

# Public Document Pack

Simon Young, Solicitor  
Head of Legal and Democratic Services



**To: All Members of the Council**

Dear Councillor

## **COUNCIL - THURSDAY, 11TH FEBRUARY, 2016**

Please find attached the following report for the meeting of the Council to be held on Thursday, 11th February, 2016. This is an amended version of Item 04 of the Agenda circulated previously, following receipt of the Government's final financial settlement. Amendments to the original report and Annexes have been highlighted throughout it in **yellow highlight**.

5. **BUDGET REPORT 2016-17 - AMENDED 10 FEBRUARY 2016** (Pages 5 - 130)

For further information, please contact Tim Richardson, tel: 01372 732122 or email: [trichardson@epsom-ewell.gov.uk](mailto:trichardson@epsom-ewell.gov.uk).

Yours sincerely

A handwritten signature in black ink, appearing to read "S Young".

Head of Legal and Democratic Services

This page is intentionally left blank

**BUDGET AND COUNCIL TAX 2016/17**

<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):	<b>See List of Appendices at end of report</b>
<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 2016/17, 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 2.8% increase.**
- Financial Policy Panel made no recommendation to Council but requested that the report includes four options for Council Tax (a freeze, an increase of 1.52%, an increase of 1.98% and an increase of £4.95)
- The report also recommends the approval of the Financial Plan for 2016-20, including a new Medium Term Financial Strategy

**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 32,013.5 (Band 'D' equivalent properties) for the year 2016/17 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 2015/16 and the revenue estimates for 2016/17
  - b. The capital programme for 2016/17 and the provisional programme for 2017 to 2019, as summarised in the capital strategy statement.
3. That the fees and charges recommended by the policy committees be approved for 2016/17.
4. That the Council Tax Requirement for the Council's own purposes for 2016/17 is **£5,828,698**.
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 2016/17 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 2016/17 in accordance with sections 31 to 36 of the Act:
  - a. £56,512,986 being the aggregate of the amounts which the Council estimates for the items set out in section 31A(2) of the Act
  - b. **£50,684,288** being the aggregate of the amounts which the Council estimates for the items set out in section 31(A)3 of the Act
  - c. **£5,828,698** 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. **£182.07** 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	845.52	986.44	1,127.36	1,268.28	1,550.12	1,831.96	2,113.80	2,536.56

**SURREY POLICE AUTHORITY**

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	146.79	171.26	195.72	220.19	269.12	318.05	366.98	440.38

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 2016/17 for each of the categories of dwellings.

**EPSOM AND EWELL BOROUGH COUNCIL**

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	<b>121.38</b>	<b>141.61</b>	<b>161.84</b>	<b>182.07</b>	<b>222.53</b>	<b>262.99</b>	<b>303.45</b>	<b>364.14</b>

**AGGREGATE OF COUNCIL TAX REQUIREMENTS**

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	<b>1,113.69</b>	<b>1,299.31</b>	<b>1,484.92</b>	<b>1,670.54</b>	<b>2,041.77</b>	<b>2,413.00</b>	<b>2,784.23</b>	<b>3,341.08</b>

## 1 Introduction

- 1.1 The Council is required to agree a budget for 2016/17 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 2016/17 and future years as a basis for determining council tax.
- 1.5 The Financial Policy Panel on 2 February 2016 recommended that budget options based on a council tax increase of 0% (freeze), 1.52%, 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 meeting, which allowed district councils to increase council tax by up to £5 or 2% whichever provided the higher increase in income.
- 1.7 All options are consistent with the council tax policy of ensuring that council tax stays below the average of the Surrey Districts.

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

2.1 Strategy and Resources Committee agreed the following key service priority for 2015/16:-

- Progress Cost Reduction Programme and Prepare new Medium Term Financial Strategy and Four Year Financial Plan (2016-2020)

**3 Current Year Position**

3.1 The 'probable outturn' comprises a revised forecast for the current year ending 31 March 2016, 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 2015/16**

	Published Policy Book 2015/16	Mid-Year Forecast 2015/16	Variance
	<u>£000</u>	<u>£000</u>	<u>£000</u>
Strategy & Resources Committee	2,400	1,800	
Asset Rents (Landlord Account)	(2,736)	(2,736)	
Environment Committee	2,443	2,691	
Social Committee	2,392	2,838	
Leisure Committee	3,375	3,455	
<b>Total</b>	<b>7,874</b>	<b>8,048</b>	<b>+174</b>

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 saving as a result of DMA review

Adverse:

- Planning income

- Homelessness costs of temporary accommodation
  - Reduced income from fees received for recyclable materials
  - Reduction in income from PCN tickets issued for on and off street parking
- 3.3 The budget included a planned use of the working balance of £229,000 to finance services. For the purpose of preparing this budget report it has been assumed that the Council will use £403,000 of the working balance in 2015/16.
- 3.4 The working balance carried forward at 31 March 2015 was £3.3 million. Using the service income and expenditure position as recently reported to the policy committees, the forecast working balance for 31 March 2016 is £2.9 million.
- 3.5 The Quarter 3 Budget Monitoring Report indicates that further savings may be achieved by 31 March 2016 to improve the year end position.
- 3.6 Members will note that the Council planned to use £5,000 of the Interest Equalisation Reserve and £500,000 of New Homes Bonus to fund services in 2015/16 and this draw-down has still been assumed in the forecast position.
- 3.7 Variations from budget as identified during the year have been taken into account in preparing estimates for 2016/17. Areas of significant concern have also been reported to the relevant policy committee so that a plan of action can be agreed.

#### **4 Financial Plan 2016-2020**

- 4.1 Budget decisions should be taken in the context of longer term plans as set out in the Corporate and Financial Plans.
- 4.2 The draft Financial Plan 2016-2020 includes a new Medium Term Financial Strategy (MTFS). The Financial Plan is attached at Appendix 1 to this report.
- 4.3 The Financial Policy Panel has recommended approval of the plan and the new Medium Term Financial Strategy.
- 4.4 The plan provides a detailed analysis of the Council's current finances and projected financial outlook. To prevent duplication, reference is made in this report to the relevant section of the Financial Plan.



4.5 The Financial Plan also provides a summary of the economic environment and resource forecasts taking into account legislative and other changes after next year including:-

- Reductions in government core funding (RSG and Retained Business Rates)
- Loss of specific government grant for housing benefit admin
- Impact of latest benefit reforms
- Pension Fund valuation

## **5 Budget Strategy**

5.1 The 2016/17 revenue budget and the capital investment programme comprise the Council's spending plans for the forthcoming year.

5.2 The Budget Targets for 2016/17 were agreed at Strategy & Resources Committee on 29 September 2015 as follows:-

- Estimates are prepared including options to reduce organisational costs by £650,000 subject to government grant announcement, to minimise the use of working balances and maintain a minimum working balance of £2.5million in accordance with the Medium Term Financial Strategy.
- That at least £400,000 additional revenue is generated from an increase in discretionary fees and charges, based on an overall increase in yield of 6.0%.
- That a provision for pay award is made of £230,000 that represents a 1.5% increase.
- That further savings are identified for inclusion within the medium term financial strategy that will reduce the Council's net operating costs by a minimum of £1,644,000 over the period 2017/18 to 2019/20.
- 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.

5.3 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 2015: Review of reserves, local taxation level and budget targets (including efficiency savings, cost reduction plan, staffing and income levels):
- October 2015: treasury management:
- December 2015: capital programme, capital reserves, section 106 funds and an update on workstreams being undertaken to deliver savings:
- February 2016: business rate retention

## 6 2016/17 Revenue Budget

6.1 The draft Budget Book was issued to all Councillors in January and was available when the estimates were considered by the policy committees.

6.2 However, there are a few changes made to the budget since the production of the Budget Book and this is;

- A provision has been made in the budget of £180,000 for additional NI contributions, due to changes announced by Government to the level of NI payable for staff contracted out of the pension scheme.
- The final government funding settlement produced changes to the Council's funding position with the introduction of a new transitional grant for £93,000.
- The funding position in the budget book has also changed to represent the recommended £4.95 increase in council tax per annum (Band D equivalent property), this has increased funding from council tax income from £5,783,000 to £5,829,000.
- To retain a balanced budget for next year and accommodate the above increases in expenditure the use of New Homes for 2016/17 has been increased to £634,000

6.3 The following papers have been made available in the Members' Room:-

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

6.4 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 2](#) to this report.

6.5 The main year-on-year changes in the cost of service provision are detailed in [Appendix 3](#) to this report.

- 6.6 The comparison to the 2015/16 published budget is also shown in the table below at committee total level:-

**POLICY COMMITTEE BUDGETS 2016/17**

	2015/16 Published Budget	2016/17 Recommended Budget	Variance
	£000	£000	£000
Strategy & Resources Committee	2,400	2,348	
Asset Rents (Landlord Account)	(2,736)	(2,879)	
Environment Committee	2,443	1,821	
Social Committee	2,392	2,731	
Leisure Committee	3,375	3,706	
<b>Total</b>	<b>7,874</b>	<b>7,727</b>	<b>- 147</b>
External Funding (council tax, revenue support grant, retained business rates)	(7,645)	(7,727)	82
<b>Shortfall of income to cover planned expenditure &amp; required use of Working Balance</b>	<b>229</b>	<b>0</b>	<b>- 229</b>

Staff Budget

- 6.7 A total of £11.5 million of staff costs, staff on-costs and agency costs have been included in the policy committee estimates compared to £11.4 million in 2015/16. This will form the salary control total for budget monitoring purposes, subject to adjustments needed where service changes are agreed by the Council.
- 6.8 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.
- 6.9 The Strategy and Resources Committee agreed a 1.5% pay award for April 2016.
- 6.10 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.

- 6.11 The staffing budget incorporates an additional £180,000 to cover the cost of an increase in national insurance contributions payable due to changes to the state pension.

#### Pensions

- 6.12 Following the 2013 pension fund valuation there is no increase to the level of employer's pension on-cost. An extra provision of £133,000 has been made for deficit funding in 2016/17. The next valuation will be based on the Surrey Pension Fund position at 31 March 2016.

### **7 Fees and Charges**

- 7.1 Each policy committee has received a report on fees and charges for 2016/17. Income from the recommended charges has been included in the committee estimates.
- 7.2 A summary of the additional income from increases in discretionary charges included in the budgets recommended by the Committees, totalling £752,000 is attached at Appendix 4.

### **8 Economic Indicators**

- 8.1 The latest Treasury economic indicators (December 2015) are shown at Appendix 5.
- 8.2 An economic outlook is contained in Section 6 of the Financial Plan 2016-2020 (Appendix 1).

### **9 Equalities Implications**

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

### **10 Risk Management**

- 10.1 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.
- 10.2 The highest service financial risks remain the demands for housing and homelessness prevention

- 10.3 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 2016/17 is deemed to be medium.
- 10.4 A higher risk remains with the financial outlook due to the state of the UK public finances, which require further government public spending cuts and the impact of new welfare reforms.
- 10.5 The Government's announcement of a four year settlement provides a clearer picture of the levels of core funding for this Council until 2020. However, there remains doubts over the levels of funding the Council will receive from New Homes Bonus and 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.

## **11 Revenue Budget Overview 2016/17**

- 11.1 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.
- 11.2 The budget requirement comprises gross expenditure on services, less gross income from services, less the planned use of revenue reserves.
- 11.1 The Budget Requirement in 2015/16 was £7,645,000. The budget requirement for 2016/17 is calculated as follows:-

<b>Net Expenditure on Services</b>	<b>£000</b>	<b>External Finance</b>	<b>£000</b>
Gross Expenditure	49,084	Revenue Support Grant	417
		Transitional Grant	93
		Retained Business Rate Income	1,216
Gross Income	- 41,357	Localism Relief Grant	219
		Collection Fund Deficit (business rates)	-121
		Collection Fund Surplus (council tax)	74
Net Expenditure	7,727	External Finance	1,898
T/F from Working Balance	0	Council Tax Income	5,829
Budget Requirement	7,727	Income from grant and Council Tax	7,727

- 11.2 The increase in the Budget Requirement (net spending) is 0.1%.

11.3 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.

11.4 The Council Tax Requirement for 2016/17 is **£5,828,698** subject to any budget changes made at the Council meeting.

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

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

**12 Local Government Finance Settlement**

12.1 The following table shows the spending assessment figures announced for 2016/17.

<b>GOVERNMENT FUNDING</b>	<b>2015/16 Actual</b>	<b>2016/17 Final Settlement</b>
	<i>£000</i>	<i>£000</i>
Formula Grant Funding (Revenue Support Grant)	1,006	417
Business Rates Baseline Funding	1,289	1,300
<b>Transitional Grant</b>	<b>0</b>	<b>93</b>
<b>Government Settlement Funding Assessment</b>	<b>2,295</b>	<b>1,810</b> <b>(- £485k, - 21%)</b>

12.2 The government's funding assessment was reduced by £485,000 or 21% in 2016/17. The Government also produced a provisional settlement for 2017/18 to 2019/20 which further reduced the Council's core funding settlement.

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £000	2019/20 £000
<b>Final Settlement</b>					
Revenue Support Grant	1,006	417	0	0	0
Retained Business Rates - Baseline	1,289	1,300	1,324	1,364	1,407
<b>Government Baseline Funding</b>	<b>2,295</b>	<b>1,717</b>	<b>1,324</b>	<b>1,364</b>	<b>1,407</b>
Transitional Grant	0	93	83	0	0
Tariff Adjustment	0	0	0	0	-624
<b>Government Settlement Total</b>	<b>2,295</b>	<b>1,810</b>	<b>1,407</b>	<b>1,364</b>	<b>783</b>

12.3 The new four year settlement introduced a new element called 'tariff adjustment', there had been no prior warning that government intended to implement this change prior to the funding announcement in December. Although removed in the final settlement for 2017/18 and 2018/19, it remains unchanged for 2019/20 and has the effect of being a negative grant and reduces the amount business rates retained in 2019/20 by this Council.

12.4 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 next four years of £1.5 million or 65%.

### 13 Spending Power and New Homes Bonus

13.1 In the headline funding announcements the Chancellor refers to changes in council 'spending power'. The components of the spending power calculation include council tax, settlement funding assessment figures for revenue support grant and retained business rates and New Homes Bonus. Because this Council is currently benefiting from additional allocations of New Homes Bonus this reduces the impact of central government funding assessment losses.

13.2 It is emphasised that for this to convert to additional money for service delivery the Council would have to accept the risks of increasing use of New Homes Bonus to fund services.

13.3 The following table shows the actual level of New Homes Bonus grant awarded in the first six years of the scheme.

**NEW HOMES BONUS GRANT**

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

- 13.4 Under the New Homes Bonus protocol, £500,000 of this grant has been allocated to help fund services in 2016/17. As there currently is a deficit on the general fund as a result of the reduction in grant settlement and an increase in national insurance payments, it is proposed that the use of New Homes Bonus is increased to £634,000 and the balance of £1,482,000 will be made available for capital investment or corporate projects.
- 13.5 To manage the risk of a change in, or the end of, this specific grant it is proposed that a minimum level of £1 million of New Homes Bonus funding is retained within the Corporate Projects Reserve.
- 13.6 The 2016/17 budget has been prepared on the basis that £634,000 is credited to the General Fund and £1,482,000 is transferred for corporate projects / capital funding.
- 13.7 Government has announced that New Homes Bonus funding will continue however, it will be subject to reform following consultation that ends on 10 March 2016. The level of funding available is expected to be reduced significantly by the reforms to this grant but the current method of grant allocation will remain for 2016/17.
- 13.8 To manage the risk of a change in, or the end of, this specific grant it is proposed 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 2016/17 government settlement includes £1,810,000 for this Council as a 'settlement funding assessment' comprising £417,000 Revenue Support Grant, £1,300,000 Business Rates Baseline funding and £93,000 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:

	<b>Gov't Baseline 2015/16</b>	<b>EEBC Budget 2015/16 (NDR1)</b>	<b>EEBC Latest Forecast 2015/16</b>	<b>EEBC Budget 2016/17 (NDR1 )</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
Rates Collectable	23,697	23,101	23,057	24,025	
Less: payable to central government	-11,848	-11,551	-11,528	-12,013	50%
Less: payable to SCC	-2,370	-2,310	-2,306	-2,402	20% of local share
NDR Baseline	9,479	9,240	9,223	9,610	Rates kept before tariff
Less 'Tariff'	-8,190	-8,190	-8,190	-8,258	Tariff set by govt to go to 'top-up authorities'
Retained Business Rates	1,289	1,050	1,033	1,352	

	<b>Gov't Baseline 2015/16</b>	<b>EEBC Budget 2015/16 (NDR1)</b>	<b>EEBC Latest Forecast 2015/16</b>	<b>EEBC Budget 2016/17 (NDR1 )</b>	
Less: loss of 50% of underlying growth		-85	-80	-136	
<b>Est. of Retained Business Rates</b>	<b>1,289</b>	<b>965</b>	<b>953</b>	<b>1,216</b>	
Add back: Small Business Rate Relief Grant		213	217	219	Separate grant funding for extension of SBRR
Add Back: Localism Relief Grant		196	200	0	Separate grant funding for reliefs
<b>EEBC Income including relief grants</b>	<b>1,289</b>	<b>1,374</b>	<b>1,370</b>	<b>1,435</b>	

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:-

<b>Business Rate Equalisation Reserve Forecast</b>	<b>£000</b>
<b>Balance 31 March 2015</b>	<b>729</b>
Planned use to partially offset 2015/16 Deficit	-400
<b>Forecast balance 31 March 2016</b>	<b>329</b>
Planned use to offset Deficit (2014/15 deficit £103k & 2015/16 deficit £18k)	-121
<b>Forecast balance 31 March 2017</b>	<b>208</b>

- 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 2016/17 is £1,202,000 compared to the budget forecast of £1,435,000 (including section 31 business relief grants) providing a worst case loss of business rates compared to the budget of £233,000 next year.

**15 Reserves**

- 15.1 The reserves as contained in the audited financial statements at 31 March 2015 may be summarised as follows:-

	<b>Balance 31 March 2014 £000</b>	<b>Balance 31 March 2015 £000</b>	
Capital Receipt Reserves	4,714	4,082	Receipts from the sale of assets earmarked for capital programme commitments and invested under the Treasury Management policy. Includes £584k earmarked Hospital Cluster Receipt.
Earmarked Strategic Reserves	6,922	6,342	Provisions for future expenditure or against identified liabilities
Working Balance	3,417	3,333	General Fund working balance

- 15.2 A review of revenue and capital reserves and provisions was reported to the Financial Policy Panel in September 2015.
- 15.3 The policies for the reserves are contained in Section 3 of the Financial Plan 2016-2020 (Appendix 1).
- 15.4 The levels of revenue reserves are set out in Appendix 7.
- 15.5 The following estimate is made of the Council's capital receipt reserves.

	<b>Capital Reserves</b> <i>£'000</i>
<b>Balance brought forward at 1 April 2015 *</b>	<b>3,498</b>
Allowance for Receipts in Year	+ 1,264
Estimated use to fund 2015/16 capital expenditure	- 1,921
<b>Estimated Balance at 31 March 2016</b>	<b>2,841</b>
Planned use for 2016/17 programme	-
Allowance for Receipts in Year	695
Allowance for Receipts in Year	0
Note: excludes allowance for programme slippage	
<b>Estimated Balance at 31 March 2017</b>	<b>2,146</b>

*\* Excludes £584,000 earmarked for Horton Chapel / Hospital Cluster*

15.6 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](#).

15.7 The Financial Policy Panel gave careful consideration to the Council's level of capital and revenue reserves in September 2015.

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

- No use of the General Fund Working Balance to fund services
- £695,000 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 is taken from Section 5 of the Financial Plan 2016-2020:-

	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</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	9,651	8,702	8,684	8,939
Pay & Prices Increases		+ 360	+ 360	+ 360
Contingency for Service Changes and Pressures		+ 334	+ 528	+ 257
Increases in Fees & Charges		- 200	- 200	- 210
Star Chamber / Service Savings	- 949	- 512	- 433	- 381
<b>Forecast Net Cost of Services</b>	<b>8,702</b>	<b>8,684</b>	<b>8,939</b>	<b>8,965</b>
Interest on Balances	- 220	- 220	- 220	- 220
Use of Business Rate Equalisation Reserve	- 121			
Use of New Homes Bonus	- 634	- 500	- 500	- 500
<i>Funding Shortfall</i>	0	- 383	- 485	- 895
Transfer from Working Balance	0	0	0	0
<b>Forecast Net Expenditure</b>	<b>7,727</b>	<b>7,581</b>	<b>7,734</b>	<b>7,350</b>
Formula Grant Forecast	417	0	0	0
<b>Transitional Grant</b>	<b>93</b>	<b>83</b>	<b>0</b>	<b>0</b>
Business Rates Forecast	1,435	1,464	1,493	1,523
Tariff Adjustment	0	0	0	- 625
Council Tax Income Forecast	5,829	6,034	6,241	6,452
Collection Fund Surplus / (Deficit)	- 47	0	0	0
<b>Collection Fund Income</b>	<b>7,727</b>	<b>7,581</b>	<b>7,734</b>	<b>7,350</b>

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 (£634,000 in 2016/17).
- Council tax charges have been increased by 2% and other charges at by 3% per annum
- Savings have been identified of £2,274,000 over the next four years as part of the budget process such as through service reviews and 'star chamber' exercise.
- Further savings of around £900,000 will need to be found between 2017 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 £3 million in savings and if the Council wishes to reduce reliance on New Homes Bonus this figure rises to above £3.5 million over the next four 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 the next four years.

## **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 2015.
- 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 2016-2019.
- 17.4 A capital investment programme of £1,031,000 is recommended for 2016/17 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: £695,000
- 17.6 Use of central government grant: £286,000
- 17.7 Use of revenue reserves: £50,000
- 17.8 Schemes will also be carried forward from the 2015/16 programme where not completed by 31 March 2016.

**18 Prudential Indicators and Authorised Limits for 2016/17**

- 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 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 in 2016/17.
- 18.3 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 2.79% 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 Policy Book 2016/17 and the estimate reports presented to the policy committees in January 2016.
- 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.

<b>Increase:</b>	<b>0%</b>	<b>1. 52%</b>	<b>1.98%</b>	<b>£4.95</b> <b>Recommendation</b>
Council Tax	£177.12	£179.82	£180.63	<b>182.07</b>
Increase per annum	£0	£2.70	£3.51	<b>£4.95</b>
Increase per week	0p	5p	7p	<b>10p</b>
Income Generated 2016/17	£0	£86,000	£112,000	<b>£158,000</b>
Adjustment needed to Draft Budget Book	£112,000 adverse	£26,000 adverse	0	<b>£46,000 favourable</b>
Income Generated Future Years Council Tax Base	0	£86,000	£112,000	<b>£158,000</b>

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 2016/17 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 2015/16 Collection Fund is estimated in respect of Council Tax items, the amount is to be apportioned in 2016/17 between authorities that precept on the collection fund in accordance with the ratio of their 2015/16 precepts.

21.3 The calculation of the estimated position on the Council's 2015/16 Collection Fund in respect of Council Tax items is detailed at Appendix 14.

21.4 A surplus of £74,193 is forecast for this Council and will be credited to the General Fund Revenue Account for 2016/17.



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 2015/16 in 2016/17. A deficit of £121,123 is forecast for this Council and will be charged to the General Fund Revenue Account for 2016/17. The calculation is shown in Appendix 15.

## 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 16.

## 23 Council Tax Recommendation

23.1 The budget target included a 2% increase 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 2.79%.

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:-

<b>Council Tax Requirement 2015/16</b>	<b>£</b>	<b>£</b>
Budget Requirement		7,726,517
Revenue Support Grant	416,850	
Transitional Grant	92,965	
Non Domestic Rates retained	1,216,123	
Localism Relief Grant	218,811	
External Support:		(1,944,749)
Sub-Total		5,781,768
Add: Collection Fund Deficit (business rates)		121,123
Less: Collection Fund Surplus (council tax)		(74,193)
Council Tax Requirement		5,828,698

23.4 Precepts have been recommended as follows:-

<b>Awaiting confirmation</b>	<b>£</b>	<b>%</b>
Surrey County Council	40,602,082	76
Surrey Police	7,049,053	13
Epsom and Ewell Borough Council	<b>5,828,698</b>	11
<b>Total</b>	<b>53,479,833</b>	

23.5 In accordance with Regulation 3 of the local authorities (Calculation of Tax Base) Regulations 2012, the Council calculated the amount of 32,013.5 as its Council Tax base for the year 2016/17. 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 16. This covers options of 0%, 1.52% and 1.98%, £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 2015/16 would be as follows:-

<b>Recommendations</b>	<b>2015/16</b>	<b>2016/17</b>	<b>Variation</b>	
			<b>£</b>	<b>%</b>
Surrey County Council	1,219.68	1,268.28	48.60	3.98
Surrey Police Authority	215.89	220.19	4.30	1.99
Epsom & Ewell Borough Council	177.12	<b>182.07</b>	<b>4.95</b>	<b>2.79</b>
<b>Total</b>	<b>1,612.69</b>	<b>1,670.54</b>	<b>57.85</b>	<b>3.59</b>

## **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 2014/15 financial statements in good time, with an unqualified audit opinion
- The revenue and capital budget monitoring arrangements are effective for the purpose and all Members receive quarterly monitoring reports

- The Financial Policy Panel receives regular reports on financial and risk management, asset management and procurement issues and has been well placed to provide effective advice on the medium term financial strategy, the capital strategy and on financial planning leading to the preparation of the detailed service estimates.
- The policy committees have received detailed estimates of revenue and capital expenditures for 2015/16 and have also received assessments on the main financial risks.

24.1 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.

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

24.1 The Director of Finance and Resources considers that the budget proposals for 2016/17 are robust and sustainable.

24.2 The medium term forecasts identify 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 £3 million, or over £3.5 million should New Homes Bonus be withdrawn or significantly reduced** between 2016 and 2020. 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 2017/18 budget review process.

24.3 The major challenge in the Financial Plan is the delivery of the £2.3 million of savings already identified and finding a further **£900,000** reduction in the Council's net expenditure by 2020.

## **25 Conclusions**

25.1 The Council has reviewed its financial position and prepared a new four year financial plan. This provides a best 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 2016/17.

- 25.4 Central Government core funding has been cut by 21% for 2016/17 and an anticipated 65% by 2019/20. The level of cuts are more severe than originally expected and will require a significant cut in net cost of services for the Council to be able to deliver a sustainable balanced budget.
- 25.5 The provisional settlement removes RSG funding for this Council from 2017/18 and the Council will only receive funding through either its share of retained business rates or new homes bonus. However, there is still a risk to the Council's finances that the Government could still reduce our share of business rates that we can retain and therefore increase the funding gap to achieve a balanced budget for these years.
- 25.6 It will be made a priority to review identified savings included within £2,274,000 and expedite the delivery of any of the savings in to 2016/17 where achievable. In addition a number of workstreams have been agreed and work on these will commence early in the New Year. If additional savings can be delivered in 2016/17 these savings will be used to reduce the drawdown from New Homes Bonus.
- 25.7 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.
- 25.8 The major challenge in the Financial Plan is the delivery of the £2.3 million of savings, 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 £900,000 by 2019/20.
- 25.9 Budget and Council Tax decisions for 2016/17 should be consistent with the draft Medium Term Financial Strategy and the Financial Plan for 2016 – 2020.
- 25.10 The main financial risks are identified in Section 16 of the Financial Plan 2016-2020. Service plans will need to include strategies to manage identified risks. The development of a new cost reduction plan will be crucial to managing financial risks and achieving further budget savings.
- 25.11 The draft budget is based on a £4.95 annual increase (Band D equivalent) in council tax with options of 0%, 1.52% 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.
- 25.12 The Council will maintain its council tax policy under any of the option presented with the tax being below the Surrey average.

**WARD(S) AFFECTED: N/A**

**BUDGET AND COUNCIL TAX REPORT 2016/17**

**LIST OF APPENDICES**

Appendix 1	Medium Term Financial Strategy 2016 to 2020
Appendix 2	Policy Committee Budgets 2016/17
Appendix 3	Main Changes to Service Budgets for 2016/17
Appendix 4	Income from increases to discretionary Fees and Charges
Appendix 5	HM Treasury Economic Indicators
Appendix 6	Risk Assessment
Appendix 7	Reserves (Revenue and Capital)
Appendix 8	Director Of Finance & Resources' Statement on Robustness of Estimates and Adequacy of Reserves
Appendix 9	Financial Forecast 2016 – 2020
Appendix 10	Capital Strategy Statement
Appendix 11	Prudential Indicators & Authorised Limits
Appendix 12	Surrey District Council Tax levels 2015/16
Appendix 13	Council Tax Calculation 2016/17
Appendix 14	Council Tax Collection Fund
Appendix 15	Business Rate Collection Fund
Appendix 16	Council Tax Precepts 2016/17 (options) <b>(TO FOLLOW)</b>

This page is intentionally left blank

## **EPSOM AND EWELL BOROUGH COUNCIL**

---

### **FINANCIAL PLAN 2016 - 2020**

---

**CONTENTS**

CONTENTS.....2

Section 1: MEDIUM TERM FINANCIAL STRATEGY .....3

Section 2: CORPORATE PLAN: MANAGING RESOURCES .....6

Section 3: THE COUNCIL’S FINANCIAL STANDING.....7

Section 4: THE STARTING POINT ..... 12

Section 5: FOUR YEAR BUDGET FORECAST.....13

Section 6: ECONOMIC OUTLOOK .....16

Section 7: RESOURCES ..... 18

Section 8: GOVERNMENT FUNDING / BUSINESS RATE RETENTION...20

Section 9: COUNCIL TAX.....24

Section 10: INCOME FROM FEES, CHARGES, RENT & INTEREST .....26

Section 11: COST ANALYSIS .....27

Section 12: CONTINGENCIES FOR SERVICE CHANGES .....28

Section 13: COST REDUCTION .....31

Section 14: CAPITAL INVESTMENT .....33

Section 15: RESERVES FORECAST.....35

Section 16: RISK MANAGEMENT .....36

Section 17: ANNUAL REVIEW AND SUPPORTING INFORMATION .....38



## Section 1: MEDIUM TERM FINANCIAL STRATEGY

### Introduction

- 1.1 The Council's previous medium term financial strategy was prepared at the start of 2012 towards the end of the downturn in the global economy and the recession in the UK. Since the strategy was approved we have had to significantly increase our expenditure forecasts to reflect increased demand for housing support and cuts in central government funding. The Council has responded by reducing its operating costs and reconfiguring its services and charges.
- 1.2 The welfare changes are providing a major challenge for local government. As a District Council we are particularly vulnerable as we have to manage increased demands for services such as housing support and welfare benefits. Since 2012 this Council has seen an increase in its net cost of dealing with homelessness rise by £650,000 to just over £1 million in 2015/16.
- 1.3 In September 2015 the independent Auditor stated that the Council has a strong track record of budgetary and financial control and this will be challenged over the next four years with proposed significant reductions in Government funding and the impact of welfare reforms on Council's expenditure.

### Public Sector Funding

- 1.4 This Government is committed to reducing the national deficit through cuts to public spending. The Council's core funding from Revenue Support Grant and retained local business rates has already been reduced by £800,000 since 2013/14 and based on the 4 year **final** settlement recently announced by Government this expected to be reduced further by £1.5 million over the next four years.

### Looking Forward

- 1.5 Following the local elections in May 2015 the Council is in the process of agreeing new corporate priorities and preparing a new Corporate Plan for 2016-2020.
- 1.6 The Council's previous Corporate Plan had specific objectives for 'Managing Resources', a similar objective is expected in the new Plan including a target for reducing projected net expenditure by **£3.1** million by 31 March 2020.
- 1.7 This is a challenging environment, with further substantial cuts in government funding recently announced. To meet this challenge a financial planning framework is essential:-
  - Residents will want to know council tax and service plans and understand the reasons for those plans;
  - In making decisions Councillors need to be clear that budget forecasts are based on reasonable resource forecasts,

- Service changes need to be planned and implemented carefully with appropriate lead times;
  - Charging decisions should be made against a backdrop of the likely financial position in future years;
  - Areas of higher financial risk need to be identified to see how best those risks can be managed
- 1.8 During the corporate review process Councillors have reconfirmed their commitment to keep council tax below the Surrey average over the next four years. This, along with public sector funding cuts, will mean that services will need to be provided at lower cost with a review of lower priority services.
- 1.9 The Council must retain a prudent level of reserves, this has become even more critical with the withdrawal of Central Government funding. Reserves enable the Council to manage the changes to services that will be required to deliver the level of savings required over the next four years to achieve a balanced budget.
- 1.10 The Financial Plan 2016-2020 provides a framework for spending plans over this period.

### **Key Components of the Medium Term Financial Strategy**

- 1.11 The Council's Medium Term Financial Strategy sets out the approach that the Council has agreed to manage its finances.
- 1.12 The Council will pursue the following objectives:-

#### **Council Tax**

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

#### **Budget Position and Revenue Reserves**

- 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 the Council's finances

#### **Income**

- Increase income from fees and charges by 6% in 2016/17 and 3% per annum thereafter
- Maintain clear charging policies for each service
- Manage risks to central government funding and business rate retention

- Maintain high collection rates for council tax and business rates
- Make prudent investment of reserves and cash balances
- Generate increased income from the external use of Council assets
- Optimise the use of Council assets, realise capital receipts from sale of surplus assets
- Identify new opportunities for generating income

### **Investment in Services**

- Use Annual Service Targets to allocate resources to deliver the Council's Priorities
- Prioritise capital investment to ensure retained property is fit for purpose
- Maximise the use of external funding opportunities to deliver improvements to the community infrastructure, including affordable housing
- Deliver the four year capital programme of £2.5 m
- Maintain a minimum uncommitted level of capital reserves of £1 million at 31 March 2020

### **Efficiency**

- Review services to ensure they continue to provide value for money
- Achieve a reduction in operating costs through smarter working
- Reduce the subsidy of Council occupied properties
- Increase the efficiency and resilience of the organisation through investment in staff and technology
- Deliver savings so as to improve the forecast budget position by a minimum of £3.1 million by 2019/20.

**Section 2: CORPORATE PLAN: MANAGING RESOURCES**

- 1.1 The Council is in the progress of agreeing its new Corporate Plan which sets out the national and local context in which the Council delivers services and provides community leadership.
- 1.2 The Council will prepare service plans and agree annual service targets to deliver its corporate priorities.
- 1.3 The following strategies provide more analysis on how the Council will manage resources allocated for the delivery of Borough services:-

<b>Supporting Strategies &amp; Plans</b>	<b>Objectives</b>
<b>Financial Plan / Medium Term Financial Strategy</b>	<ul style="list-style-type: none"> <li>• Maintain sound Council finances.</li> <li>• Allocate Resources to Council priorities.</li> <li>• Measure financial performance.</li> </ul>
<b>Asset Management Plan</b>	<ul style="list-style-type: none"> <li>• Ensure that operational property is fit for purpose.</li> <li>• Optimise use of operational property for services to residents.</li> <li>• Increase income generated from commercial property.</li> </ul>
<b>Capital Strategy</b>	<ul style="list-style-type: none"> <li>• Effective investment of capital resources (reserves and external funding) for the benefit of the community.</li> <li>• Generate savings or income from spend to save projects.</li> </ul>
<b>Procurement Strategy</b>	<ul style="list-style-type: none"> <li>• Secure best value in purchasing goods and services.</li> <li>• Realise financial and performance gains from high value procurement.</li> </ul>
<b>Team Strategy</b>	<ul style="list-style-type: none"> <li>• Investment in skilled workforce to maintain high levels of productivity and performance.</li> </ul>
<b>ICT Strategy</b>	<ul style="list-style-type: none"> <li>• Design and implement Information and Communications Technology to increase the effectiveness and efficiency of Councils operations and increase public access.</li> </ul>
<b>Treasury Management Strategy</b>	<ul style="list-style-type: none"> <li>• Maintain secure investment of reserves and cash balances.</li> <li>• Generate a return on cash investments.</li> </ul>

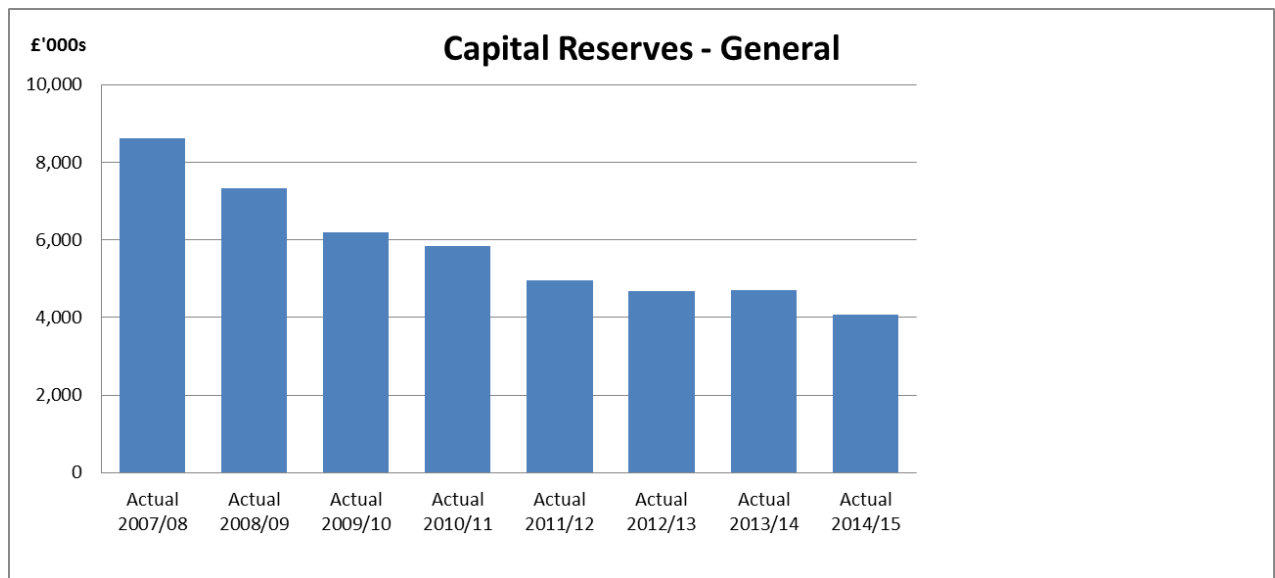
-

**Section 3: THE COUNCIL'S FINANCIAL STANDING**

- 1.4 The Council finances services from income received during the year. Any shortfalls need to be financed from reserves and any surpluses can be used to strengthen reserves. The Council aims to achieve a balanced budget although it the financial strategy should be flexible to allow a planned use of reserves where this is prudent and sensible.
- 1.5 Under local authority accounting rules expenditure on the delivery of services is charged to the General Fund Revenue Account.
- 1.6 Investment in community assets and Council infrastructure is charged to the General Fund Capital Account.
- 1.7 The level of Council reserves is a key measure of the Council's financial standing and its ability to manage future liabilities and commitments.

**Capital Account**

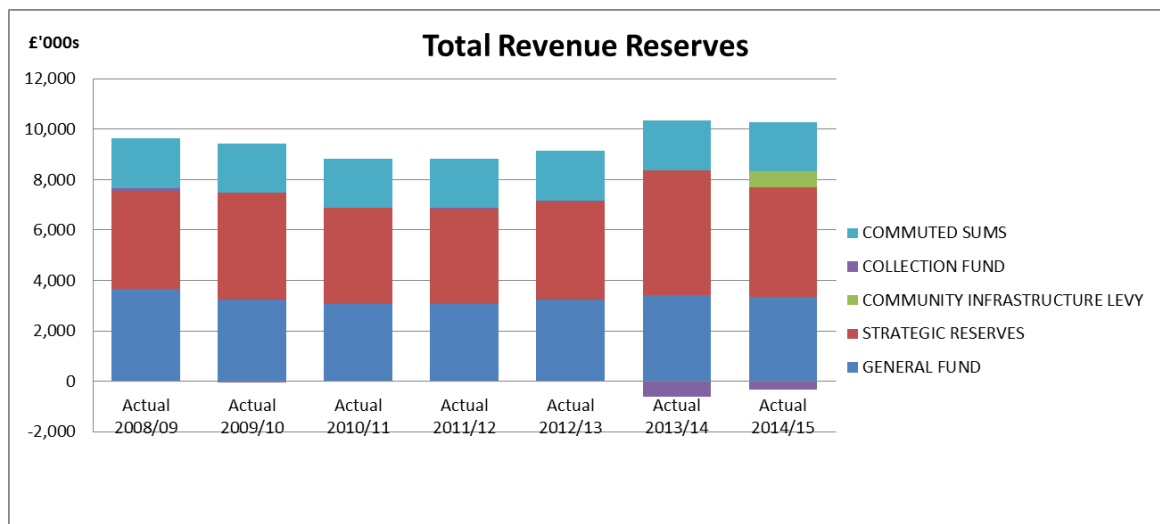
- 1.8 The following tables trace the level of capital reserves since March 2008.



- 1.9 Although the Council's remains debt free there has been significant pressure on capital reserves since 2008. The Council anticipates that it can remain debt free during the next four years. However, the Council will need to consider borrowing options to finance additional capital spending plans during this period, unless there is a major development or sale of property.
- 1.10 The Council has not generated enough new capital receipts through the sale of property and land over the past three years to fund the capital programme. It has, however, increased its capacity to finance affordable housing schemes through the generation of planning gain receipts. These Section 106 funds will be used to fund housing and other infrastructure schemes during the four year cycle. Additional funds may be available from Community Infrastructure Levy and New Homes Bonus.

**Revenue Account**

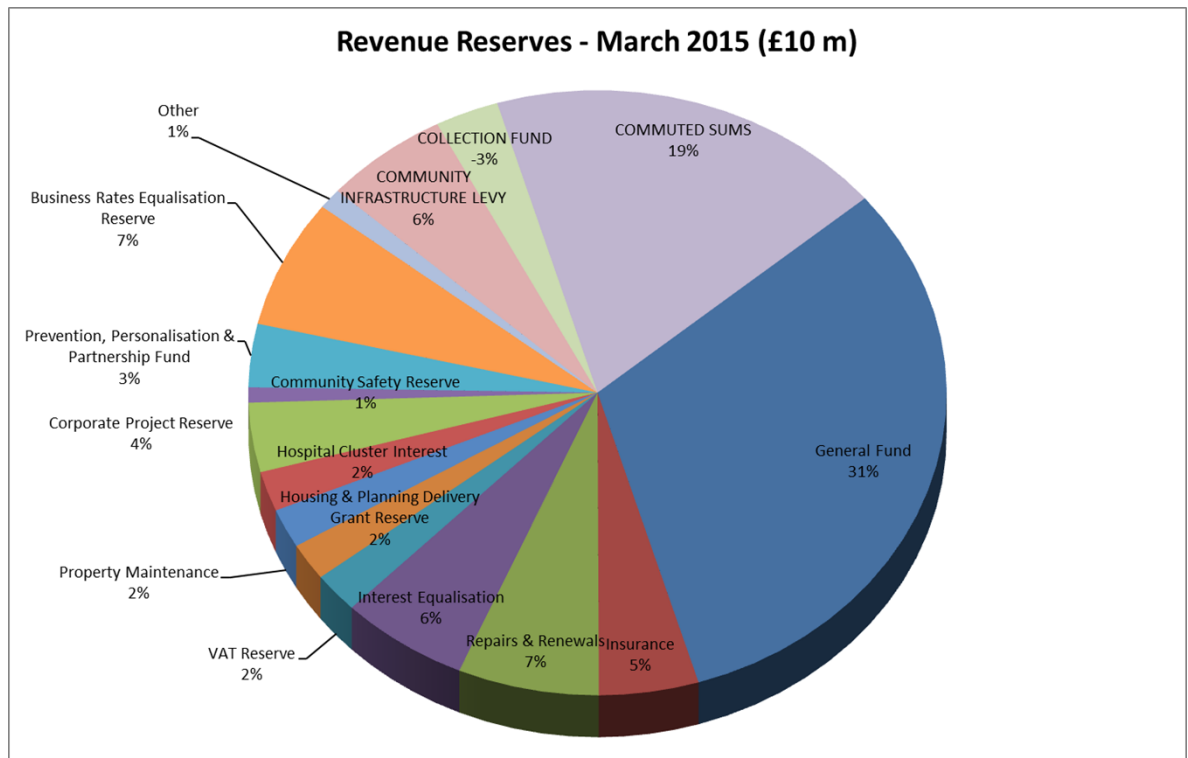
- 1.11 The following tables trace the level of revenue reserves since March 2009.



	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
General Fund	3,655	3,254	3,070	3,058	3,230	3,417	3,333
Strategic Reserves	3,894	4,225	3,802	3,802	3,902	4,956	4,379
CIL	0	0	0	0	0	0	612
Collection Fund	126	-7	4	7	48	-625	-404
Commuted Sums	1,965	1,965	1,965	1,965	1,965	1,965	1,965

1.12 The Council has been able to maintain strength in its strategic revenue reserves despite using the working balance to help maintain service levels when required.

1.13 The following Chart identifies each revenue reserve.



1.14 The Council reviews its financial reserves annually to:-

- manage financial and service risks
- assist medium term planning and decision making
- help finance services to residents
- provide greater certainty over future investment



## 1.15 The following reserves and provisions were held at March 2015:-

<b>Purpose of Reserve</b>	
<b>CAPITAL</b>	
CAPITAL RECEIPTS - general	Funds raised by the past sale of Council property assets. Used to fund capital programme where external funding not available. Unspent balance invested and interest generated used to help finance the General Fund Revenue Account provision of services.
CAPITAL RECEIPTS - hospital cluster	Transferred sums to fund development of hospital cluster site.
SECTION 106 - unapplied capital reserves	Planning Gain Receipts set aside for capital infrastructure schemes fulfilling terms of agreement with developers
<b>REVENUE</b>	
COMMUNITY SAFETY PARTNERSHIP	Support for partnership community safety work in the Borough.
LOCAL PARTNERSHIP FUND	Partnership reserves held on behalf of the Epsom & Ewell Local Strategic Partnership.
YOUNG PEOPLE PARTNERSHIP FUND	Fund to support capital investment and/or revenue expenditure on initiatives for Young People
YELL FUNDS	Small Local Strategic Partnership fund for young people's activities, spent following consultation with them
HISTORIC BUILDINGS	Earmarked to fund historic building repairs
HOSPITAL CLUSTER INTEREST	Interest generated from Hospital Cluster receipts held as a contingency against liability if Horton Chapel receipt has to be repaid.
INSURANCE	Provision for self-insured liability claims.
CORPORATE PROJECT RESERVE	Contingency for unplanned projects, including the holding costs on stalled developments and partnership schemes. The reserve is also used to finance revenue and capital 'spend to save' one-off costs.
VAT RESERVE	Reserve against liabilities for unrecoverable VAT payments including breach of partial exemption rule.
HOUSING & PLANNING DELIVERY GRANT	Provision for planning-related investments.
INTEREST	Contingency provision for interest rate reductions

<b>Purpose of Reserve</b>	
EQUALISATION	to help manage variations in interest rates each year.
PROPERTY MAINTENANCE FUND	Provision for essential / unplanned backlog repairs and maintenance that cannot be funded within annual budget programme.
REPAIRS & RENEWALS	Provides for the replacement of plant and equipment where no revenue budget is available. Manages the risk of unplanned expenditure at all Council properties, including health and safety expenditures.
TRAINING RESERVE	Provision for funding of Council's apprenticeship scheme
PREVENTION, PERSONALISATION & PARTNERSHIP FUND	Funding from ring fenced grant for local authorities to undertake their new public health functions.
CIVIC INVESTMENT FUND	Funding set aside for grants to improve shop fronts
BUSINESS RATES EQUALISATION RESERVE	Reserve used to manage variations in retained share of business rate income due to this Council
GENERAL FUND REVENUE ACCOUNT WORKING BALANCE	Provision for unforeseen expenditure and used to support Revenue Budget in the medium term. Interest on balance used to finance the General Fund revenue account.
COMMUNITY INFRASTRUCTURE LEVY	Planning receipts to fund infrastructure projects as identified in the Council's Infrastructure Development Programme
RECREATION COMMUTED SUMS	Transferred payments ring-fenced for investment with returns used to finance grounds maintenance costs following transfer of Hospital Cluster Land
COLLECTION FUND	Surplus/Deficits on collection fund - EEBC element.

**Section 4: THE STARTING POINT**

1.1 The following table summarises estimated income and expenditure for 2016/17:-

	£m	£m	£m
<b>INCOME</b>			
<u>General Grant and Taxes</u>			
Revenue Support Grant	0.4		
<b>Transitional Grant</b>	<b>0.1</b>		
Retained share of Business Rates	1.4		
Council Tax Income	5.8		
	Sub-Total	<b>7.7</b>	
<u>Service Income</u>			
Fees and Charges	10.0		
Rents	2.3		
Grants and Subsidies	26.0		
Interest on Balances / Reserves	0.2		
Use of Reserves	<b>0.5</b>		
Internal Asset Credits	2.9		
	Sub-Total	<b>41.9</b>	
	<b>Budgeted Income</b>		<b>49.6</b>
<b>EXPENDITURE</b>			
Employee Costs	11.3		
Premises Costs	3.0		
Transport Costs	1.5		
Contracted Services and Supplies (incl. grants)	7.2		
Housing & Council Tax Benefits	22.1		
Contributions to Reserves	1.6		
Internal Asset Charges	2.9		
	Sub-Total	49.6	
	<b>Budgeted Expenditure</b>		<b>49.6</b>

**Section 5: FOUR YEAR BUDGET FORECAST**

- 1.2 The main focus for budget forecasts is the Councils net budget requirement which comprises service spending less income generated from those services.
- 1.3 It is a Government requirement that Councils provide residents with spending figures focused on the Council Tax Requirement. This is the amount of spending that will be funded from council tax payments in the Borough.
- 1.4 For 2016/17 the Council's spending can be analysed as follows:-

	£000	£000
<b>NET EXPENDITURE</b>		
Gross Expenditure on Services	49,084	
Less: Gross Income on Services	- 38,478	
Sub-Total (policy committee net		10,606
Less: Internal recharges (asset rentals)		2,879
Forecast Net Expenditure		7,727
<b>FUNDING</b>		
Formula Grant	417	
Transitional Grant	93	
Retained Business Rates	1,435	
Council Tax	5,829	
Collection Fund Deficit	-47	
Aggregate External Finance		7,727

1.5 The following table summarises the Council's four year budget forecast prepared in February 2016 for the 2016/17 budget report:-

	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
	<u>Budget</u> £000	<u>Forecast</u> £000	<u>Forecast</u> £000	<u>Forecast</u> £000
Net Cost of Service b/f		8,702	8,301	8,454
Pay & Prices Increases		+ 360	+ 360	+360
Contingency for Service Changes and Pressures		+ 334	+ 528	+ 257
Increases in Fees & Charges		- 200	- 200	- 210
Annual Savings Target		- 895	- 535	- 791
<b>Forecast Net Cost of Services</b>	<b>8,702</b>	<b>8,301</b>	<b>8,454</b>	<b>8,070</b>
Interest on Balances	-220	-220	-220	-220
Use of Business Rates Equalisation Reserve	-121	0	0	0
Use of New Homes Bonus	-634	-500	-500	-500
Transfer from Working Balance (-)	0	0	0	0
<b>Forecast Net Expenditure</b>	<b>7,727</b>	<b>7,581</b>	<b>7,281</b>	<b>7,350</b>
Formula Grant Forecast	417	0	0	0
<b>Transitional Grant</b>	<b>93</b>	<b>83</b>	<b>0</b>	<b>0</b>
Business Rates Forecast	1,435	1,464	1,493	1,523
Tariff Adjustment	0	0	-0	- 625
Council Tax Income Forecast	5,829	6,034	6,241	6,452
Collection Fund Deficit	-47	0	0	0
<b>Collection Fund Income</b>	<b>7,727</b>	<b>7,581</b>	<b>7,734</b>	<b>7,350</b>

1.6 The following factors have been used to prepare the forecast.

<b>ASSUMPTIONS USED</b>	<b>BASE</b> £000	<u>2016/17</u> <u>Budget</u>	<u>2017/18</u> <u>Forecast</u>	<u>2018/19</u> <u>Forecast</u>	<u>2019/20</u> <u>Forecast</u>
<b>General Inflation - prices</b>	9,000	0%*	2.0%	2.0%	2.0%
<b>Pay bill growth</b>	11,000	2.1%**	1.6%**	1.6%	1.6%
<b>Fees &amp; Charges allowance: annual</b>	-6,600	6.0%	3.0%	3.0%	3.0%

<b>ASSUMPTIONS USED</b>	<b>BASE £000</b>	<b>2016/17 Budget</b>	<b>2017/18 Forecast</b>	<b>2018/19 Forecast</b>	<b>2019/20 Forecast</b>
increased yield on discretionary charges					
Interest rate used		1.25%	1.5%	1.75%	2.0%
Increase in Council Tax income	-5,581	2.79%	£5 per annum Band D equivalent		

\* allows for unavoidable price inflation only apply

\*\* assumes pay controls

- 1.7 The following table shows the financial impact of variations to the assumptions used.

	<b>+ / -</b>	<b>Impact on Each Year £000</b>	<b>Cumulative Impact (4 years) £000</b>
<b>Price Inflation</b>	1%	90	360
<b>Pay Inflation</b>	1%	110	440
<b>Fees &amp; Charges</b>	1%	66	264
<b>Interest on Balances</b>	0.5%	70	280
<b>Council Tax</b>	1%	56	226

- 1.8 The General Fund Working Balance was £3.3 million at 31 March 2015 and is forecast at £2.9 million at 31 March 2016.
- 1.9 Subject to delivery of targeted savings the working balance will be maintained at this level for the next four years.
- 1.10 In the light of government funding cuts and required level of savings some flexibility will be required and the Council's policy is to maintain a minimum working balance of £2.5 million at 31 March 2020.

**Section 6: ECONOMIC OUTLOOK**

1.11 The following projections were included in the Autumn Statement:-

<b>UK</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Gross Domestic Product	2.9%	2.4%	2.4%	2.5%	2.4%	2.3%	2.3%
CPI Inflation	1.5%	0.1%	1.0%	1.8%	1.9%	2.0%	2.0%
Average Earnings (all sectors)	1.5%	2.6%	3.4%	3.7%	3.6%	3.7%	3.9%
Unemployment	6.2%	5.5%	5.2%	5.2%	5.3%	5.4%	5.4%

1.12 The Chancellor also announced that the government would restrict public sector pay awards to 1% for the next four financial years.

1.13 The Office for Budget Responsibility's Economic and Fiscal Outlook in November 2015 provided the following overview:-

1.14 The table of the following page provided is the Council's treasury management adviser's forecasts of interest rates in December 2015.

## Economic Data

### Economic Forecasts – Capita Asset Services December 2015

	End Q4 2015	End Q1 2016	End Q2 2016	End Q3 2016	End Q4 2016	End Q1 2017	End Q2 2017	End Q3 2017	End Q4 2017	End Q1 2018	End Q2 2018	End Q3 2018	End Q4 2018	End Q1 2019
Bank Rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.50%	1.50%	1.75%	1.75%	2.00%	2.00%	2.00%
5yr PWLB rate	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.90%	3.00%	3.20%	3.30%	3.40%	3.50%	3.50%	3.60%
10yr PWLB rate	2.90%	3.00%	3.10%	3.20%	3.30%	3.40%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%
25yr PWLB rate	3.60%	3.70%	3.80%	3.90%	4.00%	4.10%	4.10%	4.20%	4.30%	4.30%	4.40%	4.40%	4.40%	4.50%
50yr PWLB rate	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%	4.00%	4.10%	4.20%	4.20%	4.30%	4.30%	4.30%	4.40%

### Economic Forecasts – Capital Economics December 2015

End Q4 2015	End Q4 2015	End Q1 2016	End Q2 2016	End Q3 2016	End Q4 2016	End Q1 2017	End Q2 2017	End Q3 2017	End Q4 2017
Bank Rate	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	1.25%	1.25%	1.50%
5yr PWLB rate	2.40%	2.60%	2.70%	2.80%	3.00%	3.10%	3.20%	3.30%	3.50%
10yr PWLB rate	2.80%	3.05%	3.05%	3.05%	3.30%	3.30%	3.55%	3.55%	3.80%
25yr PWLB rate	3.35%	3.35%	3.45%	3.45%	3.55%	3.65%	3.75%	3.85%	3.95%
50yr PWLB rate	3.40%	3.40%	3.50%	3.50%	3.60%	3.70%	3.80%	3.90%	4.00%

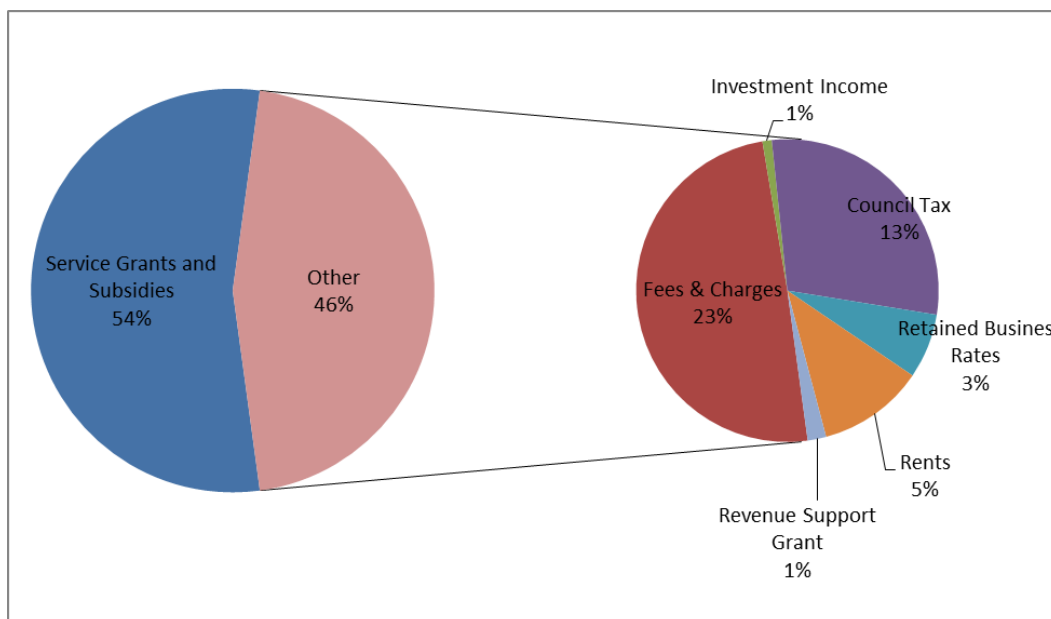


**Section 7: RESOURCES**

1.15 The Council’s budgeted turnover for 2016/17 is £49.6 million.

1.16 The following chart shows the main sources of income to fund the General Fund revenue budget:-

**FUNDING SOURCES 2016/17 BUDGET**



1.17 The most significant income sources are service specific funding from Central Government:-

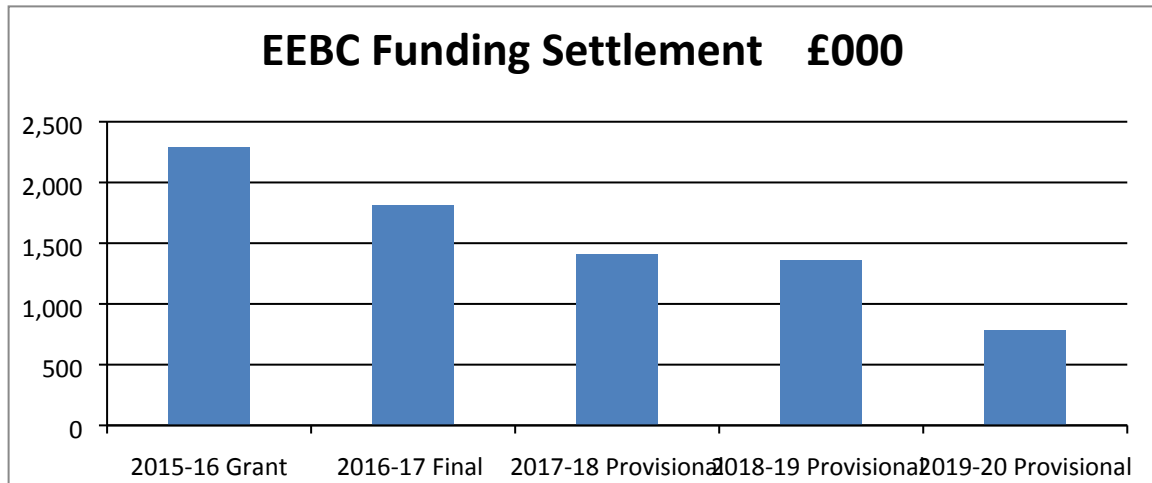
- Housing Benefits Subsidy is a reimbursement of benefits paid locally
- Housing and Council Tax Benefit Administration Grant is a contribution towards administrative costs
- Homelessness Prevention Grant provides funding for housing initiatives
- New Homes Bonus is a grant allocation for extra properties in the Borough

1.18 A total of £26 million is estimated to be received from these sources and a further £0.5 million from Formula Grant, which includes transitional grant of £93,000 and £1.4 million from retained Business Rates to help fund the general provision of services.

- 1.19 The **final** funding settlement has revealed further significant cuts in government funding over the next four years with the loss of Revenue Support grant in 2017/18 and a new tariff adjustment also being introduced **in 2019/20** that reduces the level of business rate income retained by the Council. These changes will have a significant impact on the Council's turnover and on the Council's resources for providing services to residents.
- 1.20 Central government specific grants provide reimbursement for services that are determined at a national level. The Council provides a mix of other services which need to be funded locally. This includes those services for which the Council has a statutory duty, such as rubbish collection and street cleansing, as well as those which the Council decides to do, such as social and leisure venues. The level of local services that the Council can provide depend on the amount of income raised from council tax, fees and charges, rents and retained business rates.
- 1.21 Resources are considered in more detail in the following sections:-
- Section 8: Government Grants and Business Rates
  - Section 9: Council Tax
  - Section 10: Fees, Charges, Rents and Interest earned on balances

**Section 8: GOVERNMENT FUNDING / BUSINESS RATE RETENTION**

- 1.22 The Funding Settlement comprises Revenue Support Grant and the Baseline level of funding from retained business rates
- 1.23 The headline core funding is used as an equalisation of resources between local authorities and is allocated to councils by the Department of Communities and Local Government.
- 1.24 The Government's **final** funding settlement provided on **9 February 2016** identifies a reduction in core funding for this Council over the next 4 years of over £1.5 million, a reduction of 65%.
- 1.25 Government have changed the methodology for determining authorities' RSG allocations. Rather than applying the same percentage cut to all authorities, the new approach takes into account individual authorities' council tax raising ability and the type of services provided.
- 1.26 The methodology appears to favour County, unitary and metropolitan authorities, and put significantly larger funding reductions for district councils. The approach also means that authorities with a higher taxbase have a higher reduction in grant. All Council's in Surrey (including the County) have a high Council tax base and all have fared significantly worse than the national average in the settlement.
- 1.27 In the final settlement the Government introduced a transitional grant to assist councils most severely affected by changes to revenue support grant. Epsom and Ewell Borough Council has been awarded £93k in 2016/17 and £87k in 2017/18 of grant to assist in managing the removal of RSG funding.**
- 1.28 The Council has suffered a heavy loss of core funding in the Spending Review period as illustrated in the following table.



1.29 The Council's central government funding settlement for 2016/17 is £1.72 million calculated as follows:-

	£000
Local share of retained Business Rates (Baseline)	1,300
Revenue Support Grant	417
<b>Transitional Grant</b>	<b>93</b>
<b>Total Formula Grant</b>	<b>1,810</b>

**BUSINESS RATES RETENTION**

1.30 The Department of Communities and Local Government introduced localisation of business rates in 2013/14 and this represented a significant change in funding for local councils.

1.31 Under the local retention scheme councils enjoy gains or suffer losses from the variations to the business rates collected, whether that is due to changes in collection rates or more /fewer businesses.

1.32 The **final** four year funding settlement announced in **February 2016** provides the Council with details regarding the potential income that the Council is likely to retain from this source of funding.

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £000	2019/20 £000
<b>Final Settlement</b>					
Revenue Support Grant	1,006	417	0	0	0

<b>Transitional Grant</b>	0	93	83	0	0
Retained Business Rates - Baseline	1,289	1,300	1,324	1,364	1,407
<b>Government Baseline Funding</b>	<b>2,295</b>	<b>1,810</b>	<b>1,407</b>	<b>1,364</b>	<b>1,407</b>
<b>Tariff Adjustment</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-624</b>

1.33 The new four year settlement introduced a new element called 'tariff adjustment', there had been no prior warning that government intended to implement this change prior to the funding announcement in December. It has the effect of being a negative grant and reduces the amount business rates retained in 2019/20 by this Council.

1.34 The **final** 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 £800,000 in 2019/20 a cut in funding over next four years of £1.5 million or 65%.

1.35 The actual position will vary from this forecast depending on level of business rates collectable. Funding could still be lower if there was a reduction in business rates paid in the Borough or if public spending were further reduced.

1.36 The resource projections used in the four year financial plan are as follows:-

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £000	2019/20 £000
<b>Final Settlement</b>					
Revenue Support Grant	1,006	417	0	0	0
<b>Transitional Grant</b>	<b>0</b>	<b>93</b>	<b>83</b>	<b>0</b>	<b>0</b>
Retained Business Rates - Baseline	1,289	1,300	1,324	1,364	1,407
<b>Government Baseline Funding</b>	<b>2,295</b>	<b>1,810</b>	<b>1,407</b>	<b>1,364</b>	<b>1,407</b>
Tariff Adjustment	0	0	0	0	-624
<b>Total Settlement</b>	<b>2,295</b>	<b>1,810</b>	<b>1,407</b>	<b>1,364</b>	<b>783</b>
<b>Surplus retained business rates</b>	<b>85</b>	<b>135</b>	<b>144</b>	<b>133</b>	<b>113</b>

<b>Total included in Financial Plan</b>	<b>Funding</b>	<b>2,380</b>	<b>1,945</b>	<b>1,551</b>	<b>1,497</b>	<b>896</b>
---	----------------	--------------	--------------	--------------	--------------	------------

- 1.37 The Council's underlying position on business rate collection fund is that its share of retained business rates is around £100,000 higher than the income stated in the 'baseline' position.

### **NEW HOMES BONUS**

- 1.38 The new homes bonus scheme was introduced in April 2011 and has been designed by central government to provide financial incentives and rewards for councils and communities who wish to build new homes in their area. The scheme provides reward funding calculated as follows:-

- For every additional residential property councils will receive a sum equivalent to the national average council tax for that particular property band for the next six years;
- For every property that is affordable housing there is a £350 per annum bonus payment for six years;
- There are also additional incentives for reducing the number of empty properties in the Borough;
- In two tier areas the district council receives 80% of the grant and the county council receives the remaining 20%.

- 1.39 The funding is not ring-fenced and may be used to fund general services or community infrastructure.

- 1.40 The following table provides an analysis of the new homes bonus the Council has been awarded over the last six year years.

### **NEW HOMES BONUS**

<b>Scheme:</b>	<b>Year</b>	<b>Year</b>	<b>Year</b>	<b>Year</b>	<b>Year</b>	<b>Year</b>
	<b>2011/</b>	<b>2012/</b>	<b>2013/</b>	<b>2014/</b>	<b>2015/</b>	<b>2016/</b>
<b>Homes Delivered</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
2009/10 Actual	108	108	108	108	108	108
2010/11 Actual		500	500	500	500	500
2011/12 Actual			344	344	344	344
2012/13 Actual				595	595	595
2013/14 Actual					411	411
2014/15 Actual						158
<b>Total Grant</b>	<b>108</b>	<b>608</b>	<b>952</b>	<b>1,547</b>	<b>1,958</b>	<b>2,116</b>

- 1.41 Government has pledged to retain the new homes bonus, but is also looking to reform the current scheme and it is expected to result in a significant reduction in the level of funding that it currently provides to councils.
- 1.42 The scheme is currently being reviewed but the current method of grant allocation will continue for 2016/17. After 2016/17 the levels of funding that this Council may receive becomes dependant on the changes made to the scheme.

**Section 9: COUNCIL TAX**

- 1.43 There are over 31,000 domestic properties in the Borough.
- 1.44 Council Tax levels are based upon the District Valuer’s assessment of property bands for each home.
- 1.45 The Borough’s council tax base as at December 2015 is illustrated below:-



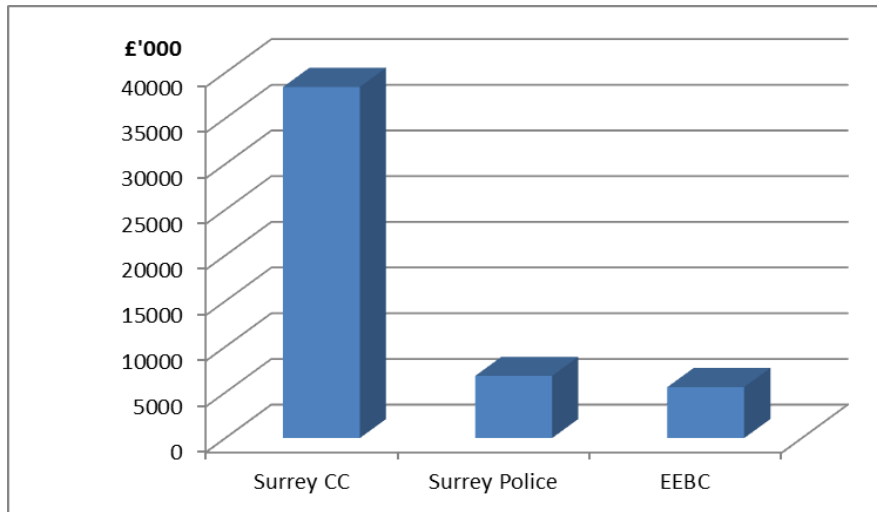
- 1.46 Allowing for the different amounts payable for each property band, the average amount that is raised from Council Tax is equivalent to more than 32,000 properties at the headline Band ‘D’ charge.
- 1.47 Comparative annual council tax charges published for 2015/16 were as follows:-

<b>Council Tax</b>	<b>Surrey (average)</b>	<b>Epsom &amp; Ewell</b>
<b>Shire District only</b>	£181	£177
<b>Shire District including Parishes</b>	£194	£177
<b>Total Bill in Two Tier Areas</b>	<b>£1,629</b>	<b>£1,613</b>

- 1.48 The Council collects council tax on behalf of Surrey County Council and Surrey Police who levy a precept on the Surrey District Councils (i.e. tell the districts how much they must collect on their behalf).



1.49 The amount of Council Tax collected by Epsom and Ewell Borough Council in 2015/16 was £51 million:-



1.50 The Borough Council can only make decisions on its share of the bill which raises £5.6 million each year for Borough services which is calculated as follows:-

- Council Tax Base (No. of Band 'D' equivalent Properties) x Charge for Band D Properties.

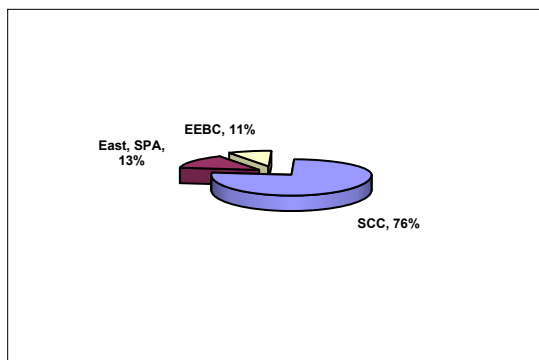
1.51 For 2016/17 the figures are as follows:-

$$32,013.5 \times \pounds 182.07 = \pounds 5,829,000$$

1.52 The Financial Plan for 2016-2020 includes a forecast of an additional yield based on an annual increase of £5 on an equivalent Band D property from the Borough's share of the Council Tax.

1.53 This will raise an additional £160,000 per annum to pay for Borough council services and cost the average Band D taxpayer an extra £4.95 per annum (10 pence per week). The increase of 2.79% is slightly above the Government's target for inflation which is 2%.

1.54 Whatever property band residents occupy the following proportions will apply to each council tax bill in 2015/16:-

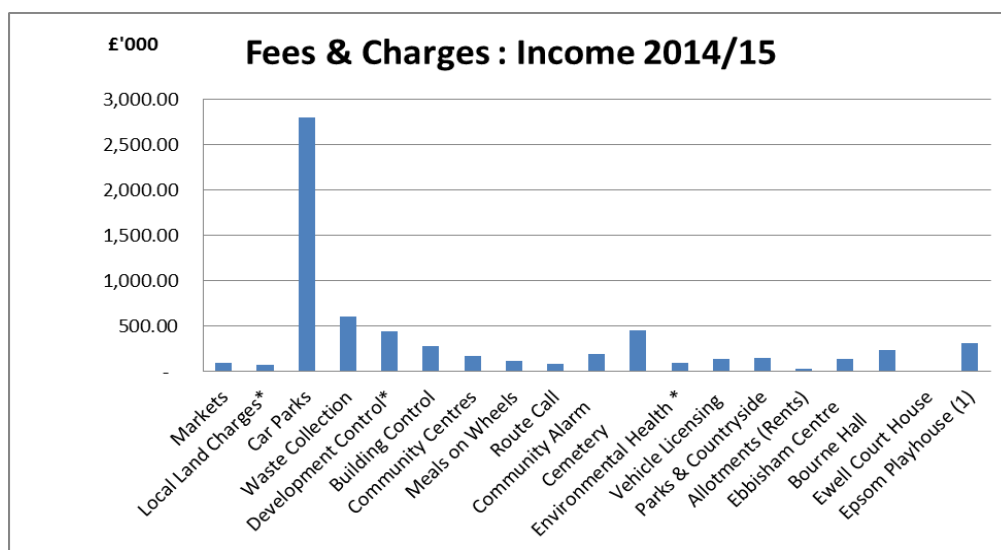




**Section 10: INCOME FROM FEES, CHARGES, RENT & INTEREST**

Fees and Charges

- 1.55 Income from fees and charges forms an important income stream. At more than £6 million per annum the revenue exceeds council tax income.
- 1.56 Some fees are determined by the Council and other are subject to central government regulation.



\* fees subject to regulation

(1) Playhouse income is shown net of Box Office payments

- 1.57 Fees will be re-assessed annually as part of the budget review process.
  - To reduce the subsidy required to provide services and venues
  - To generate income to help fund other services
  - To recover costs incurred and maintain existing assets

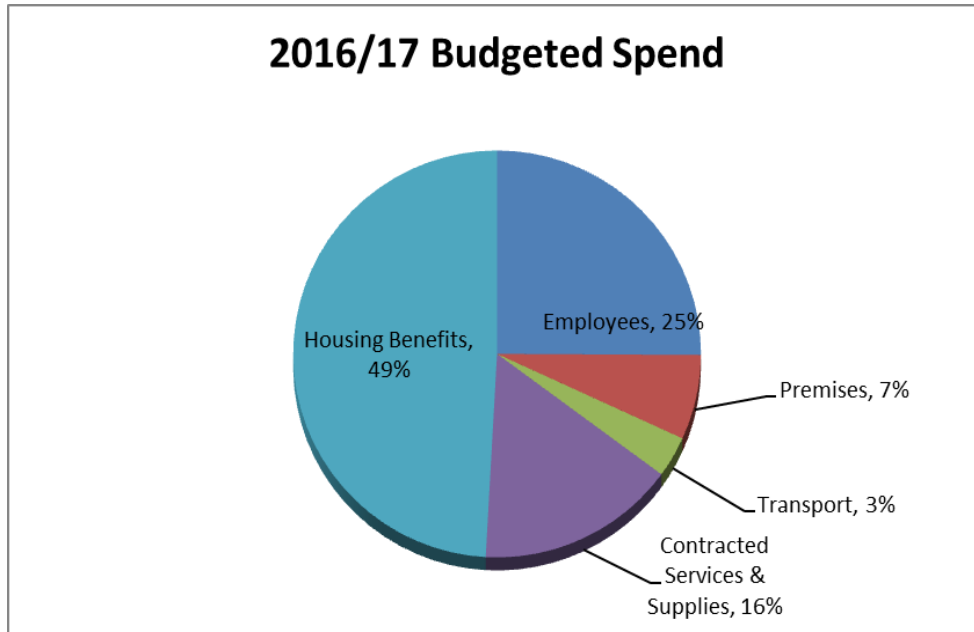
Interest on Balances

- 1.58 The Council invests its revenue and capital reserves and cash flow balances and uses the interest generated to help fund services, in the short term by using the interest to finance the revenue budget and, in the long term, by allocating part of the interest earned to specific funds.

- 1.59 The majority of funds are transferred to a fund manager who operates within a policy agreed by the Council as set out in the Treasury Management Strategy Statement.
- 1.60 Investments totalled £21 million at 31 March 2015.
- 1.61 The level of investments will continue to reduce as capital reserves are used to fund the capital programme.
- 1.62 Interest rates are expected to remain low but expect a gradual increase over for the next four years.

**Section 11: COST ANALYSIS**

1.63 The following chart analyses forecast costs for 2016/17:-



1.64 During 2016/17 the main area of expenditure is on housing benefit payments which are made in accordance with government regulations. The Council effectively acts an administering agent for central government.

1.65 This level of Council spending will reduce significantly over the next four years due to the implementation of Universal Credit (where housing benefits will no longer be administered by Councils).

**Section 12: CONTINGENCIES FOR SERVICE CHANGES**

- 1.66 The following section sets out the main statutory service changes expected to affect the Council's finances over the next four years.
- 1.67 It was not possible to provide detailed estimates of the impact of central government proposals at the time that this Financial Plan was prepared.
- 1.68 The following contingencies have been made in the financial forecast.

	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>Total</u>
	<u>Budget</u> <u>£000</u>	<u>Forecas</u> <u>t</u> <u>£000</u>	<u>Forecas</u> <u>t</u> <u>£000</u>	<u>Forecas</u> <u>t</u> <u>£000</u>	<u>Forecast</u> <u>£000</u>
1. Loss of Housing Benefit Admin Grant	0	51	45	24	<b>120</b>
2. Provision for major property maintenance / repairs work	200	50	50	0	<b>300</b>
3. Impact of latest benefit reforms	0	100	100	100	<b>300</b>
4. Pension Fund Valuation	133	133	133	133	<b>532</b>
5. IT and bin replacement programmes previously funded through the capital programme	0	0	200	0	<b>200</b>
<b>Contingency for Service Changes and Pressures</b>	<b>333</b>	<b>334</b>	<b>528</b>	<b>257</b>	<b>1,452</b>

### **1. Loss of Housing Benefit Admin Grant**

The Council is allocated housing benefit grant admin grant by government. Although no specific mention has been made of cutting this grant further it remains very likely that we will see a reduction in this area of funding as the government tries to cut back on public expenditure

### **2. Provision for major property maintenance / repairs work**

As part of the 2015/16 budget process it was highlighted that there is insufficient funds available to carry out major repairs or maintenance to our properties when required. Previously this expenditure would have been funded through the capital programme out of capital receipts. However, due to the current levels of capital funding available we are unable to continue funding these works through the capital programme and need to provide sustainable funding for these potential projects through the revenue budget.

The Council is in the process of developing a deliverable 10 year asset management programme which will identify works required to Council assets

### **3. Impact of latest benefit reforms**

A new range of central government proposals have been made to reduce public spending on welfare costs and at the same time there are increasing pressures on housing due to a reduced housing programme. The Council is not a housing provider but retains responsibility for housing advice and temporary accommodation for the homeless.

Where the Council has a duty to provide temporary accommodation, it has to meet the net cost of accommodating that household. Due to economic outlook and the welfare changes a contingency has been included in the budget forecast for increased housing costs.

#### 4. Pension Fund Valuation

The Council's pensions are administered by Surrey County Council, as part of the Surrey Pension Fund.

The Pension fund as at 31 March 2015 was in deficit by £31 million and the funding level was 65%. The deficit needs to be addressed over the next 20 years and the budget for 2016/17 includes payments of £818,000 to reduce the shortfall on the fund.

In context, the 65% funding level is lower than the target level of 100% but significantly better than most government pensions which are unfunded. The fund is still cash flow positive and the deficit is based on current assets plus a forecast of future contributions less an estimate of payments and other liabilities.

Recent changes to the Local Government Pension Scheme will relieve pressure on employer pension costs and reduce pension costs in the long term. Pension contributions are also affected by other factors such as investment returns. The Surrey Pension Fund will be re-valued as at 31 March 2016 with changes in employer contribution rates implemented in 2017/18.

#### 5. IT and bin replacement programmes

IT and bin replacement featured as regular items within the Council's capital programme. It has been discussed at Capital Member Group over a number of years that these should be included within the revenue budget as they are on-going consumables for the supply of services to the public and to staff/councillors.

The Council needs to develop a deliverable replacement programme for plant, vehicles and equipment.



**Section 13: COST REDUCTION**

1.69 The Council is seeking to improve its forecast budget position by **£3.1** million by 2019/20. £2.3 million of potential savings have currently been identified during this period;

<b>FOUR YEAR COST REDUCTION PLAN - 2016/17 to 2019/20</b>					
	<b>Saving</b>				<b>Total £'000</b>
	<b>2016/17 £'000</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	
Operational efficiencies and income generation	253	238	372	299	1,162
<b>Strategy &amp; Resources Committee</b>					
Reduce hardship fund	5				5
Alternative payroll provision		10			10
Cap discretionary rate relief for business rates		22			22
Shared ICT Service		10			10
<b>Environment Committee</b>					
Introduce Planning Performance Agreements	12				12
Charging to variations to Section 106 Agreements	4				4
Charging for Enabling Officer	2	3			5
Parking income above 6% yield	367				367
Cease sweeping up highway verge cuttings after cutting			52		52
Cease additional cuts to highway verges		150			150
<b>Social Committee</b>					
Extend Housing Act charges	4				4
Cease extended out of hours service	24				24
Charge for Handyman Service	10				10
Introduce administration charge for Home Improvement Agency service	10				10
Cemeteries increase charges for inscriptions	12				12
Increase of fees in cemetery	11				11
Merging Routecall Service	152				152
Social Centre Review	73				73
<b>Leisure Committee</b>					
Allotments – introduce water charging	8				8
Issuing of licences for professional users of parks		10			10
Advertising on litter bins	2				2
Allotments – self management			4		4
Review of operation of parks				77	77
Introduce vending in parks		5	5	5	15
Venues Service Review		64			64
<b>Total Identified Savings</b>	<b>949</b>	<b>512</b>	<b>433</b>	<b>381</b>	<b>2,275</b>
<b>Unidentified savings Target</b>	<b>-</b>	<b>383</b>	<b>102</b>	<b>410</b>	<b>895</b>
<b>Forecast Total Savings Required to Deliver Balanced Budget</b>	<b>949</b>	<b>895</b>	<b>535</b>	<b>791</b>	<b>3,170</b>

1.70 A programme has been implemented to deliver the necessary savings over the next four years.

1.71 The key features of the programme comprise:-

- A 'Star Chamber' exercise where Service Heads presented options for their services on how savings to the Council can be generated over the next four years.
- A number of Service Reviews phased over the next four years.
- 'Doing Business Better' reviews to be undertaken over the next four years for services with the aim of increasing efficiency, effectiveness and cost.
- Property Related Review – to realise cost reduction of Council operational buildings, increase income from investment properties and generate new receipts from surplus buildings/land.
- Income Generation Review – to include analysis of charging powers and service utilisation and identify options for income generation.

**Section 14: CAPITAL INVESTMENT**

- 1.72 The Council level of financial risk remains high due to the public sector spending cuts and central government reforms.
- 1.73 The full programme is set out in the Council's Capital Strategy 2016-2019 and summarised below:-

	Original Budget 2016/17 £'000	Proposed Budget 2017/18 £'000	Proposed Budget 2018/19 £'000	Total Provision 2016/17-2018/19 £'000
ICT Programme of Work	0	250	0	250
Installation of LED Lighting	0	50	0	50
Installation of Solar Panels to Council Buildings-Town Hall	0	100	0	100
Container and Bin Replacement Programme	66	68	0	134
Waste Strategy Containers	25	25	0	50
Ashley Centre Car Park Repairs	0	150	100	250
Replacement of Car Park pay Machines	0	104	0	104
Disabled Facilities Grants	286	286	286	858
Cemetery Extension	654	0	0	654
St Mary's Church Wall Repair	0	60	0	60
<b>Total</b>	<b>1,031</b>	<b>1,093</b>	<b>386</b>	<b>2,510</b>

- 1.74 The programme contains:-

- Core Programme of Priority 1 Works (funded by reserves or grant)
- Schemes to be progressed subject to external funding being achieved
- Spend-to-Save schemes only to be progressed where the business case proves to meet the Council's agreed level of return on investment

- 1.75 The programme will be funded as follows:-

FINANCED BY:	Budget 2016/17 £000	Budget 2017/18 £000	Budget 2018/19 £000	Total £000
Capital Reserves (Core Programme)	695	629	100	1,424
Capital Reserves (Spend to Save Schemes)	0	150	0	150
Revenue Reserves	50	28	0	78
Government Grants	286	286	286	858
<b>TOTAL</b>	<b>1,031</b>	<b>1,093</b>	<b>386</b>	<b>2,510</b>

- 1.76 Unlike the revenue account, capital funding is not constrained by financial years. It is likely that schemes will be carried forward into the

programme from the 2015/16 budget and there will be rescheduling of the programme throughout the planning period.

- 1.77 Based on the programme recommended for approval by Council in February 2016, capital reserves are projected at £1.3 million at 31 March 2019:-

<b>CAPITAL RESERVES FORECAST</b>	<b>£m</b>	<b>£m</b>
Capital Reserves 1 April 2015		3.5
New capital receipts		1.3
Balance of expenditure on 2012-16 approved schemes	5.3	
Less: External Funding on 2012-16 schemes	- 3.4	
Estimated use of Capital Reserves for 2015/16 programme		1.9
<b>Uncommitted Capital Reserves at 31 March 2016</b>		<b>2.9</b>
Capital Programme 2016-2019	2.5	
Less: External Funding	- 0.9	
Estimated Use of Capital Reserves 2016-2019		-1.6
<b>Forecast Balance of Capital Reserves at 31 March 2019</b>		<b>1.3</b>
Contingency for additional funding		- 0.3
Minimum Level of Capital Reserves		1.0

- 1.78 The Council's capital programme includes the use of Section 106 and Community Infrastructure Levy (CIL) receipts. These are earmarked for specific community infrastructure.
- 1.79 The Council's capital programme will be reviewed by the Capital Member Group and additional schemes brought forward where Section 106 or CIL funding is received.
- 1.80 The programme will be reviewed annually and the updated Capital Strategy Statement contained in the Budget and Council Tax Report.

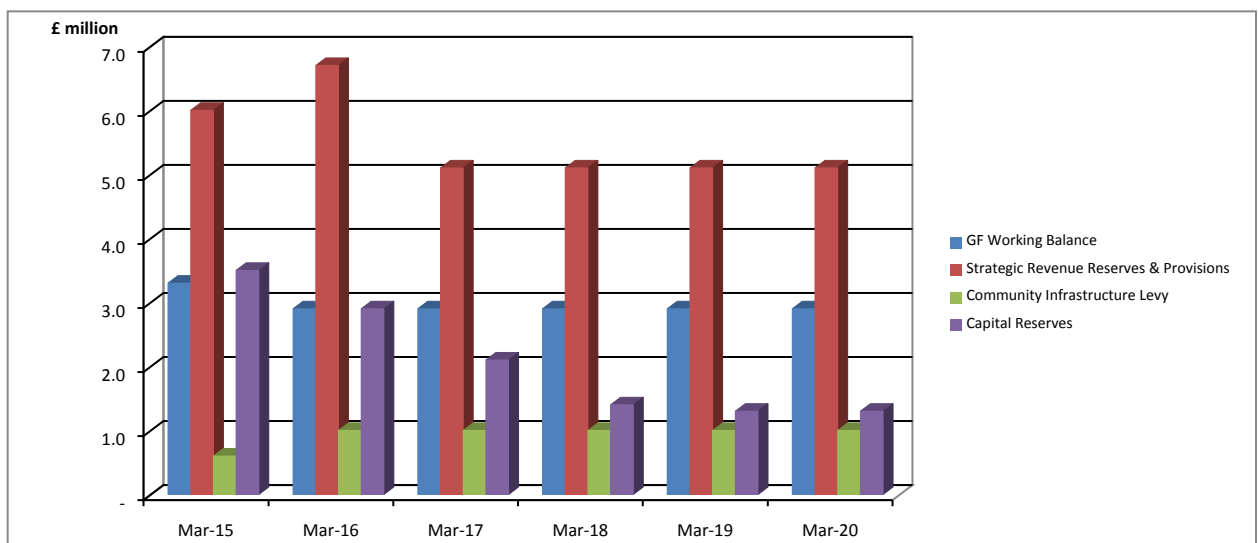
**Section 15: RESERVES FORECAST**

1.81 The following analysis is covered in this report:-

- Historic Levels of Capital and Revenue Reserves (Section 3)
- Current level of Revenue Reserves and Provisions (Section 3)
- Capital Reserves Forecast (Section 14)

1.82 The following is an overview of the forecast level of reserves and provisions.

	<b>Marc h 2015</b>	<b>Marc h 2016</b>	<b>Marc h 2017</b>	<b>Marc h 2018</b>	<b>Marc h 2019</b>	<b>Marc h 2020</b>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
GF Working Balance	3.3	2.9	2.9	2.9	2.9	2.9
Strategic Revenue Reserves & Provisions	6.0	6.7	5.1	5.1	5.1	5.1
Community Infrastructure Levy	0.6	1.0	1.0	1.0	1.0	1.0
Capital Reserves	3.5	2.9	2.1	1.4	1.3	1.3



1.83 This overview is based on the following assumptions.

- **General Fund Working Balance:** See four year budget forecast (section 5)
- **Strategic Revenue Reserves & Provisions:** Assumes that levels of each reserve are reviewed annually but overall the Council will maintain its current level of prudence.
- **Community Infrastructure Levy:** The forecast assumes that the Council retains a balance of £1 million of unspent CIL receipts.
- **Capital Reserves:** The forecast reflects the approved use of reserves to fund the four year capital programme (section 14).

**Section 16: RISK MANAGEMENT**

- 1.84 The Council level of financial risk is higher than in previous years due to the severity of public sector spending cuts and central government reforms.
- 1.85 The Council maintains corporate and operational risk registers.
- 1.86 A financial risk assessment will be completed annually as part of the Budget and Council Tax report. The assessment will provide the scale of financial risk. The following analysis covers the major funding risk anticipated between 2016 and 2020.

RISKS	CAUSES
<b>Government Funding Cuts</b>	<ul style="list-style-type: none"> <li>• Public Sector Spending Reduction</li> <li>• Business Rate Negative Growth (appeals, collection rate)</li> <li>• Specific Grants ended/reduced (e.g. New Homes Bonus)</li> </ul>
<b>Income from Fees and Charges below forecast</b>	<ul style="list-style-type: none"> <li>• Drop in demand for services, local competition</li> <li>• Reduced use of Town Centre (parking)</li> <li>• Planning Fee changes not implemented</li> <li>• Reduced recycling / material prices</li> <li>• New charging regulation (local land charges)</li> </ul>
<b>Income from Interest on Balances</b>	<ul style="list-style-type: none"> <li>• Interest rates fall or do not rise in future years</li> <li>• Reduced level of Council reserves</li> </ul>
<b>Rent loss</b>	<ul style="list-style-type: none"> <li>• Reduced use of Council property by other organisations</li> <li>• Downward rent reviews</li> </ul>
<b>Debt financing costs</b>	<ul style="list-style-type: none"> <li>• Capital resources exhausted requiring long term borrowing</li> </ul>

RISKS	CAUSES
<b>Pension Costs</b>	<ul style="list-style-type: none"> <li>• Pension Fund performance below forecast</li> <li>• Fall in Equity Market</li> </ul>
<b>Homelessness and Housing Support Costs</b>	<ul style="list-style-type: none"> <li>• Cost of accommodating households</li> <li>• Impact of Welfare Changes</li> <li>• Lack of new affordable housing and temporary accommodation</li> </ul>
<b>Failure to deliver saving target</b>	<ul style="list-style-type: none"> <li>• Planned service changes not implemented</li> <li>• Savings identified not achievable</li> </ul>
<b>Housing benefits</b>	<ul style="list-style-type: none"> <li>• Funding changes during transfer of housing support Universal Credit</li> <li>• Arrears on claimants if not transferred to DWP</li> </ul>
<b>Tax Collection (Council Tax and Business Rates)</b>	<ul style="list-style-type: none"> <li>• Recession / unemployment</li> <li>• Welfare benefit reform</li> <li>• Business contraction</li> </ul>
<b>Salaries Expenditure</b>	<ul style="list-style-type: none"> <li>• New regulation</li> <li>• Risks on resilience</li> <li>• Savings targets</li> </ul>
<b>Maintaining Council Fixed Assets</b>	<ul style="list-style-type: none"> <li>• Cost of major repairs affecting rent income</li> <li>• Cost of urgent work/replacement or overspends on planned works</li> </ul>

1.87 The Council also benefits from windfall receipts and suffers for unplanned payments.

**Section 17: ANNUAL REVIEW AND SUPPORTING INFORMATION**

1.88 The following table sets out the annual service and budget review process.

<b>Annual Review</b>	<b>Financial Planning</b>
<b>May</b>	• Financial Review
<b>June</b>	• End of Year Financial Reports
<b>July – August</b>	• Review of Reserves
	• Review of Income and Expenditure
	• Capital Funding Review
	• Financial Planning Brief
<b>September</b>	• Budget Targets for following year
<b>October – November</b>	• Estimates and Budget Options
<b>December</b>	• Capital Appraisals
	• Capital Finances
<b>January</b>	• Service estimates and investment plans for following year
<b>February</b>	• Determine Budget and Council Tax
<b>March</b>	• Publish Budget
	• Council Tax Information & Billing

1.89 The following updates to the Financial Plan will be prepared each year during the four year period:-

<b>Financial Standing:</b>	Financial Statements – June
	Treasury Management - June
	Review of Reserves - September
<b>Budget Position:</b>	Budget Targets Report – September
	Revenue and Capital Budget – February
<b>Capital Programme:</b>	Funding Position – December
	Annual Capital Programme – February

1.90 The following finance documents available on the Council's web site:-



<b>Document</b>	<b>Contains</b>	<b>Where</b>
<b>The Policy Book</b>	Budget Overview, Revenue Estimates and Capital Programme, Reserves, Performance Targets	Council Finance Documents
<b>Council Tax Guide</b>	Information on council tax charges and discounts	Council Finance Documents
<b>Treasury Management Strategy</b>	Approach to borrowing and investment	Council Finance Documents
<b>Statement of Accounts</b>	Published Financial Statements	Council Finance Documents
<b>External Audit Reports</b>	Audit plan, Annual Governance Report, Annual Audit Letter	Council Finance Documents
<b>Financial Regulations</b>	Financial rules of procedure	Constitution
<b>Contract Standing Orders</b>	Contract rules of procedure	Constitution

---

FINANCIAL PLAN 2016 - 2020  
AND  
MEDIUM TERM FINANCIAL STRATEGY

---

Further Information

Address: Epsom and Ewell Borough Council, Town Hall, The Parade, Epsom, Surrey, KT18 5BY

Telephone: 01372 732000

E-mail: [contactus@epsom-ewell.gov.uk](mailto:contactus@epsom-ewell.gov.uk)

Web Site: [www.epsom-ewell.gov.uk](http://www.epsom-ewell.gov.uk)

If you require a translation in your language, please contact:

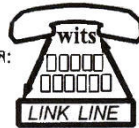
ਜੇਕਰ ਤੁਹਾਨੂੰ ਆਪਣੀ ਜ਼ਬਾਨ 'ਚ ਅਨੁਵਾਦ ਚਾਹੀਦਾ ਹੈ, ਤਾਂ ਸ਼ੁੱਧ ਕਰਕੇ ਸੰਪਰਕ ਕਰੋ:

જો તમને યોનાની ભાષામાં ભાષાંતર જોઈએ છે, તો મહેરબાની કરીને સંપર્ક સાધો:

Se necessitar de uma tradução, contacte por favor:

যদি আপনার নিজের ভাষায় অনুবাদ চান তাহলে অনুগ্রহ করে যোগাযোগ করুন:

اگر آپ کو ترجمہ اپنی زبان میں چاہئے تو براہ کرم براہ راستی رابطہ کریں۔



**01483 750548**

**BUDGETS RECOMMENDED BY THE POLICY COMMITTEES**

<b>BUDGET SUMMARY</b>	<b>2014/15 Actual</b>	<b>2015/16 Budget</b>	<b>2015/16 Revised Estimates</b>	<b>2016/17 Estimate</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>GROSS EXPENDITURE</b>				
STRATEGY AND RESOURCES COMMITTEE	27,068,223	25,601,533	27,994,623	28,181,853
ENVIRONMENT COMMITTEE	9,224,782	8,996,431	8,981,757	8,799,246
SOCIAL COMMITTEE	5,437,949	4,564,154	5,353,832	5,094,032
LEISURE COMMITTEE	6,284,817	5,711,630	5,713,898	6,043,882
<b>TOTAL GROSS EXPENDITURE</b>	<b>48,015,771</b>	<b>44,873,748</b>	<b>48,044,110</b>	<b>48,119,013</b>
<b>GROSS INCOME</b>				
STRATEGY AND RESOURCES COMMITTEE	(26,560,706)	(24,209,751)	(27,119,046)	(27,050,390)
ENVIRONMENT COMMITTEE	(6,379,446)	(6,473,613)	(6,193,638)	(6,897,362)
SOCIAL COMMITTEE	(2,429,762)	(2,041,759)	(2,389,292)	(2,241,455)
LEISURE COMMITTEE	(2,347,688)	(2,266,873)	(2,189,792)	(2,287,926)
Less ASSET RENTS (Internal Recharges)	(2,894,430)	(2,736,219)	(2,736,219)	(2,879,470)
<b>TOTAL GROSS INCOME</b>	<b>(40,612,032)</b>	<b>(37,728,215)</b>	<b>(40,627,987)</b>	<b>(41,356,603)</b>
<b>CONTRIBUTION TO / (FROM) STRATEGIC RESERVES</b>	<b>668,134</b>	<b>728,540</b>	<b>632,069</b>	<b>964,107</b>
<b>NET EXPENDITURE</b>	<b>8,071,873</b>	<b>7,874,073</b>	<b>8,048,192</b>	<b>7,726,517</b>
CONTRIBUTION TO / (FROM) GENERAL RESERVE FOR YEAR	(83,781)	(229,270)	(403,389)	0
<b>NET BUDGET REQUIREMENT</b>	<b>7,988,092</b>	<b>7,644,803</b>	<b>7,644,803</b>	<b>7,726,517</b>

<b>COMMITTEE TOTALS</b>	<b>2014/15 Actual</b>	<b>2015/16 Budget</b>	<b>2015/16 Revised Estimates</b>	<b>2016/17 Estimate</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
STRATEGY AND RESOURCES COMMITTEE	1,181,706	2,400,782	1,799,720	2,348,123
ENVIRONMENT COMMITTEE	2,858,694	2,441,658	2,691,345	1,820,724
SOCIAL COMMITTEE	3,122,786	2,391,895	2,838,040	2,731,184
LEISURE COMMITTEE	3,803,117	3,375,957	3,455,306	3,705,956
ASSET RENTS (Internal Recharges)	(2,894,430)	(2,736,219)	(2,736,219)	(2,879,470)
CONTRIBUTION TO / (FROM) GENERAL RESERVE FOR YEAR	(83,781)	(229,270)	(403,389)	0
<b>TOTAL</b>	<b>7,988,092</b>	<b>7,644,803</b>	<b>7,644,803</b>	<b>7,726,517</b>

<b>FUNDED BY</b>	<b>2014/15 Actual</b>	<b>2015/16 Budget</b>	<b>2015/16 Revised Estimates</b>	<b>2016/17 Estimate</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
COUNCIL TAX PRECEPT	5,403,437	5,581,317	5,581,317	5,828,698
REVENUE SUPPORT GRANT	1,435,626	1,006,434	1,006,434	416,850
TRANSITIONAL GRANT	0	0	0	92,965
NNDR	908,741	964,897	964,897	1,216,123
SMALL BUSINESS RATE RELIEF GRANT	177,868	196,421	196,421	0
LOCALISM RELIEF GRANT	193,129	212,667	212,667	218,811
COLLECTION FUND SURPLUS - COUNCIL TAX	51,977	83,138	83,138	74,193
COLLECTION FUND DEFICIT - BUSINESS RATES	(182,686)	(400,071)	(400,071)	(121,123)
<b>TOTAL</b>	<b>7,988,092</b>	<b>7,644,803</b>	<b>7,644,803</b>	<b>7,726,517</b>

This page is intentionally left blank

**MAIN SERVICE BUDGET CHANGES 2015/16 TO 2016/17**

	<u>Budget</u> <u>Savings</u> <u>£'000</u>	<u>Budget</u> <u>Costs</u> <u>£'000</u>
<b><u>STRATEGY &amp; RESOURCES</u></b>		
Increased government funding for housing benefit	(2,665)	
Increased housing benefit payments		2,865
Reduction in contribution towards bad debt provision for housing benefit overpayments	(200)	
Increased New Homes Bonus Grant	(217)	
Increase in transfer of New Homes Bonus to Corporate Projects Reserve		83
Pension Fund additional deficit contributions		133
Increase in employer taxes due changes introduced by Government		180
Reduced contribution from business rate equalisation reserve to fund prior year deficit		279
Net increase in contingencies (property works & general)		19
Epsom & Ewell Local Council Elections	(60)	
Increased income from investment properties	(51)	
<b><u>ENVIRONMENT</u></b>		
Reduced recycling income		87
Reduced income from Parking penalty charge notices		225
Reduced funding from Planning Delivery Grant Reserve for Planning Policy		98
<b><u>SOCIAL</u></b>		
Net reduced costs from consolidation of Social Centres	(63)	
Increase in homelessness net cost of temporary accommodation		429
Contribution from landlord deposit fund towards homelessness costs		75
<b><u>LEISURE</u></b>		
Letting income following the re-opening of Ewell Court House	(70)	
<b><u>All Committees</u></b>		
Increase in salaries & other overheads including changes to vacancy provision	(423)	
Additional income from increase in Fees and Charges (budget proposals)	(752)	
All other service budget changes (changes all below £50,000)		(119)
	<u>(4,501)</u>	<u>4,354</u>
<b>Policy Committee Budget Reduction</b>		<u>(147)</u>

This page is intentionally left blank

**ADDITIONAL INCOME FROM INCREASING  
FEES AND CHARGES FROM APRIL 2016**

	£'000	£'000
<b><u>ENVIRONMENT</u></b>		
Car Parks	553	
Refuse Collection / Recycling	52	
Planning	39	
Markets	5	
	<hr/>	<b>649</b>
<b><u>SOCIAL</u></b>		
Cemetery	36	
Social Centres	6	
Community Alarm	20	
Licensing General	1	
Vehicle Licensing	8	
	<hr/>	<b>71</b>
<b><u>LEISURE</u></b>		
Ewell Court House	1	
Parks & Open Spaces	6	
Ebbisham Centre	9	
Bourne Hall	13	
Epsom Playhouse	3	
	<hr/>	<b>32</b>
<b>TOTAL</b>		<b><u><u>752</u></u></b>

This page is intentionally left blank



## H M TREASURY ECONOMIC INDICATORS

<b>LATEST UK INDICATORS (4th January 2016)</b>		
% change on a year earlier unless otherwise stated		
<b>Activity</b>		
GDP (QoQ)	15Q3	0.4
Service sector output (3Mo3M)	15Q3	0.6
Industrial production (3Mo3M)	15Q3	0.2
Manufacturing output (3Mo3M)	15Q3	-0.4
GfK Consumer Confidence	December	2
Retail sales volumes (YoY)	November	5.0
Fixed investment (QoQ)	15Q3	0.7
Goods exports (volumes) (MoM)	October	-2.7
Goods imports (volumes) (MoM)	October	8.2
Current account balance, £bn	15Q3	-17.5
Business Investment (QoQ)	15Q3	2.2
<b>Labour market &amp; earnings</b>		
Unemployment, mn	3m to October	1.71
Unemployment rate, %	3m to October	5.2
Claimant count, mn	November	0.80
Claimant count, %	November	2.3
LFS total in employment, mn	3m to October	31.30
LFS employment rate, %	3m to October	73.9
Workforce jobs, mn	September	33.74
Average earnings growth, % <sup>1</sup>	3m to October	2.4
<b>Inflation &amp; prices</b>		
CPI (YoY)	November	0.1
RPI (YoY)	November	1.1
CPIH (YoY)	November	0.4
Producer output prices (nsa) (YoY)	November	-1.5
Producer input prices (nsa) (YoY)	November	-13.1
Halifax house prices <sup>2</sup> (YoY)	November	9.0
Nationwide house prices (YoY)	November	3.7
<b>Public finances</b>		
Public sector current budget deficit, £bn <sup>3</sup>	November	11.2
Public sector net borrowing, £bn <sup>3</sup>	November	14.2
Public sector net debt, % of GDP <sup>3,4</sup>	November	80.5
<b>Monetary</b>		
M4 deposits (ex.intermediate OFCs) (YoY)	October	4.5
Exchange rate index (2005=100)	Latest <sup>5</sup>	90.3
£/\$	Latest <sup>5</sup>	1.48
£/€	Latest <sup>5</sup>	1.35
Bank rate, %	Latest <sup>5</sup>	0.50
Long-term interest rates, %	Latest <sup>5</sup>	1.87
<sup>1</sup> Including bonuses <sup>2</sup> Halifax report annual change as 3m on 3m a year earlier <sup>3</sup> Excluding public sector banks <sup>4</sup> Amount outstanding as a % of GDP, at market prices <sup>5</sup> 22 December		

This page is intentionally left blank

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
<b>Reducing projected net expenditure</b>	All	<b>High</b>	Fail to deliver reducing projected expenditure by £3.3 million over 4 years by March 2020.  £0.9 million reduction built in to the budgets for 2016/17	Service Reviews Achieving the savings identified from the Star Chamber exercise Doing business Better Income Generation review Property Related Revenue	Delivery of the MTFS delivering further efficiency savings and cost reductions	L1
<b>External Funding</b>	0.4 (RSG) 2.1 (New Homes Bonus)	<b>Medium</b>	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 MR1	L1
<b>Failure to control Salaries Costs</b>	11.4	<b>High</b>	Not achieving 2% vacancy margin. Additional costs of agency/temporary staffing.  Service or project	To deliver an agreed Organisational Development Strategy to drive culture, change, build capacity and improve performance	To deliver an agreed Organisational Development Strategy	L3

			pressures.			
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: Stratgey	0.2	Low	<p>Generate a sound return on cash</p> <p>Safeguard capital sums invested</p>	<p>Annual review of Treasury Management Strategy</p> <p>Use of external fund manager in accordance with treasury management policy</p> <p>Interest equalisation reserve</p> <p>Monthly review of fund performance</p> <p>Review of market risks using treasury management advisers</p>		L1

<b>Risk</b>	<b>Budget (£M)</b>	<b>Rating</b>	<b>Key Risks</b>	<b>Action</b>	<b>Ref to proposed Key Priorities and Targets</b>	<b>Ref to Leadership Risk Register</b>
<b>Affect of Welfare Changes</b>	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>Increase in homelessness</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>		
<b>Pension funds</b>	31.1 (Deficit as at 31 March 2015)	Medium	The deficit is not addressed over the next 20 years	Pension fund deficit payments are being increased to £818k for 2016/17		

Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
<b>Asset Management</b>	0.6 (exp) 1.3 (inc)	<b>High</b>	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 £200k Provision made in 2016/17 budget for major property maintenance / repairs work	L7
<b>Retained Business Rates</b>	1.4	<b>High</b>	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		

<b>Risk</b>	<b>Budget (£M)</b>	<b>Rating</b>	<b>Key Risks</b>	<b>Action</b>	<b>Ref to proposed Key Priorities and Targets</b>	<b>Ref to Leadership Risk Register</b>
<b>Land Charges</b>	0.2	<b>Medium</b>	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		
<b>Housing Benefit Subsidy</b>	22.1	<b>Medium</b>	Reduced recovery rate on benefits paid out Increased demand for benefit payments due to recession Staff retention/ recruitment Welfare benefit changes Move to Universal Credit	Additional staffing resources from Corporate Project Reserve Monthly monitoring of benefit performance indicators Quarterly monitoring of subsidy position Recruitment and retention programme Increasing bad debt provision for claimant arrears		
<b>Council Tax Income</b>	5.6 (EEBC element)	<b>Medium</b>	Collection rates due to economy & changes to council tax benefits Cash flow	Billing & recovery arrangements designed to support collection targets, additional resource for local council tax support scheme Collection performance reported to Directors monthly. Collection Fund separately managed on behalf of precept authorities (SCC & SP)	98.40% of Council Tax collected	

Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
<b>Failure to obtain best value in purchasing goods and services</b>	9.0	<b>High</b>	Poor value for money in goods and services purchased and contracts.	<p>New guidelines and procedures for Project Management and Contract Management.</p> <p>All Key Projects to be monitored by Leadership Team</p> <p>Review Procurement function</p>	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
<b>Off Street Parking Income</b>	3.7	<b>High</b>	Economy affecting use Works or weather restricting parking spaces New government regulation	Annual review of fee structure designed to recognise market issues. Monthly income used as a performance indicator.		
<b>Domestic and Trade Waste Collection</b>	1.7	<b>Medium</b>	Deteriorating market for recycled materials due to economic downturn Competition on trade waste Increase in landfill tax Increases in transport costs impact adversely on cost of providing service	Promoting waste and recycling services. Price negotiation Monthly monitoring of collection rates Closely monitor potential changes to fuel cost and land fill tax	47% of household waste recycled Maintain number of trade waste customers	
<b>Highways</b>	0.2	<b>Low</b>	Possible reductions of partner contributions due to budget cuts	Review of expenditure relating to highways agency spend to ensure full costs funded by SCC.		

Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
<b>Planning &amp; Building Control</b>	0.7	<b>Medium</b>	Changes to economy further impacting on planning and building control income  Private competition on Building Control Service has impacted adversely in recent years with the market is difficult to predict	Annual review of charges  Monthly monitoring of income  Shared Service option with other district council's.		

SOCIAL COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
<b>Increasing cost on the provision for Homelessness and temporary accommodation</b>	1.0	<b>High</b>	<p>Increase in the requirement for temporary accommodation due to economy/unemployment/welfare reforms/delays in housing developments</p> <p>Clients in TA from longer than necessary</p>	<p>Local Development Framework &amp; Affordable Housing programme (S106 contributions)</p> <p>Partnership working with RSLs and voluntary sector</p> <p>Monitoring cost of temporary accommodation</p> <p>Rent recovery via Housing benefits</p> <p>Proactive case management to prevent homelessness. New Allocations Policy</p>	<p>Delivering more affordable housing units.</p> <p>Prevent families from losing their home</p> <p>Provide additional temp accommodation units</p>	L10
<b>Changes to the delivery of Routecall and Social Centre services</b>	0.2	<b>Medium</b>	<p>Savings incorporated into 2016/17 budget due to changes to the Routecall and Social Centre services are not achieved</p>	<p>Detail service savings and monitor progress against budget in year.</p>		
<b>Cemetery</b>	0.5	<b>Medium</b>	<p>Lower take up of burials than anticipated</p> <p>Unable to meet demand due to a shortage of available plots</p>	<p>Regular monitoring and reporting of income figures</p>		

LEISURE COMMITTEE						
Risk	Budget (£M)	Rating	Key Risks	Action	Ref to proposed Key Priorities and Targets	Ref to Leadership Risk Register
Venues Income	2.0	High	<p>Bourne Hall, Epsom Playhouse, Ewell Courthouse and Ebbisham Centre subsidy levels are dependent upon budgeted income levels being achieved</p> <p>Rainbow Leisure Centre subject to contract</p>	Service Review of Venues to be completed by Audit Crime & Disorder and Scrutiny Taskforce an report on findings	<p>Increase no of social centre members by 5%</p> <p>Increase ticket sales at the Playhouse by 10%</p>	L1

REVENUE RESERVES FORECAST 2015-2016

	Balance at 31 March 2015  £'000	Transfers Approved  £'000	Provisional use  £'000	Balance at 31 March 2016*  £'000
<b>Current Balances</b>				
General Fund	3,333	0	-229	3,104
Collection Fund Adjustment Account	-313	0	317	4
<b>Total Current Balances</b>	<b>3,020</b>	<b>0</b>	<b>88</b>	<b>3,108</b>
<b>Strategic Reserves</b>				
Insurance	489	-30	4	463
Repairs and Renewals	690	-355	30	365
Interest Equalisation	631	-5	-70	556
VAT Reserve	228	0	0	228
Housing & Planning Delivery Grant	210	-77	0	133
Property Maintenance	221	-25	70	266
Commuted Sums	1,965	-40	40	1,965
Hospital Cluster Interest	226	0	2	228
Corporate Project Reserve	392	1393	3	1,788
Community Safety	86	-5	2	83
Historic Buildings	3	0	0	3
Local Partnership Fund	3	0	-1	2
Young People Partner. Fund	39	-13	-1	25
Yell Funds	3	0	-1	2
Training Reserve	24	-10	0	14
PPP Reserve	358	-180	110	288
Civic Investment Reserve	45	-30	0	15
Business Rate Equalisation Reserve	729	-400	0	329
<b>Total Strategic Reserves</b>	<b>6,342</b>	<b>223</b>	<b>188</b>	<b>6,753</b>
<b>Total Revenue Reserves</b>	<b>9,362</b>	<b>223</b>	<b>276</b>	<b>9,861</b>

\*Interest has been applied at a provisional rate of 0.8% for specific reserves

**CAPITAL RESERVES 2014-2019**

	Actual 2014/15 £000	Original Estimate £000	Carry Forward £000	Approved Schemes 2015/16 £000	Draft Programme 2015/16 £000	Draft Bids 2016/17 £000	Draft Bids 2017/18 £000	Draft Bids 2018/19 £000
<b>CAPITAL RECEIPTS</b>								
Unapplied capital reserves b/f at year start	4,101				3,498	2,841	2,146	1,367
New Disposals	-				1,264	-	-	-
Capital Receipt/Repayment	10				-	-	-	-
<b>Capital Reserves before funding capital programme</b>	<b>4,111</b>	-	-	-	<b>4,762</b>	<b>2,841</b>	<b>2,146</b>	<b>1,367</b>
<b>CAPITAL PROGRAMME FUNDING</b>								
<b>Capital programme as per policy book</b>	<b>1,677</b>							
Reduced Capital Expenditure	843							
Carry forward of programme into 2014/15	1,790							
Additional Funded Schemes 2014/15	3,941							
Slippage into 2015/16	3,136		3,136		3,136			
<b>Capital programme - 2015/16 Bids</b>		4,400			<b>4,400</b>			
<b>Draft Capital Programme - Bids supported by Capital Member Group</b>						<b>1,031</b>	<b>1,093</b>	<b>386</b>
Projects Approved In Year								
Ewell Court House Betterment				50	50			
100 Spaces on Roof of Hook Road Car Park				10	10			
PlanE				2,320	2,320			
Recover Playhouse Roof				11	11			
Town Hall Boilers				45	45			
QEII Parks				12	12			
New paths on Epsom Common				85	85			
Court Rec Bowling Hut				67	67			
Longrove Park extension to BMX track				80	80			
<b>Sub Total</b>	<b>3,429</b>	<b>4,400</b>	<b>3,136</b>	<b>2,002</b>	<b>5,534</b>	<b>1,031</b>	<b>1,093</b>	<b>386</b>
External Funding for Capital Schemes								
Section 106 Receipts & private contributions	722	515	780	398	1,693	-	-	-
Government Grants - Disabled Facility Grant / PSR	245	286	5	-	291	286	286	286
Other Government Grants	10	2,160	80	2,158	82	-	-	-
From other public bodies/organisations	25	378	130	324	184	-	-	-
New Homes Bonus	1,185	-	-	-	-	-	-	-
Insurance	-	-	1,118	-	1,118	-	-	-
Revenue	629	200	38	7	245	50	28	-
Sub-Total	2,816	3,539	2,151	2,077	3,613	336	314	286
<b>Estimated Use of Capital Reserves</b>	<b>613</b>	<b>861</b>	<b>985</b>	<b>75</b>	<b>1,921</b>	<b>695</b>	<b>779</b>	<b>100</b>
<b>Estimated Capital Reserves at year end</b>	<b>3,498</b>				<b>2,841</b>	<b>2,146</b>	<b>1,367</b>	<b>1,267</b>

## **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 2016/17, the following observations are made:

The budget planning process commenced with Members and Senior Officers during Spring 2015. In line with normal business practice, either income generating opportunities or revenue savings and growth were identified for the next four years. Savings proposals were generated from Senior Officers and subjected to a "reality check" by the Chief Executive, Head of Finance and the Chief Finance Officer prior to consideration by Members. The Policy Committees considered these proposals in October 2015 and "in principle" agreed a four year savings plan totalling £2.3m for inclusion within the Medium Term Financial Strategy. Policy Committees also considered their proposed budgets for 2015/16 during January 2015/16.

The process for determining the 2016/17 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 2016/17 pay

award proposed by the Joint Staff Consultative Committee was agreed by Strategy and Resources Committee in January 2016 and a 1.5% pay award has been incorporated within the estimates for 2016/17.

The Council itself has entered into a series of arrangements which are helping the organisation drive savings through its day to day activities. These include the joint internal audit contract with three Surrey Districts, a shared ICT manager with Elmbridge Borough Council and an insurance arrangement with the London Borough of Sutton.

Homelessness continues to be the main cost pressure facing the Council and this is likely to continue during 2016/17. The Housing Allocation Policy agreed by Social Committee during 2014 is currently being implemented and Strategy and Resources Committee at its meeting in January 2016 agreed three initiatives which should help alleviate some of the pressure by creating additional capacity within the Borough.

Maintenance of our buildings is also an increasing pressure which needs to be addressed and whilst increased provision has been made within the 2016/17 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 2016/17 is fully funded as presented to Members and does not rely upon the realisation of further capital receipts. Following the capital receipt from the sale of Downs House no further disposals have been assumed within the next four years. It is important to note that the Council has now fully allocated its capital resources and requires the realisation of new capital receipts or (if appropriate) undertake borrowing if it wishes to support new capital investment.



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. This uncertainty can take three main forms.

The first form of uncertainty arises as a result of government legislation. The 2016/17 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.

The final settlement suggests that the previous "safety net" protection for business rates may no longer apply with the introduction in 2019/20 of a new tariff payment. When the scheme was originally established the government stated that funding would not fall below 92.5% (ie the baseline figure). Guidance has been received that suggests the tariffs now payable for authorities with no Revenue Support Grant will be applied in 2019/20 after taking into account the safety net.

The second main legislative change also introduced in 2013/14 relates to the administration of the council tax benefit. The government devolved funding (less a 10% reduction) for the administration of this scheme which is developed locally in accordance with national guidance. This sum is cash limited and therefore any changes will result in a cost or benefit to the Council. This provides a higher degree of risk for the local authority as any increases in those requiring support in their council tax bills may result in increased burden to the authorities. As a consequence of the lack of funding by central government, the Council has had to amend the

scheme to request that all working age claimants contribute 20% towards their council tax bill. The support offered to those who are unable to meet their council tax bill has also been increased. The impact of the changes to the Council Tax Support Scheme will be closely monitored during 2016/17.

The second 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 2016/17 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. The On Street Parking account requires careful monitoring during 2016/17 to ensure that the projected deficit in 2015/16 is not repeated.

The third main form of uncertainty is around central government funding. As in previous years central government set a "referendum level" for council tax increases. Should the Council's proposed increase exceed this level then the Council will be required to hold a referendum. For 2016/17 the referendum limit has been set at 2% or £5 whichever is the highest. As part of the financial settlement for 2016/17 the government has offered Councils the opportunity to take up a four year funding settlement covering the period 2016/17 to 2019/20 providing an efficiency plan is produced. The Government has given Councils until 14 October 2016 to respond ensuring that Councils have sufficient time to work through the detail issued as part of the final settlement on the 9 February. A further report will be brought back to Full Council prior to the 14 October to enable Members to make an informed decision as to whether they wish to accept the four year settlement offer outlined within this report.

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. The Council is currently in discussions with Surrey County Council and the London Borough of Sutton Council regarding possible funding reductions.

There is also uncertainty around the continuation of New Homes Bonus with the government currently consulting on a range of proposals. The Council is currently

using £0.634 m to support the General Fund Revenue Budget and the projections for 2017/18 assume a continued level of £0.5m per annum.

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
2017/2018	383	383
2018//2019	102	485
2019/2020	410	895

The above figures assume a 2.8% increase in Council Tax in 2016/17 and an annual increase of £5 (band d equivalent) thereafter, it also anticipates the achievement of the Cost Reduction Plan which totals £2.3m over the four year period.

It is recommended that Senior Officers review the Cost Reduction Plan and identify any actions which can be brought forward to reduce the additional call upon New Homes Bonus. It is proposed that a report outlining possible actions will be considered by Strategy and Resources in July 2016.

In conclusion, the 2016/17 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. The Cost Reduction Plan is reviewed and actions where possible are brought forward to reduce the additional call upon New Homes Bonus in 2016/17.
- d. Early consideration is undertaken to set out the strategy for addressing the additional £0.9m shortfall arising out the provisional financial settlement for 2016/17 onwards.
- e. Plans for generating additional income which were identified during the MTFS preparation need to be developed for consideration during 2016/17. It is important that these schemes are considered together and those with the highest returns on investment prioritised.

### 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 £2.9 million at 31 March 2017. 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 2019. 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.

Having undertaken the review of reserves and given the economic and financial environment the Council is working within during 2016/17 it is believed that the Council is operating at an acceptable level of reserves.

Kathryn Beldon  
Director of Finance & Resources

This page is intentionally left blank

**REVENUE BUDGET FOUR YEAR FORECAST**

Status: Financial Planning Based on 2016/17 Budget

FOUR YEAR BUDGET PROFILES	Forecasts				Assumptions				
	2016/17	2017/18	2018/19	2019/20		2016/17	2017/18	2018/19	2019/20
	Budget	Forecast	Forecast	Forecast	BASE	Budget	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000				
<b>NET SPEND B/F FROM PREVIOUS YEAR</b>		7,727	7,964	8,219					
add back: Use of New Homes Bonus in Previous Year		634	500	500					
add back: Interest on Balances as credited to the revenue account in previous year		220	220	220					
add back: Use of Business Rate Equalisation Reserve in previous years budget		121	0	0					
<b>Net Expenditure on Services before changes (Base Budget excluding use of interest on Balances and use of working balance)</b>	8,581	8,702	8,684	8,939					
<b>Allowance for Pay and Price Inflation</b>									
General Inflation - price base		+180	+180	+180	9,000	2.00%	2.00%	2.00%	
General Inflation pay bill base		+180	+180	+180	11,000	1.60%	1.60%	1.60%	
<b>Prices Increases net of Increased Fees &amp; Charges</b>		+360	+360	+360					
<b>Regulation &amp; Legislative Changes</b>									
Pension Fund Valuation 2016		+133	+133	+133					
IT and bin replacement programmes transferred from capital			+200						
Loss of Housing Benefit Admin Grant		+51	+45	+24					
Increase in provision for property maintenance		+50	+50						
Provision for impact on services of latest benefit reforms		+100	+100	+100					
<b>Legislation Impacts</b>		+334	+528	+257					
<b>New Home Bonus</b>									
Estimated New Homes Bonus	-2,116	-2,116	-1,300	-1,300					
Transfer to Corporate Project Reserve	+1,482	+1,616	+800	+800					
<b>NHB Funding used to support General Fund services</b>	-634	-500	-500	-500					
<b>Cost Reduction Plan</b>									
Savings from Reviews and Star Chamber Exercise		-482	-373	-381					
Restructuring of Senior Management Team		+0	-60	+0					
Reduction in advertising expenditure for change in refuse service		-30	+0	+0					
Ewell Court House additional income target		-20	+0	+0					
Waste co-mingled service		+20	+0	+0					
<b>Cost Reduction Plan</b>		-512	-433	-381					
<b>Fees and Charges</b>									
Increased yield on discretionary Fees and Charges		-200	-200	-210	-6,600	3.0%	3.0%	3.0%	
		-200	-200	-210					
<b>Interest on Balances (excludes interest credited to strategic reserves)</b>									
Capital Reserves	2,841	2,146	1,367	1,267		-695	-779	-100	
Working Balance	4,623	4,623	4,623	4,623		0	0	0	
Section 106	2,250	1,500	750	0		-750	-750	-750	
Other Balances	500	500	500	500					
Investments (average)	10,214	8,769	7,240	6,390					
Interest rate used (supplemented by interest equalisation reserve)	1.25%	1.50%	1.75%	2.00%		1.25%	1.50%	1.75%	2.00%
Interest on Reserves	-128	-132	-127	-128					
Interest on Cash Flow / Tax Collection credited to General Fund	-50	-60	-70	-80	-40	1.25%	1.50%	1.75%	2.00%

FOUR YEAR BUDGET PROFILES	2016/17	2017/18	2018/19	2019/20		2016/17	2017/18	2018/19	2019/20
	Budget	Forecast	Forecast	Forecast	BASE	Budget	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000				
Total Interest Forecast	-178	-192	-197	-208					
Interest separately allocated to Strategic Reserves									
Add: Use of interest equalisation reserve	-42	-28	-23	-12					
Interest credited to General Fund to Finance Services	-220	-220	-220	-220					
<b>SUMMARY OF FORECASTS</b>									
Net Expenditure on Services before changes (Base Budget excluding use of interest on Balances and use of working balance)	8,581	8,702	8,684	8,939					
Price Increases (inflation)		+360	+360	+360					
Legislation Impacts		+334	+528	+257					
NHB Funding used to support General Fund services	-634	-500	-500	-500					
Cost Reduction Plan		-512	-433	-381					
Fees and Charges		-200	-200	-210					
Interest credited to General Fund to Finance Services	-220	-220	-220	-220					
<b>Forecast Net Cost of Services</b>	<b>7,727</b>	<b>7,964</b>	<b>8,219</b>	<b>8,245</b>					
<b>SETTLEMENT ASSESSMENT FUNDING FORECAST</b>									
RSG	+417	+0	+0	+0			-417	0	0
Tariff Adjustment	+0	+0	+0	-625					
Transitional Grant	+93	+83	+0	+0					
<b>Retained Business Rates</b>	<b>1,216</b>	<b>1,464</b>	<b>1,493</b>	<b>1,523</b>		based on high level forecast subject to review after yr 1			
Small Business Rate Relief Grant	219	included above							
<b>Formula Grant / Business Rate Retention</b>	<b>1,945</b>	<b>1,547</b>	<b>1,493</b>	<b>898</b>			<b>-398</b>	<b>-54</b>	<b>-595</b>
Base Income from Council Tax		5,829	6,034	6,241					
Increase in council tax base		+44	+45	+47	31,512		0.75%	0.75%	0.75%
Forecast for increase in Council Tax income	5,829	5,873	6,079	6,288			<b>£5 per annum (Band D)</b>		
<b>Council Tax Income Forecast</b>	<b>5,829</b>	<b>6,034</b>	<b>6,241</b>	<b>6,452</b>					
Deficit on Retained Business Rates	-121								
Collection Fund Surplus	74	0	0	0					
<b>Assumed Collection Fund Income (Formula Grant + Council Tax)</b>	<b>7,727</b>	<b>7,581</b>	<b>7,734</b>	<b>7,350</b>					
<b>Forecast Budget Shortfall (required use of working balance)</b>	<b>0</b>	<b>383</b>	<b>485</b>	<b>895</b>					
<b>GENERAL FUND WORKING BALANCE PROJECTION: AFTER SERVICE COST REDUCTION</b>									
Estimated Working Balance b/f	2,930	2,930	2,547	2,062					
Resulting Working Balance c/f	2,930	2,547	2,062	1,167					





**EPSOM AND EWELL BOROUGH COUNCIL**

**CAPITAL STRATEGY STATEMENT  
February 2016**

Capital Investment 2016/17 to 2018/19

## **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.

Due to the current public sector funding environment the capital programme 2016-2019 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 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. Capital Programme 2016-19**

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 2016-19 in February 2016.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	Total £'000
LED Lighting - Various Sites	0	50	0	50
Replacement of car park pay and display machines	0	104	0	104
Waste Strategy containers	25	25	0	50
Information Technology & Electronic Service Delivery	0	250	0	250
Container and bin replacement	66	68	0	134
Ashley Centre Car Park repairs	0	150	100	250
Disabled Facility Grants *	286	286	286	858
Cemetery extension	654	0	0	654
St Mary's Church Wall repair	0	60	0	60
Installation of solar panels to Council buildings	0	100	0	100
<b>Total</b>	<b>1,031</b>	<b>1,093</b>	<b>386</b>	<b>2,510</b>

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

In addition schemes may be added where:-

- there is a carry forward from 2015/16 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.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	Total £'000
Capital Reserves and Receipts	695	629	100	1,424
Government Grants	286	286	286	858
Revenue Reserves	50	28	0	78
Capital Reserves for Spend to Save Schemes	0	150	0	150
<b>Total</b>	<b>1,031</b>	<b>1,093</b>	<b>386</b>	<b>2,510</b>

#### **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 2017 is £2.1 million. This assumes full delivery of the 2016/17 capital programme and no new capital receipts.

#### **5. Capital Resources**

Potential capital resources have been identified from

- capital reserves at the end of March 2017
- 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 has agreed to use new homes bonus as a source of funding for capital projects to supplement a reducing level of capital reserves.

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.

## **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 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**

The Council is expected to remain debt free over the next three years of the Medium Term Financial Strategy, retaining capital reserves at a minimum level of £1 million. 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 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 2016/17**

**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 Indicators relevant to the Council and sets out the indicators for approval as part of the Council's budget setting for 2016/17.

**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.

Actual and Estimates of the Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing costs net of interest and investment income) against the net revenue stream.

As the Council is debt free and has net investment income this indicator is negative and represents the extent to which the Council is reliant on investment income to support its revenue budget provision.

Estimates of the Incremental Impact of Capital Investment Decisions on the Council Tax

This indicator identifies the trend in the cost of proposed changes in the three year capital programme recommended in the budget report compared to the Council's existing commitments and plans. The forward assumptions are based on the those included in the budget report, but will invariably include some areas, such as the level of government support, which is not published over a three year period.

The incremental impact on council tax for each year is expressed as a percentage increase. This increase equates to the level investment in capital expenditure funded from reserves that could have alternatively been invested to generate investment income. Capital expenditure plans are anticipated to be financed from existing capital receipt reserves rather than from new receipts and there are revenue consequences arising from capital expenditure plans.

The Council is asked to note the affordability indicators set out below.

	2014/15 Actual	2015/16 Probable	2016/17 Estimate	2017/18 Estimate	2018/19 Estimate
Ratio of Financing Costs to Net Revenue Stream	-2%	-2%	-1%	-1%	-2%
Incremental Impact of Capital Investment Plans on Council Tax Band D	1%	3%	1%	1%	0%

### 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's 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 and has no underlying need to borrow for a capital purpose. For the four year period 2015-19 the Council does not anticipate any borrowing requirement for capital expenditure plans, although there is a need to identify an asset disposal programme to generate capital receipts to fund future planned capital expenditure. The CFR for the Council over the next four years is nil.

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

	2014/15 Actual £'000	2015/16 Probabl e £'000	2016/17 Estimat e £'000	2017/18 Estimat e £'000	2018/19 Estimat e £'000
<b>Capital Expenditure:</b>					
<b>Total Capital Expenditure</b>	<b>3,485</b>	<b>5,534</b>	<b>1,031</b>	<b>1,093</b>	<b>386</b>
<b>Capital Financing:</b>					
Borrowing	-	-	-	-	-
Capital reserves	612	1,921	695	779	100
Capital grants	245	291	286	286	286
Other capital contributions	757	3,077	-	-	-
Revenue	1,871	245	50	28	-
<b>Total Capital Financing</b>	<b>3,485</b>	<b>5,534</b>	<b>1,031</b>	<b>1,093</b>	<b>386</b>
<b>Capital Financing Requirement (CFR)</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>
<b>Movements in CFR</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>

<b>External Debt:</b>					
Borrowing	nil	nil	nil	nil	nil
Other long term liabilities	nil	nil	nil	nil	nil
<b>Total External Debt at 31 March</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>	<b>nil</b>

#### 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 2018/19.

	2014/15 Actual £'000	2015/16 Probabl e £'000	2016/17 Estimat e £'000	2017/18 Estimat e £'000	2018/19 Estimat e £'000
Gross Borrowing at 31 March	-	-	-	-	-
Investments at 31 March	21,380	19,459	18,764	17,985	17,885
Net Borrowing at 31 March	(21,380)	(19,459)	(18,764)	(17,985)	(17,885)
<b>Capital Financing Requirement</b>	-	-	-	-	-

The Director of Finance and Resources reports that the Council complied with the requirement to keep net borrowing below the relevant CFR in 2014/15 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 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.

	2014/15 Actual £'000	2015/16 Probable £'000	2016/17 Estimate £'000	2017/18 Estimate £'000	2018/19 Estimate £'000
<b><u>Authorised Limit for External Debt</u></b>					
Borrowing	5,000	5,000	5,000	5,000	5,000
Other long term liabilities	-	-	-	-	-
<b>Total Authorised Limit for External Debt</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>	<b>5,000</b>
<b><u>Operational Boundary for External Debt</u></b>					
Borrowing	-	-	-	-	-
Other long term liabilities	-	-	-	-	-
<b>Total Operational Boundary for External Debt</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 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. This Council adopted the Code of Practice on Treasury Management in April 2010 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.

In view of the limited borrowing expected to be undertaken in the three year period 2015-18, a Treasury Management Strategy was approved by Strategy and Resources Committee in March 2015 and an updated Treasury Management Strategy will be presented to Strategy and Resources Committee in March 2016.

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 the 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.

In line with the indicators for external debt set out above the Council will not have any net debt at any time over the next three years. The limits on fixed and variable borrowing on net debt are therefore set at 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.

Any borrowing over the next three years will be undertaken on a temporary basis and repaid within twelve months. The upper limit maturity structure for repayment is therefore set at 100% within twelve months.

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

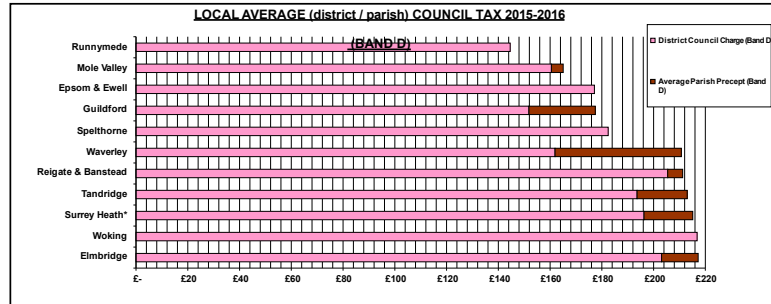
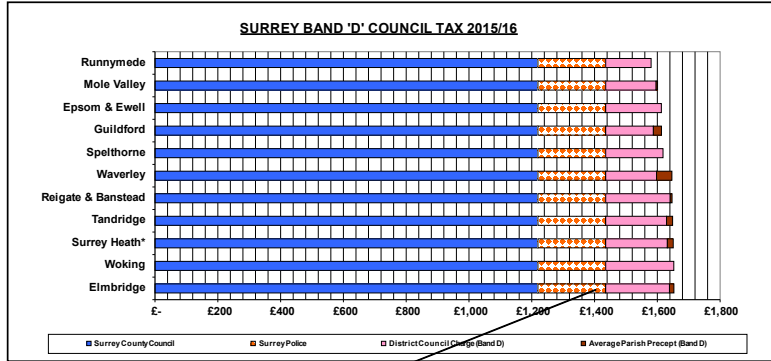
The Council is asked to approve the treasury management prudential indicators set out below:-

	<b>2015/16 Lower to Upper Limit £'000 or %</b>	<b>2016/17 Lower to Upper Limit £'000 or %</b>	<b>2017/18 Lower to Upper Limit £'000 or %</b>	<b>2018/19 Lower to Upper Limit £'000 or %</b>
<b>Limits on fixed interest rates borrowings</b>	-	-	-	-
<b>Limits on variable interest rates borrowings</b>	-	-	-	-
<b><u>Maturity Structure of Fixed Borrowing</u></b>				
Under 12 months	0 to 100%	0 to 100%	0 to 100%	0 to 100%
12 months to 2 years	-	-	-	-
2 years to 5 years	-	-	-	-
5 years to 10 years	-	-	-	-
10 years and above	-	-	-	-
<b>Maximum Principal Sums Invested</b>	<b>0 to 8,000</b>	<b>0 to 8,000</b>	<b>0 to 8,000</b>	<b>0 to 8,000</b>

This page is intentionally left blank



2015-2016 COUNCIL TAX (average per dwelling and Band D for 2 adults)						
	Surrey County Council	Surrey Police	District Council Charge (Band D)	Average Parish Precept (Band D)	Local Average (Band D)	Average Council Tax (Band D)
<b>SURREY DISTRICT</b>						
Runnymede	£ 1,219.68	215.89	144.59	0.00	144.59	1,580.16
Mole Valley	£ 1,219.68	215.89	160.52	4.55	165.07	1,600.64
<b>Epsom &amp; Ewell</b>	<b>£ 1,219.68</b>	<b>215.89</b>	<b>177.12</b>	<b>0.00</b>	<b>177.12</b>	<b>1,612.69</b>
Guildford	£ 1,219.68	215.89	151.82	25.65	177.47	1,613.04
Spelthorne	£ 1,219.68	215.89	182.44	0.00	182.44	1,618.01
Waverley	£ 1,219.68	215.89	161.91	21 48.80	210.71	1,646.28
Reigate & Banstead	£ 1,219.68	215.89	205.45	5.80	211.25	1,646.82
Tandridge	£ 1,219.68	215.89	193.62	19.36	212.98	1,648.44
Surrey Heath*	£ 1,219.68	215.89	196.30	18.84	215.14	1,650.71
Woking	£ 1,219.68	215.89	216.81	0.00	216.81	1,652.38
Elmbridge	£ 1,219.68	215.89	203.07	14.15	217.22	1,652.79



This page is intentionally left blank

**COUNCIL TAX PROPOSAL: CALCULATION FOR 2016/17 BUDGET REPORT**  
(Includes SPCC decision and SCC council tax proposals)

	2015/16	2016/17	2016/17	2016/17	2016/17
	1.97%	0.00%	1.52%	1.98%	£4.95
	£	£	£	£	£
<b>EPSOM AND EWELL BOROUGH COUNCIL</b>					<b>Recommendation</b>
Gross Service Expenditure	44,873,748	48,119,013	48,119,013	48,119,013	48,119,013
Business Rate Tariff	8,190,091	8,258,343	8,258,343	8,258,343	8,258,343
Business Rate Estimated Levy	85,419	135,630	135,630	135,630	135,630
Gross Expenditure	53,149,258	56,512,986	56,512,986	56,512,986	56,512,986
Gross Income	37,228,945	40,504,864	40,418,427	40,392,496	40,392,496
Business Rate Income - (Tariff Element/Levy)	8,275,510	8,393,973	8,393,973	8,393,973	8,393,973
Budget Requirement	7,644,803	7,568,050	7,654,487	7,680,418	7,726,517
Business Rate Retained Income	964,897	1,216,123	1,216,123	1,216,123	1,216,123
Small Business Rate Relief Grant	196,421	0	0	0	0
Localism Relief Grant	212,667	218,811	218,811	218,811	218,811
Revenue Support Grant	1,006,434	416,850	416,850	416,850	416,850
Transitional Grant	0	92,965	92,965	92,965	92,965
Collection Fund Surplus (Council Tax)	83,138	74,193	74,193	74,193	74,193
Collection Fund Deficit (Business Rates)	-400,071	-121,123	-121,123	-121,123	-121,123
Council Tax Grant	0	0	0	0	0
Collection Fund Income	2,063,486	1,897,819	1,897,819	1,897,819	1,897,819
Council Tax Requirement	5,581,317	5,670,231	5,756,668	5,782,599	5,828,698
Council Tax Base (Band D Equiv. Properties)	31,511.50	32,013.50	32,013.50	32,013.50	32,013.50
Basic Amount of Council Tax	£177.12	£177.12	£179.82	£180.63	£182.07
<b>Epsom &amp; Ewell Borough Council</b>					
1/9ths Valuation Band					
6 A	£118.08	£118.08	£119.88	£120.42	£121.38
7 B	£137.76	£137.76	£139.86	£140.49	£141.61
8 C	£157.44	£157.44	£159.84	£160.56	£161.84
9 D	£177.12	£177.12	£179.82	£180.63	£182.07
11 E	£216.48	£216.48	£219.78	£220.77	£222.53
13 F	£255.84	£255.84	£259.74	£260.91	£262.99
15 G	£295.20	£295.20	£299.70	£301.05	£303.45
18 H	£354.24	£354.24	£359.64	£361.26	£364.14
<b>Surrey County Council Basic Amount (RECOMMENDED)</b>					
1/9ths Valuation Band					
6 A	£813.12	£845.52	£845.52	£845.52	£845.52
7 B	£948.64	£986.44	£986.44	£986.44	£986.44
8 C	£1,084.16	£1,127.36	£1,127.36	£1,127.36	£1,127.36
9 D	£1,219.68	£1,268.28	£1,268.28	£1,268.28	£1,268.28
11 E	£1,490.72	£1,550.12	£1,550.12	£1,550.12	£1,550.12
13 F	£1,761.76	£1,831.96	£1,831.96	£1,831.96	£1,831.96
15 G	£2,032.80	£2,113.80	£2,113.80	£2,113.80	£2,113.80
18 H	£2,439.36	£2,536.56	£2,536.56	£2,536.56	£2,536.56
<b>Surrey Police &amp; Crime Commissioner: Basic Amount (RECOMMENDED)</b>					
1/9ths Valuation Band					
6 A	£143.93	£146.79	£146.79	£146.79	£146.79
7 B	£167.91	£171.26	£171.26	£171.26	£171.26
8 C	£191.90	£195.72	£195.72	£195.72	£195.72
9 D	£215.89	£220.19	£220.19	£220.19	£220.19
11 E	£263.87	£269.12	£269.12	£269.12	£269.12
13 F	£311.84	£318.05	£318.05	£318.05	£318.05
15 G	£359.82	£366.98	£366.98	£366.98	£366.98
18 H	£431.78	£440.38	£440.38	£440.38	£440.38

**COUNCIL TAX PROPOSAL: CALCULATION FOR 2016/17 BUDGET REPORT**  
(Includes SPCC decision and SCC council tax proposals)

	2015/16	2016/17	2016/17	2016/17	2016/17
<b>EPSOM AND EWELL BOROUGH COUNCIL</b>	1.97%	0.00%	1.52%	1.98%	£4.95
<b>Council Tax Total</b>					
<b>Valuation Band</b>					
A	£1,033.69	£1,110.39	£1,112.19	£1,112.73	£1,113.69
B	£1,205.97	£1,295.46	£1,297.56	£1,298.19	£1,299.31
C	£1,378.25	£1,480.52	£1,482.92	£1,483.64	£1,484.92
D	£1,550.53	£1,665.59	£1,668.29	£1,669.10	£1,670.54
E	£1,895.09	£2,035.72	£2,039.02	£2,040.01	£2,041.77
F	£2,239.65	£2,405.85	£2,409.75	£2,410.92	£2,413.00
G	£2,584.22	£2,775.98	£2,780.48	£2,781.83	£2,784.23
H	£3,101.06	£3,331.18	£3,336.58	£3,338.20	£3,341.08
<b>EPSOM &amp; EWELL BOROUGH COUNCIL ELEMENT OF THE COUNCIL TAX - CHANGES</b>					
Council Tax at Band D =	£ 177.12	£ 177.12	£ 179.82	£ 180.63	£ 182.07
Increase in Council Tax (%)		0.00%	1.52%	1.98%	2.79%
Increase in Council Tax (per annum)		£0.00	£2.70	£3.51	£4.95
Increase in Council Tax (per month)		£0.00	£0.22	£0.29	£0.41
Increase in Council Tax (per week)		£0.00	£0.05	£0.07	£0.10
Income Generated from Council Tax Increase		£0	£86,436	£112,367	£158,467
Use of Working Balance		£158,467	£72,030	£46,099	£0
Equiv. Council Tax support from use of wkg bal.		£4.95	£2.25	£1.44	£0.00
Note:					
Budget Requirement	7,644,803	£7,568,050	£7,654,487	£7,680,418	£7,726,517
Increase in Budget Requirement		-1.0%	0.1%	0.5%	1.1%

11% EEBC	£5,782,598.51	£5,828,697.95
76% SCC	£40,602,081.78	£40,602,081.78
13% SPA	£7,049,052.57	£7,049,052.57
	<b>£53,433,732.85</b>	<b>£53,479,832.29</b>
	<b>£53,433,732.85</b>	<b>£53,479,832.29</b>

<b>Council Tax Collection Fund Income and  Expenditure Account Estimate for the Year  Ended 31 March 2016</b>
---

	2015/16
	£
Expenditure :-	
Surrey County Council Precept	38,433,946
Surrey Police Precept	6,803,018
Epsom & Ewell Borough Council Precept	5,581,317
Distribution of Income in 2015/16 to cover 2014/15 surplus	756,458
Increased Provision for Bad Debts	572,182
	52,146,921
Income :-	
Council Tax Income	51,996,987
	51,996,987
Surplus for the year	(149,934)
Balance Brought Forward 1 April	825,289
Balance Carried Forward 31 March	675,355

Surplus allocation 2016/17 Budget:	£
Surrey County Council	510,750
Surrey Police & Crime Commissioner	90,412
Epsom & Ewell Borough Council	74,193
	675,355

**Retained Business Rates Collection Fund  
Income and Expenditure Account Estimate  
for the Year Ended 31 March 2016**

	2015/16
	£
Expenditure :-	
Central Government (includes tariff & levy)	19,828,577
Surrey County Council	2,310,102
Epsom & Ewell Borough Council	962,337
Increased Provision for Bad Debts	78,084
Increased Provision for Appeals	694,544
Cost of Collection Allowance	86,618
	<u>23,960,262</u>
Income :-	
Business Rates Income	23,916,250
Funding from Preceptors in 2015/16 to cover 2014/15 deficit	750,430
	<u>24,666,680</u>
Surplus for the year	706,418
Balance Brought Forward 1 April	(1,009,227)
Balance Carried Forward 31 March	<u>(302,809)</u>

Deficit allocation 2016/17 Budget:	£
Central Government	(151,405)
Surrey County Council	(30,281)
Epsom & Ewell Borough Council	(121,123)
	<u>(302,809)</u>

**Retained Business Rates Collection Fund  
Income and Expenditure Account Estimate  
for the Year Ended 31 March 2016**

	2015/16
	£
Expenditure :-	
Central Government (includes tariff & levy)	19,828,577
Surrey County Council	2,310,102
Epsom & Ewell Borough Council	962,337
Increased Provision for Bad Debts	78,084
Increased Provision for Appeals	694,544
Cost of Collection Allowance	86,618
	<u>23,960,262</u>
Income :-	
Business Rates Income	23,916,250
Funding from Preceptors in 2015/16 to cover 2014/15 deficit	750,430
	<u>24,666,680</u>
Surplus for the year	706,418
Balance Brought Forward 1 April	(1,009,227)
Balance Carried Forward 31 March	<u>(302,809)</u>

Deficit allocation 2016/17 Budget:	£
Central Government	(151,405)
Surrey County Council	(30,281)
Epsom & Ewell Borough Council	(121,123)
	<u>(302,809)</u>

This page is intentionally left blank