	20,000	20,000	20,000	20,000
Limits on variable interest rates borrowings	-	-	-	-
<u>Maturity Structure of Fixed Borrowing</u>				
Under 12 months	-	-	-	-
12 months to 2 years	-	-	-	-
2 years to 5 years	-	-	-	-
5 years to 10 years	-	-	-	-
10 years and above	0 to 100%	0 to 100%	0 to 100%	0 to 100%
Maximum Principal Sums Invested	0 to 8,000	0 to 8,000	0 to 8,000	0 to 8,000

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