

FINANCIAL POLICY PANEL

Tuesday 10 September 2019 at 6.00 pm

Committee Room 1 - Epsom Town Hall

The members listed below are summoned to attend the Financial Policy Panel meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

Councillor Eber Kington (Chairman)
Councillor Kate Chinn
Councillor Nigel Collin
Councillor Neil Dallen

Councillor David Gulland
Councillor Colin Keane
Councillor Barry Nash
Councillor Clive Smitheram

Yours sincerely



Chief Executive

For further information, please contact Democratic Services, tel: 01372 732122 or Democraticservices@epsom-ewell.gov.uk

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AGENDA

1. DECLARATIONS OF INTEREST

Members are asked to declare the existence and nature of any Disclosable Pecuniary Interests in respect of any item of business to be considered at the meeting

2. REVIEW OF RESERVES (Pages 5 - 24)

This report reviews the level of the Council's reserves compared to District Council benchmarks as part of a financial health check, and seeks the Panel's guidance on transfers between the reserves.

3. BUDGET TARGETS 2020/21 AND THE DEVELOPMENT OF THE MEDIUM TERM FINANCIAL STRATEGY FOR 2020-2024 (Pages 25 - 52)

This report recommends budget targets for 2020/21 and provides a further update on the financial forecast and issues affecting the new four year financial plan.

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REVIEW OF RESERVES

Head of Service/Contact:	Lee Duffy, Chief Finance Officer
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	
Annexes/Appendices (attached):	Annex 1 - Policy on reserves
Other available papers (not attached):	2018/19 Financial statements 2019/20 Budget book

Report summary

This report reviews the level of the Council's reserves compared to District Council benchmarks as part of a financial health check, and seeks the Panel's guidance on transfers between the reserves.

Recommendation (s)

The Panel reviews:

- (1) the overall level of the Council's reserves and provisions and considers whether they are appropriate for sound management of the Council's finances.
- (2) the level of individual reserves and provisions and considers whether it supports the transfers between reserves as set out in paragraphs 7.18, 7.22, 7.35 and 7.51 of this report.

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

1.1 The Council's Medium Term Financial Strategy includes the following objectives for the budget position and revenue reserves:-

- Produce a balanced revenue budget each year
- 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

- Maintain a minimum working balance of £2.5 million at 31 March 2020.
- 1.2 The Council's Medium Term Financial Strategy includes the following objectives for Investment:
- The Council has committed a significant level of funding to capital investment in the four year financial plan however it is seeking to maintain an uncommitted level of capital reserves of £1 million at 31 March 2020.

2 Background

- 2.1 The Financial Plan 2016-20, including the Medium Term Financial Strategy, was approved by the Council in February 2016 following a review of the Council's financial standing (section 3).
- 2.2 The plan included a trend analysis of the Council's revenue and capital reserves between 2008 and 2015 and an overview of reserves held at March 2015.
- 2.3 The plan also provided a four year revenue budget forecast and an overview of the forecast level of reserves and provisions up to March 2020 (section 15).
- 2.4 The Council already carries out an annual review of its reserves and provisions and uses this information for budget planning and the capital programme review.

3 Reserves

- 3.1 For Local Government, reserves play a crucial role in good public financial management. They exist so that the Council can invest in service transformation for the future or respond to unexpected events or emerging needs.
- 3.2 Reserves held by this Council can be distinguished between general fund and capital. There is clear guidance on how these types of reserves can be applied and it varies for the two types.

General Fund Revenue Reserves

- 3.3 The Council's General Fund is where all the revenue income and expenditure of the Council is accounted for. It does not include specific funds, such as the Collection Fund, which account for monies that the Council is acting as agent for.
- 3.4 The reserves are the accumulated surplus of income over expenditure.
- 3.5 General Fund reserves should not be used to fund revenue expenditure on an ongoing basis.

- 3.6 General fund reserves are classified as either earmarked or un-earmarked.

General Working Balance (Un-earmarked reserves)

- 3.7 Working balance is often referred to as un-earmarked reserves and is maintained to safeguard the Council against potential financial risks beyond those for which specific earmarked reserves have been created.
- 3.8 The 'normal' level of un-earmarked reserves will reflect the long-term needs of the Council and be based on the ongoing operational requirements of the Council. This will include a number of factors, the main ones being the gross expenditure of the Council and the extent to which long-term service contracts reduce the Council's flexibility to respond to financial shocks. Previously the Audit Commission suggested that a yardstick for 'normal' un-earmarked reserves is somewhere between 5% and 100% of 'net operating expenditure'.

Strategic (Earmarked) Reserves

- 3.9 Strategic reserves are also called earmarked reserves and they are amounts set aside for specific policy purposes or for general contingencies and cash flow management. For each reserve established, the purpose and usage needs to be clearly defined.

Capital Reserves

- 3.10 Capital Receipts Reserve represents receipts available to finance future capital expenditure.

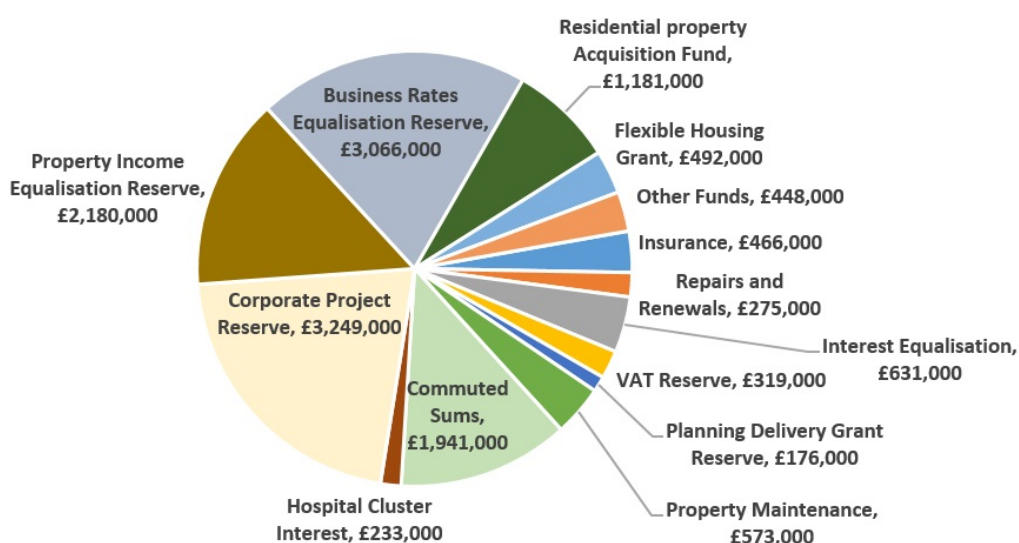
4 Current Level of Reserves

- 4.1 The following table shows at a high level the Council's revenue and capital reserves as contained in the draft financial statements for 2018/19 and the forecast change in reserves anticipated for 2019/20.

	Actual 2017/18	Actual 2018/19	Movement 2018/19	Forecast Movement 2019/20
	£'m	£'m	£'m	£'m
General Working Balance	3.3	3.4	+ 0.1	+0.0
Strategic Reserves	12.9	15.2	+ 2.3	-0.9
Capital Reserves	4.9	4.9	+ 0.0	-1.7

- 4.2 The General Fund working balance increased by a surplus of £68,000 in 2018/19.
- 4.3 Strategic reserves were improved by planned transfers of New Homes Bonus Grant to Corporate Projects Reserve, the expected increase in the share of business rates income as a result of being in a Pilot and planned appropriations to Property Income Equalisation Reserve from income from recently acquired properties financed by borrowing.
- 4.4 The main reason capital reserves remained unchanged is due to the carry forward of capital programme commitments into 2019/20 of approximately £1,090,000.
- 4.5 The following diagram shows the Revenue Reserves totalling £15 million as at 31 March 2019.

REVENUE RESERVES (March 2019)



5 Financial Standing

General Fund Working Balance

- 5.1 The Council's general fund working balance at £3.4 million represents 41% of the Council's annual net revenue expenditure. This is broadly in line with the national average held by District Councils of around 39% of their net annual revenue expenditure at the end of 2017/18.

- 5.2 Since 2015/16 the Council's working balance has remained at around £3.4 million.
- 5.3 Given the size of the Council and the fact that the working balance is around the average for district councils compared to net revenue expenditure, the current level of reserve is not considered to be a concern.

Earmarked General Fund Reserves

- 5.4 The Council's earmarked or strategic reserves have increased since 2015/16 from £7.3 million to £15.2 million in 2018/19.
- 5.5 It should be noted that specific local circumstances more significantly affect the level of earmarked reserves and, whilst the ratio of net expenditure to working balance is useful for the general reserve, any ratios should be used more cautiously for strategic reserves.
- 5.6 There are four main reasons why there has been an increase in the level of strategic reserves in the last four years, not only to cover greater uncertainty and increased risk in relation to Councils' future finances but also to reflect changes to sums now defined as reserves.
- 5.7 Firstly, the Council has created a property income equalisation reserve with a balance of £2.2 million to mitigate against the risk of loss of rental income, from investment property tenants, which currently fund the Council's external debt and make a contribution to finance services to residents.
- 5.8 Secondly, in the last four years the balance on the business rates equalisation reserve has increased by £2.4m, however, in 2019/20 £1.9m must be used as planned from this reserve to finance a deficit chargeable from the business rates collection fund account.
- 5.9 Thirdly, New Homes Bonus grant has been set aside to the corporate projects reserve to provide funding for one off projects, the balance within this reserve has increased by £1.5m in the last 4 years.
- 5.10 Fourthly, due to changes in the presentation of grant funding £800k of grant income received for specific purposes are now included within strategic reserves when in 2015/16 these would have been shown elsewhere on the Council's balance sheet.

Capital Reserves

- 5.11 Capital reserves at the end of 2018/19 were at £4.3million (excluding £0.6m earmarked for Horton Chapel), however, the Council has already committed £1.7m to fund approved projects within the Council's capital programme for 2019/20.

6 Medium Term Financial Planning

- 6.1 The latest forecast suggests that this Council will need to reduce its net revenue budget by around £2 million over the next four years to maintain a balanced budget with no use of working balances. A separate report regarding financial planning is included on this agenda.
- 6.2 To reduce the level of savings required to meet the budget gap a review of current budgeted contributions to reserves has been undertaken. In 2019/20 the Council has budgeted net contributions to strategic reserves of c£900k (excluding the transfer from the business rates equalisation reserve of £1.8m). The majority of the budgeted contribution is £660k to the property income equalisation.
- 6.3 In 2016/17 the Council decided to acquire commercial property to provide Epsom & Ewell Borough Council with new rental income streams to help address cuts made in Government funding.
- 6.4 The Council at the same time agreed to acquire these properties using external borrowing and created a new property income equalisation reserve that would be maintained at a level to mitigate one year's loss of rental income from each property acquired through borrowing.
- 6.5 The current level of funds needed on the property income equalisation fund to meet the requirement of 1 year's rental income is c£5 million. Currently the balance on this reserve as at the end of 2018/19 is £2.2 million and at the present rate of contributions it will be in 2024/25 before the target balance will be achieved, and contributions to this reserve from the general fund are expected to reduce.
- 6.6 Following review, there is an opportunity to transfer surplus strategic reserve balances to the property income equalisation reserve which would enable the Council to realise a reduction in its contributions from the general fund earlier than planned. Such transfers to the property income equalisation reserve as set out in paragraphs 7.18, 7.22, 7.35 and 7.51 would, therefore, assist the Council in meeting the budget savings target of £2 million by 2023/24, thereby helping to protect the revenue resources available for the delivery of services to residents.

7 Review of Reserves

- 7.1 The level of reserves is also consistent with the Council's own policy as set out in the Medium Term Financial Strategy.
- 7.2 As set out in Grant Thornton Audit Findings report for 2018/19 they stated the following regarding the Council's level of reserves:

"You have maintained a strong reserves increasing the level of usable reserves by £2.8m in the year to £28.9m overall. You have demonstrated robust financial planning by earmarking 52% of these reserves for specific strategic purposes which will allow you to meet your strategic objectives over the medium term. This

demonstrates planned spending for specific purposes which will ensure you are able to deliver the services and developments committed to for the benefit of residents of the Borough.

You have set yourself a minimum general fund balance of £2.5m which you wish to hold to ensure a minimum level of funds is available for non-specific expenditure should it be required. You have demonstrated that you have exceeded this minimum threshold for 2018/19 by holding a general fund reserve of £3.4m and have plans to maintain the minimum level in the medium term.

Conclusion

Accordingly, in our view, appropriate arrangements are in place to support your medium term financial position.”

- 7.3 A more detailed assessment is made of each reserve in **Annex 1** showing:-
- The level of the reserve as at March 2019 compared to March 2018
 - The policy for each reserve
 - The objective of holding each reserve
 - Commitments made against each of the reserves
- 7.4 The purpose of the annexe is to set out clearly the purpose of individual reserves or provisions and to identify any shortfalls or the opportunity to use funds in other areas including service delivery.
- 7.5 Each reserve has a clearly specified and defined use either as a contingency, as part of the Council's financial risk management, or to meet specific funding commitments in future years.
- 7.6 The following section considers the scope for releasing funds or the need to strengthen individual reserves and covers all revenue reserves over £200,000.
- 7.7 The Panel will consider capital reserves after the Capital Member Group has prepared a draft programme in December 2019. The capital reserves are used to invest in services and are monitored closely along with other funding sources such as Community Infrastructure Levy (CIL) Section 106 planning gain funds.

General Fund Working Balance

- 7.8 The General Fund Working Balance provides the main contingency for unforeseen services. The current policy is that a minimum of £2.5 million should be retained and this compares to a current Council turnover of around c£50 million (5%).

- 7.9 The minimum level of working balance agreed by Strategy Resources Committee has remained at £2.5 million for the last six years.
- 7.10 As the reserve currently stands at £3.4m, this effectively provides a surplus of £900,000 which is currently uncommitted in the short term. The main use of this 'surplus' element is to manage the longer term budget position so that the Council has time to respond to government funding cuts in a planned manner rather than through emergency service reduction. The surplus also means that the Council can mitigate annual overspends on its revenue budget up to a certain level, without breaching the agreed minimum £2.5m threshold.
- 7.11 The Council would need to accept a higher risk to service funding in the medium term if the working balance were reduced. In the current climate of public sector funding cuts and risks to other income streams any reliance on use of reserves is not recommended. The Panel should continue to review the level of the working balance as an essential tool in medium term financial planning and it is recommended that the Council keeps the minimum level of working balance at £2.5 million.

Strategic Reserves

Recreation Commuted Sums

- 7.12 This comprises 'dowries' of £1,941,000 received upon the transfer of land to fund future maintenance. The sums are held with the Council's investment portfolio and the interest earned credited to the Community and Wellbeing Committee open spaces account as a permanent contribution to grounds maintenance costs. No changes are recommended to the balances held.

Business Rates Equalisation Reserve

- 7.13 A Business Rates Equalisation Reserve was established with the introduction of the current system for redistribution of retained business rates back in 2013. It was created to manage variations to estimates of retained business rate income.
- 7.14 In 2017/18 it was agreed that Central Government funding of £1,381,000 for small business rate relief and safety net payment be transferred to this reserve to help finance the deficit on the Council's share of retained business rates income payable in 2019/20 of £1.8 million.
- 7.15 In 2018/19 the Council benefitted from being part of a 100% Business Rates Pilot, although not all the gain from the Pilot was realisable in 2018/19 as part of the additional income will not be received from the fund until 2020/21.
- 7.16 The balance on this reserve as at 31/3/19 was £3,066,000 and this is expected to reduce to £1.3 million by the end of 2019/20 after funding the prior year deficit from the fund.

- 7.17 The current Financial Plan includes the use of a total of £0.5 million of this reserve during 2021/22 to 2024/25 to offset expected business rate reductions in funding over this period through the Fair Funding and Business Rate Retention reviews.
- 7.18 It is prudent to maintain a minimum balance of £0.5 million on this reserve to compensate for at least two years where business rates retained income could fall below the budgeted funding baseline. Therefore, it is proposed that a surplus balance of **£221,000 is transferred from this reserve to Property Income Equalisation Reserve.**

Hospital Cluster Interest Reserve

- 7.19 The terms of the transfer of Horton Chapel to the Council in the 2000's provided that the commuted sum for investment, received by the Council at the transfer of the property, would be repayable with added interest if the Council were unable to fulfil the terms of the property transfer.
- 7.20 This reserve was established to hold the interest accrued on the commuted sums, to ensure that, should a community facility not be achieved, any interest repayable would not fall on the general fund and could be met from the earmarked reserve. Should a successful outcome be achieved the sum could also act as a contingency provision for additional one-off costs. The balance of the reserve at 31 March 2019 was £233,000.
- 7.21 The Council gave approval for the transfer of Horton Chapel to the Horton Chapel Arts & Heritage Society in September 2016 for its refurbishment for community use.
- 7.22 It is proposed that the full balance of **£233,000 on this reserve be transferred to Property Income Equalisation reserve**, once the Council has fulfilled its obligations on completion of works to Horton Chapel.

Insurance Reserve

- 7.23 The Council maintains a provision for uninsured losses (e.g. sums below the Council's insurance excess limits) on all unsettled claims. These will go back several years. The reserve is reviewed annually based on broker assessments of potential liabilities and at £466,000 is above the forecast for outstanding liabilities as at March 2019 assessment.
- 7.24 The Council has been notified by the Scheme Administrator for Municipal Mutual Insurance Ltd that the amount subject to levy is £83,615 which may be claimed by Municipal Mutual Insurance Ltd in relation to future liabilities as at 31 March 2019.
- 7.25 The Council's base budget requires an on-going contribution from this reserve of £25,000 per annum to fund the increased cost of insurance for this Council, therefore no further transfers from this reserve are currently recommended.

Corporate Project Reserve

7.26 This fund was established to provide revenue funding for projects outside of the day to day delivery of services. This has successfully assisted the delivery of a number of programmes:-

7.26.1 Partnership Funding – Grants or contributions for schemes that cover a number of years can be held in this fund until expenditure is incurred (e.g. parks improvement funding, EU exit funding and funds allocated for new government burdens)

7.26.2 Spend to save one off costs – some of the Councils spend to save initiatives involve one-off staffing or financing costs which cannot be contained within the base budget

7.26.3 Funding for one-off corporate priority projects.

7.27 The balance of the Corporate Project Reserve at 31 March 2019 was £3,249,000, comprised of the following sources:

	£'000
New Homes Bonus	2,614
Partnership Funding	379
Non-specific	256
Total	3,249

7.28 Additional funding of £444,000 from New Homes Bonus for 2019/20 is budgeted to be transferred into this reserve. This will result in a balance on this reserve of £2,614,000. However, New Homes Bonus funding has been drastically reduced in recent years and is under further threat as part of the Government's 'Fair Funding Review'. The level of future contributions from New Homes Bonus to this reserve is expected to further reduce in future years.

7.29 The Partnership Funding element of this reserve is expected to be used to finance specific expenditure in future years.

7.30 The non-specific sum on the Corporate Projects Reserve is £256,000 and could be released however the use of this sum for financial management purposes as set out above (partnership funding, development holding costs, spend to save funding) provides greater flexibility for the Council and extra capacity to deliver corporate projects. This is essential as resilience is reduced due to funding constraints.

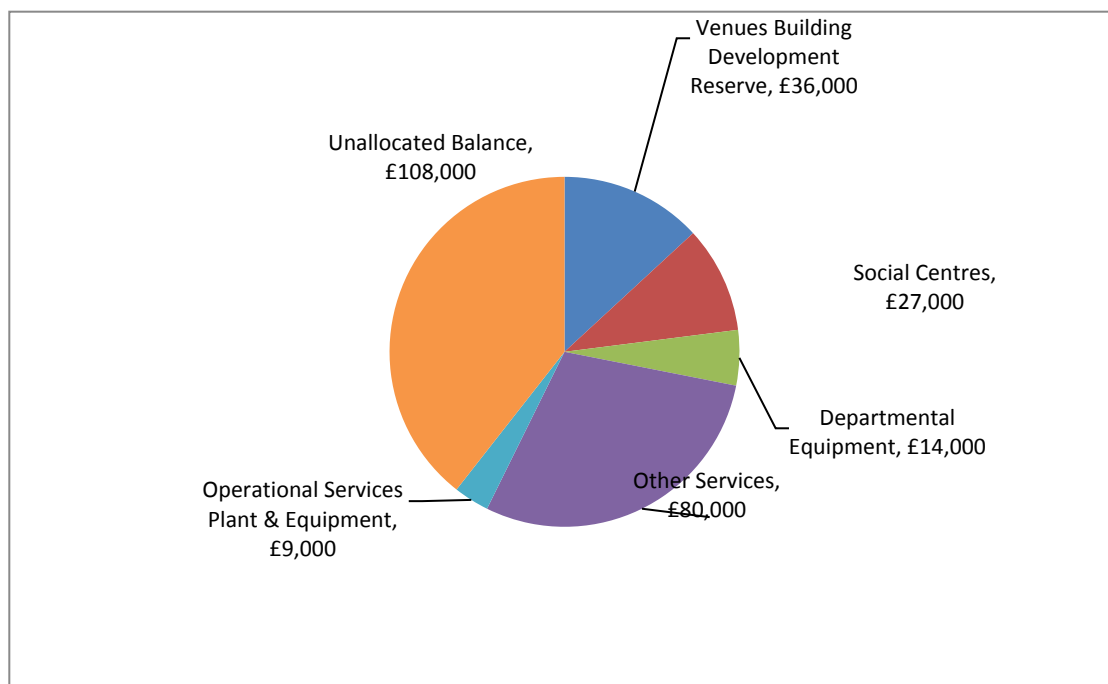
- 7.31 The budget for 2019/20 includes transfers of £145,000 from the non-specific element of this reserve which reduces the balance on this fund to £111,000. No transfers are recommended to or from this reserve at this time.

Value Added Tax Reserve

- 7.32 The Council is able to recover most VAT paid (netted against VAT receipts). The main risk for District Council's is a potential annual VAT liability where VAT on its 'trading activity' as defined by the HMRC exceeds 5% of total VAT. Up to this point the Council can recover all VAT incurred on trading activities. Under 'partial exemption' rules as soon as this 5% trigger point is breached the Council must pay the full VAT liability estimated at around £100,000 in any year. The Council has exceeded the 5% figure in 2013/14 and 2016/17, however the Council was able to avoid repayment of the recovered VAT by taking mitigating action.
- 7.33 The Council manages this risk by holding a VAT reserve that, should the 5% limit be breached, enables the liability to be met for the previous inspected year and provides additional funding should action not be available to remove the liability in the current year.
- 7.34 The current reserve balance is £319,000, it is recommended that the balance on this reserve should provide funding for 2½ years of the potential annual VAT liability.
- 7.35 Therefore, it is recommended that **£69,000 is transferred to the Property Income Equalisation Reserve.**

Repairs and Renewals Fund

- 7.36 The repairs and renewals fund comprises of a provision for the replacement or repair of plant, equipment and vehicles where they are owned by the Council.
- 7.37 The level of reserve held reflects past contributions to the fund from service budgets, less spending authorised. It is not based on a detailed assessment or forward plan of items that will need replacement or repair. This provides greater flexibility for managers to review their assets outside the of the normal budget process. It enables them to make a case for funds when there is a service requirement that cannot be met within constrained revenue budgets or funded from capital. Since most vehicles are covered by a separate lease/maintenance contract, the items that have recently been funded have been mainly plant and equipment.
- 7.38 The balance on the reserve as at 31 March 2019 was £274,000.
- 7.39 Based on allocations made from specific service budgets, net of expenditure from the fund, the fund is earmarked as follows:-



- 7.40 Another important use of the reserve is for ad hoc health and safety expenditures where the required spend cannot be met from other budgets.
- 7.41 The 2019/20 revenue budget includes contributions of £46,000 into the reserve. No further transfers are recommended to or from this reserve at this time.

Property Maintenance Fund

- 7.42 The Property Maintenance Fund was established to provide additional resources to deal with the backlog of repairs to Council property.
- 7.43 The Council now has a base budget of £210,000 per annum for prioritised repairs to buildings and other assets such as hard surfaces. This sum is additional to the programmed and reactive maintenance budget covered in the facilities management contract. Work is prioritised by the Senior Surveyor, in consultation with the Head of Property and Regeneration, and the programme is reported either to this Panel or the Strategy and Resources Committee. Part of the budget is left uncommitted at the start of the year to help finance any urgent unplanned works
- 7.44 Budget allocations for works approved but not completed by the year end are transferred to the Property Maintenance Reserve at 31 March so that they can be used to finance the completion of the programme the following year.
- 7.45 The current position on the reserve is as follows:-

Property Maintenance Fund	£000
Balance carried forward 1 April 2019	573
Drawdown for commitments carried forward from 2018/19	-70
Uncommitted balance	503

- 7.46 The level of uncommitted reserve is considered adequate taking into account the size of the Council's property portfolio and no changes are recommended to this reserve.

Interest Equalisation Reserve

- 7.47 The interest equalisation account was established to manage fluctuations in investment returns available to support general fund services; (a) in year so that a reduction in investment returns did not require a reduction of service budgets (b) in the medium term so that variations in interest rate returns can be smoothed.
- 7.48 Prior to the 2008 financial crisis when capital reserves were higher and interest rates were higher, the Council relied more significantly on interest generated to help fund services, by over £1m per annum at one time.
- 7.49 One of the challenges that the Council has managed in the past few years is coping with significantly reduced revenue from treasury management investments.
- 7.50 In the budget targets report the updated financial forecast assumes that average investment returns will stay at low levels, but will increase gradually over the next 5 years from around 1 to 2½ percent. This reserve will be required to provide additional funding for services if these levels of returns cannot be achieved.
- 7.51 This reserve is therefore still extremely useful for financial planning. The reserve stands at £631,000 at 31 March 2019. However given current interest rates it is suggested that a minimum of £400,000 is retained to manage the medium term financial position and a **transfer of £231,000 is made out to the Property Income equalisation reserve.**

Planning Delivery Grant Reserve

- 7.52 This reserve was created from received Government Housing and Planning Delivery Grants and is earmarked for providing funds for planning development expertise. The use of the balance on this reserve was agreed at Strategy & Resources Committee on 30 July 2019.

Residential Property Acquisition Fund

- 7.53 This fund was created in 2016/17 from New Homes Bonus funding and is used to purchase residential properties to support the Council's housing activities, the balance on this fund as at the 31/3/2019 was £1,181,000. No transfers are recommended to or from this reserve at this time.

Property Income Equalisation Reserve

- 7.54 The reserve aims to hold sufficient funds to mitigate the risks associated with future rental income streams from investment properties purchased through the Commercial Property Acquisition Fund, which is supported by external borrowing. The reserve's target is to accumulate sufficient funds to cover the potential loss of one year's rental income from each property.
- 7.55 Following a contribution to the reserve of £0.83m in 2018/19, the reserve balance stands at £2.18m, £2.79m below its target balance of £4.97m.
- 7.56 If the proposed transfers of £754,000 as set out in this report are agreed and with annual budgeted contributions to the reserve of £0.66m; at this rate, the target balance is on track to be achieved in 2021/22.

Flexible Housing Grant

- 7.57 The grant is held in a reserve and is used to support homelessness prevention measures and to offset reduced rental income on temporary accommodation arising from benefit changes. As at the end of 2018/19 the balance on this reserve was £492,000. These monies are held for a specific use and therefore not recommended to be transferred.

Other Reserves

- 7.58 The remaining strategic reserves are excluded from this report either due to funds having restrictions on their use or they are of relatively low value.

8 Proposals

- 8.1 It is proposed that the Panel:
- 8.1.1 reviews the overall level of the Council's reserves and provisions and considers whether they are appropriate for sound management of the Council's finances, taking into account current pressures on funding services
 - 8.1.2 reviews the level of individual reserves and provisions and considers whether it wishes to support transfers of £221k from the Business Equalisation Reserve, £69k from the Value added Tax Reserve, £231k from the Interest Equalisation Reserve and £233k from Hospital Cluster Interest Reserve into the Property Income Equalisation Reserve;

9 Financial and Manpower Implications

- 9.1 **Chief Finance Officer's comments:** This report should be read in conjunction with the budget targets report (also included on the agenda for this meeting) which sets out the Council's projected financial position for the next four years.
- 9.2 The proposal to transfer a total of £754k to the Property Income Equalisation reserve from other earmarked reserves as set out in paragraphs 7.18, 7.22, 7.35 and 7.51 will enable the Council to reduce its budgeted general fund contributions to the Property Income Equalisation reserve earlier than planned. This will assist the Council in meeting its budget savings target of £2 million by 2023/24, thereby helping to protect the revenue resources that are available for the delivery of services to residents.
- 9.3 There are no specific manpower implications arising from this report.

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

- 10.1 There is no regulation as to an appropriate the level the reserves.
- 10.2 The Chief Finance Officer is required to prepare a statement on reserves as part of the budget report.
- 10.3 ***Monitoring Officer's comments: none arising from the contents of this report.***

11 Sustainability Policy and Community Safety Implications

- 11.1 None for the purpose of this report.

12 Partnerships

- 12.1 There are a number of specific reserves held for partnership funding as identified in Annexe 1 of this report.

13 Risk Assessment

- 13.1 The Council holds reserves both as a contingency against unforeseen expenditure and as provisions for future known expenditures. The Council's reserves are also actively managed as part of the Council's medium term financial strategy. Any significant reduction in the level of reserves would naturally carry the risk of reducing both financial resilience and the Council's ability to deal with unforeseen circumstances.

- 13.2 The level of reserves has enabled the Council to manage the impacts to date of public sector funding cuts in a planned and structured way. The prospect of further funding cuts through the Fair Funding and Retained Business Rates reviews means that the ability to use strategic reserves to smooth out these changes has become even more critical as reductions to the net budget become harder to deliver.
- 13.3 This report does not cover the Council's long term liabilities. The Council has long term external debt of £64 million acquired whilst purchasing commercial investment properties, plus a further £20m of commercial investment properties funded through internal borrowing. The Council has a pension fund liability which is managed through payment of additional monetary contributions. The pension is managed by Surrey County Council as part of the Surrey Pension Fund administration and is currently subject to a triennial valuation.

14 Conclusion and Recommendations

- 14.1 There is increased scrutiny over the level of local authority reserves at a time where government funding cuts are leading to service reduction.
- 14.2 The transfer of surplus funds totalling £754,000 from those reserves identified in this report will enable the achievement of the minimum required balance in the Property income Equalisation Reserve earlier than previously forecast. The achievement of this minimum level of reserve will allow property rental income of £500,000 previously earmarked to be transferred in to the reserve to be used to contribute to reducing the level of savings required by 2023/24 within the general fund.
- 14.3 The Council has carried out reviews of its revenue and capital reserves and previous reports have sought to clarify the purpose of individual reserves held and their contribution to financial management and service delivery.

Ward(s) affected: (All Wards);

RESERVES/PROVISIONS	Balance March 2018 £000	Balance March 2019 £000	Policy	Objective	Commitments 2019/20
CAPITAL RESERVES					
Capital Receipts - General	4,309	4,367	Capital reserves from the past sale of assets used to fund schemes in the capital programme where external funding is not available	(1) Funding capital schemes (2) Interest earned on invested capital sums used to help finance the General Fund Revenue Account provision of services. .	See funding of Capital Programme in the Budget Book 2019/20 (page 79). £1.741m has been earmarked for future schemes. Capital Member Group reviewing programme for 2020/21 onwards.
Capital Receipts - Hospital Cluster	580	580	Capital reserves earmarked for a community facility at Horton Chapel	(1) Assist the development of Horton Chapel as a community facility subject to establishing a viable and sustainable use	£525k specifically allocated to Horton Chapel scheme (along with £690k West Park S106 funds).
Capital Reserves	4,889	4,947			
REVENUE STRATEGIC RESERVES					
Interest Equalisation Account	631	631	Provides funding cover for year on year variations in investment income	(1) Reserve used to protect the general fund so that variations in interest rates do not affect funding for service provision once the budget has been set. (2) Reserve used to guarantee a minimum level of revenue from interest on balances as part of the four year financial plan. (3) Minimum level of reserve maintained at £400k	No contributions anticipated from this reserve for 2019/20. Funds used to guarantee interest available to support services.
Repairs and Renewals Fund	237	274	Provides funding for replacement of certain vehicles, plant and equipment	(1) Provides for the replacement of plant and equipment which cannot be funded within revenue budget. (2) Manages the risk of unplanned expenditure at Council properties, including health and safety requirements, where there is no separate budget.	No contributions anticipated from this reserve for 2019/20.
Historic Buildings	3	3	To fund historic building repairs	Earmarked to fund historic building repairs	
Insurance	437	466	Provides funding for self-insured losses	(1) Reserve on outstanding insurance claims (2) £100,000 held for risks on LB Sutton Partnership (3) Smoothes impact of variations in insurance costs on general fund (4) Provision for MMI mutual run down	Brokers assessment of potential liabilities against this Reserve at 31 March 2019 was £84,000. The budget includes an on-going contribution of £25,000 per annum to fund the increased cost of insurance
Hospital Cluster Interest Reserve	231	233	Maintained to meet the potential liability of paying back interest on the transferred sums	(1) To manage the risk of repayment of Horton Chapel funds including interest if a viable community use cannot be established.	Held as contingency, no commitments to date
Community Safety Partnership	83	110	To fund Community Safety activities agreed with Surrey County Council and Surrey Police	To deliver objectives set by the Community Safety Partnership	£10,000 earmarked for Domestic Homicide Review

RESERVES/PROVISIONS	Balance March 2018 £000	Balance March 2019 £000	Policy	Objective	Commitments 2019/20
Property Maintenance Reserve	423	573	Funding held for funding prioritised backlog property repairs	(1) To fund approved programme where works not completed by the year-end and budget available (2) Used to finance urgent unplanned works where approved programme cannot be rescheduled	Funding of £98,000 earmarked for specific schemes carried forward from previous year programmes
VAT Reserve	320	320	Provides funding for unplanned VAT liabilities	(1) To manage the risk that the Council exceeds the 5% threshold for VAT on commercial trading activity (2) To meet other potential VAT liabilities (3) The balance on this reserve should be at a level that can provide funding for 2.5 years of the potential annual VAT liability.	No funds committed in 2019/20. Partial exemption calculation has been breached twice in the last 5 years. The main risk is recovery of VAT on 'trading' activity which, if it comprises more than 5% of total VAT under partial exemption rules, triggers a VAT liability of c. £100,000 for each year partial exemption breached. Maintain 2.5 years of potential annual liability in this reserve, transfer £69,000 to the Property Income Equalisation Reserve
Planning Delivery Grant	176	176	Provides funding for planning development expertise	(1) Resourcing work/expertise for the local development plan (2) Procurement of expertise for the implementation of the Community Infrastructure Levy	Strategy & Resources (30/7/19) agreed to use the balance to fund future work on Local Plan.
Corporate Project Reserve	2,574	3,249	General corporate contingency (revenue funds) against additional scheme costs and spend to save initiatives.	(1) To provide contingency funding or high risk projects and developments (2) To fund or meet one-off costs on spend-to-save schemes (revenue funding) (3) To hold revenue funding for corporate projects where funded from partnerships or grants, including New Homes Bonus	£272k of balance committed for funding of approved one off expenditure. This reserve will be required to support funding required for delivery of future Local Plans.
Prevention, Personalisation and Partnership Fund	111	73	Surrey County Council funding for District initiatives supporting adult social care from March 2013 to March 2017	Funding from ring fenced grant for local authorities to undertake new public health functions	The funds on this reserve are committed to support the delivery of the Daycare Plus service at the Community & Wellbeing Centre
Business Rates Equalisation Reserve	2,244	3,066	Provides funding to offset future deficits charged to the General Fund	Reserve used to protect funding from the Council's share of localised business rates, used to smooth the impact of changes such as increase in appeals. The reserve should be maintained at a minimum balance of £0.5 million to compensate for years when retained business rate income fall below budgeted baseline levels.	The Council has reported a deficit for 2017/18 of £1.8 million on business rates fund due to the impact of increasing the provision for backdated appeals. This reserve will be used to finance the deficit without impacting on general fund. £0.5 million funding from this reserve included within the current Financial Plan to mitigate the impact of Government funding reviews. Proposed transfer of £221k to Property Income Equalisation Reserve
Partnership Fund	28	28	Local Partnership Fund, Young Peoples Partnership Fund, Yells Fund	Local Partnership Fund £2k, Young Peoples Partnership Fund £7k, Yells Fund £2k, Stronger Communities £11k, Health £6k	
Residential Property Acquisition Fund	1,438	1,181	Provides funding for the purchase of residential properties to support the Council's housing activities	Reserve is used to acquire residential properties to limit the impact on the cost of homelessness	No acquisitions have been identified for 2019/20
Development Contributions	172	0			

RESERVES/PROVISIONS	Balance March 2018 £000	Balance March 2019 £000	Policy	Objective	Commitments 2019/20
HIA Hardship Fund	71	75	Supports the provision of the Home Improvement Agency Service	Fund exists to provide funding for the Home Improvement Agency Service	£35,000 on-going annual contribution from this reserve to off-set reduced funding from SCC for the Home Improvement Agency Service
Sports & Leisure Development Projects Fund	92	87	External funding set aside to support sports & leisure development projects	Funding for Sports & Leisure Development Projects; BMX/skateboard maintenance, youth diversion, Let's Get Active 50+ and community football coaching	£5,000 committed in 2019/20 to fund summer intern
Property Income Equalisation Reserve	1,349	2,180	The reserve aims to hold sufficient funds to mitigate the risks associated with future rental income streams from properties acquired through borrowing	The reserve to be maintained at a level to cover the potential loss of one year's rental income from each property acquired through the use of external borrowing.	For 2019/20 the budgeted rental income from properties acquired through borrowing is £5 million. Targeted £663,000 budgeted transfer to reserve from income generated from acquired commercial properties which will increase the expected balance on this reserve to c£2.9 million
Recreation Commuted Sums	1,965	1,941	Sums held following the transfer of land to the Council and used to finance additional maintenance costs	Principal sum invested so that interest earned can be used to fund on-going recreation grounds maintenance liabilities	Principal ring-fenced, interest annually credited to Community & Wellbeing Committee to fund grounds maintenance costs in the revenue budget
Flexible Housing Support Grant	185	492	Grant funding used to support homelessness prevention measures	The funding is to be used on preventing homelessness and to offset reduced rental income on temporary accommodation arising from benefit changes	Potential use to replace current contribution of £47,500 per annum from the Landlords Deposit Scheme from 2020/21 onwards.
Other	81	72			
Strategic Reserves	12,851	15,230			
REVENUE WORKING BALANCES					
General Fund Revenue Account - Working Balance	3,348	3,416	The Council's working balance	(1) Provision for unforeseen expenditure (2) Used to support the Revenue Budget in the Medium Term Financial Strategy / Four Year Financial Plan (3) Interest on balance used to finance the General Fund revenue account.	No use of balance planned in 2019/20 Budget. MTFS policy is to maintain a minimum balance of £2.5 million.
Working Balances	3,348	3,416			
Total Revenue Reserves	16,199	18,646			

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BUDGET TARGETS 2020/21 AND THE DEVELOPMENT OF THE MEDIUM TERM FINANCIAL STRATEGY FOR 2020-2024

Head of Service/Contact:	Lee Duffy, Chief Finance Officer
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
Annexes/Appendices (attached):	Annex 1 - Budget Forecast Annex 2 - Financial Modelling Annex 3 - Economic Indicators Annex 4 - Surrey Council Tax Charges Annex 5 - Key components of 2016-20 MTFS
Other available papers (not attached):	Budget Book 2019/20

Report summary

This report recommends budget targets for 2020/21 and provides a further update on the financial forecast and issues affecting the new four year financial plan.

Recommendation (s)

That the Panel recommends to the Strategy and Resources Committee:-

(1) The following overall budget target for 2020/21:-

- (a) estimates are prepared including options to reduce organisational costs by £544,000 in 2020/21 to minimise the use of working balances and maintain a minimum working balance of £2.5 million in accordance with the medium term financial strategy;**
- (b) that at least £290,000 additional revenue is generated from an increase in discretionary fees and charges, is based on minimum overall increase in yield of 3.0%, with the exception of car parking which is set at 6.0% as these charges are adjusted every two years;**
- (c) that a provision for pay award is made of £400,000 that allows for a 2% cost of living increase,**

(2) That further savings are identified for inclusion within the new Medium

Term Financial Strategy for 2020-2024 to reduce the Council's net operating costs by a minimum of £1,825,000 over the period 2020/21 to 2023/24;

- (3) That Capital Member Group seeks to maintain a minimum capital expenditure programme to control the use of capital reserves between 2020 and 2024, subject to an appropriate prioritisation of spend to save and externally funded schemes.**

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

- 1.1 The Medium Term Financial Strategy comprises a supporting document to the Council's Corporate Plan.
- 1.2 The key components of the current Medium Term Financial Strategy 2016 – 2020 are attached at Annexe 5.
- 1.3 The Strategy and Resources Committee has agreed the following key service priority:-

“Produce a new Medium Term Financial Strategy with regard to the Fair Funding Review and report to Strategy & Resources Committee”

- 1.4 It is the Financial Policy Panel's role to advise the Strategy and Resources Committee on all matters relating to the budget and policy framework.

2 Background

- 2.1 The Financial Policy Panel has already received a report in the early stages of preparation for next year's budget and the review of the Medium Term Financial Strategy (MTFS):-
 - 2.1.1 On 18 June 2019 the Panel agreed the preferred approach to carry out the 2020/21 budget review and the budget reporting timetable.
- 2.2 This report seeks the Panel's guidance on the corporate targets for preparing the 2020/21 budget and discusses the main issues faced in preparing the new Four Year Financial Plan and MTFS for 2020-2024.
- 2.3 The report covers:-
 - 2.3.1 A review of the Council's financial standing;
 - 2.3.2 The budget outlook for 2020/21;
 - 2.3.3 An update of the ten year budget forecast 2020-2030;
 - 2.3.4 Key funding changes during the next ten years (new homes bonus, localisation of business rates, welfare benefit changes and public sector pensions).

- 2.4 The report provides an updated estimate of the efficiency savings needed next year and the scale of total savings needed over the following three years.

3 Financial Planning

- 3.1 At its last meeting the Financial Policy Panel discussed the difficulty of planning in an environment with a high degree of uncertainty. The Government's future funding settlement for local councils remains unclear going forward with the outcome of the Fair Funding review and the Redistribution of Business Rates review still unknown and their impact for individual councils.
- 3.2 The Fair Funding Review had initially been expected to feed into a multi-year funding settlement for local authorities from 2020/21. However, on 9 August the Chancellor of the Exchequer, Sajid Javid, announced that a multi-year funding settlement will now be postponed until next year. Instead, the Treasury will conduct a one-year Spending Round for 2020/21, due to complete by the end of September 2019, although no exact date has been given for the announcement of any figures.
- 3.3 With existing funding streams at increased risk the Council has taken a prudent approach for financial planning, limiting the Council's reliance on funding from Government through retained business rates and New Homes Bonus Grant to fund the annual cost of providing services.
- 3.4 As outlined in the report Financial Planning 2020/21 to the Financial Policy Panel in June, a work programme has been agreed to assist in addressing the funding shortfall for the next Medium Term Financial Strategy 2020-2024.
- 3.5 The key features of the programme comprise:-
 - 3.5.1 A base review, this entails reviewing the year end position for 2018/19, identifying any potential savings, additional cost pressures and areas where savings can be developed. These will be used to update the financial plan.
 - 3.5.2 A 'Star Chamber' exercise where Service Heads will present options for their services on how savings to the Council can be generated over the next four years.
 - 3.5.3 Service Reviews to be undertaken over the next four years with the aim of improving efficiency, effectiveness and cost.
 - 3.5.4 Property Related Review – to realise cost reduction of Council operational buildings, increase income from investment properties and generate new receipts from surplus buildings/land.

- 3.5.5 Income Generation Review – to include analysis of charging powers and service utilisation and identify options for income generation.

4 The Council's Financial Position

- 4.1 The Panel has received a separate report on this agenda reviewing the level of revenue and capital reserves.
- 4.2 The increase in strategic reserves over the last four years are mainly as a result of one-off gains from New Homes Bonus Grant and Business Rates Pilot scheme. The levels of New Homes Bonus funding are in decline and over the next four years following the Fair Funding Review it is very unlikely that the Council will be in a position to be able to make further significant contributions to strategic reserves.
- 4.3 The level of strategic reserves are expected to be at £14.7 million by the end 2023/24, compared to £14.3 million anticipated at the end of 2019/20.
- 4.4 The projected level of strategic reserves includes an increase in the Property Income Equalisation Reserve of £1.7 million to meet the Council's objective to accumulate sufficient funds to cover the potential loss of one year's rental income at properties funded through borrowing, this is partially offset by a reduction in the other strategic reserves of £1.3 million.
- 4.5 A summary of the Council's forecast movement in reserves is as follows:-

	2019/20	2020/21	2021/22	2022/23	2023/24
	£'000	£'000	£'000	£'000	£'000
General Fund Working Balances	3,416	3,257	2,730	2,731	2,731
Strategic Reserves	14,324	14,906	15,263	14,972	14,731
Capital Receipts	2,626	2,076	1,626	1,276	1,026

- 4.6 The above forecast also shows a steady decline in the level of uncommitted capital receipts and by 2023/24 is expected to be just above the minimum agreed level of £1 million. This forecast also assumes an increase of £100,000 year on year in revenue funding for the annual capital programme to mitigate this and assist the Council in developing a sustainable capital programme
- 4.7 The following assumptions have been used in forecasting the position on reserves at the end of 2023/24:-
- 4.7.1 £700,000 annual capital programme requiring financing from either capital reserves or revenue.

- 4.7.2 £300,000 per annum of corporate projects reserve being used to fund revenue budget/schemes
- 4.7.3 £75,000 from the property maintenance reserve required to fund the annual backlog maintenance works.
- 4.7.4 £25,000 per annum from the insurance reserve used to finance costs within the revenue budget.
- 4.7.5 Annual contributions of £675,000 are made in 2020/21 and 2021/22 from the revenue budget to the property income equalisation reserve.
- 4.7.6 £2.5 million of the business rates equalisation reserve is used by 2023/24 to mitigate the impact of the fair funding review and potential NHS appeal.
- 4.8 In order to prepare the draft MTFS it is recommended that the policy on the minimum working balance is set at £2.5 million.
- 4.9 As discussed, there is no set formula for deciding on policy for a minimum level of working balance for the next four years but the following factors provide a context for the decision:-
 - 4.9.1 The Council's turnover is approximately £40 million including benefit payments and the balance would be approximately 5% of gross expenditure;
 - 4.9.2 The Council's turnover excluding benefit payments is approximately £20 million and the proposed balance would be approximately 10% of gross spend on services;
 - 4.9.3 The Council's net budget requirement (council tax and formula grant) is £8.5 million and the proposed balance would be approximately 25% of net expenditure.
- 4.10 The Panel's views are sought on an appropriate minimum working balance for the next MTFS.

5 Budget Outlook for 2020/21

- 5.1 The following comprises an analysis of the potential extra bottom-line costs the Council faces next year, and the steps needed to manage the budget position (i.e. to set a balanced budget with no use of the working balance). The figures are high level and they will be investigated further as part of the budget setting process. No detailed estimates have been prepared at this stage.

Budget Deficit prior to Budget Savings Strategy	£000
Budget deficit carried forward (planned use of working balance in 2019/20)	0
Forecast of Potential Cost Increases	
General Inflation (estimate based on unavoidable increases in specific budgets only, e.g. fuel and energy, contracts and business rates)	+ 190
Allowance for Staff Pay	+ 400
Increase in cost of waste collection	+ 31
Increase in provision for property maintenance	+ 50
Funding for Property and Regeneration Manager (funded from future income generation)	+ 50
Funding for projects within the capital programme	+ 100
Loss of funding from SCC towards Bourne Hall	+ 80
Reduction in Retained Business Rates (Baseline reset for 2020/21)	+ 160
Net prior year funding from collection fund	+ 122
Potential Budget Growth	1,183
Steps Needed to Address Budget Deficit	
Remove provision for Local Elections	-70
Increase in dividend income from EEPIC (Council owned Property Company)	-100
Increase income from interest on balances	-34
Increased income from property, including acquisitions or reduced costs	-100
Star Chamber savings or increases to income	-185
Increase in Fees and Charges at an overall yield of 3% (6% for car parks)	-290
Council Tax Increase – provisionally at 3%	-245
Potential Budget Reductions	-1,024
Required Use of Working Balance in 2020/21 after savings *	159

- 5.2 The highest expenditure risks for next year where more detailed analysis is being carried out at an early stage in the budget process is:-

5.2.1 The growing costs of homelessness and temporary accommodation;

5.2.2 Delivery of efficiency savings targets included in the forecast.

5.3 There is also a further risk on delivering additional income from services and further reductions to grants and contributions received from both central government and Surrey County Council as they seek also to reduce.

6 Ten Year Budget Forecast

6.1 Annexe 1 comprises an update of the forecast budget position for 2020/21 (as set out above) along with an indicative forecast for the following nine years to March 2030.

6.2 The forecast indicates that a level of savings of £1.825 million is needed to achieve a balanced budget over the next four year financial planning period and would involve an annual saving of £0.544 million for 2020/21, broken down indicatively as follows:

2020/21 Budget Targets	£000
Increase in dividend income from EEPIC (Council owned Property Company)	-100
Increased income from property, including acquisitions or reduced costs	-100
Star Chamber savings or increases to income	-185
Further efficiencies or income to balance budget	-159
2020/21 Total Savings or Additional Income	-544

6.3 Without making savings the budget would move incrementally to a £1.8 million budget deficit by 2023/24. The general fund working balance would be fully utilised before that date.

6.4 The detailed forecast for the four years of the new Medium Term Financial Strategy at **Annex 1** is summarised in the following table:-

	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>
	<u>Budget</u> <u>£000</u>	<u>Indicative</u> <u>£000</u>	<u>Indicative</u> <u>£000</u>	<u>Indicative</u> <u>£000</u>	<u>Indicative</u> <u>£000</u>
Net Expenditure on Committee Services b/f (before use of interest on Balances & BRER)		8,328	8,484	8,742	8,508
Pay & Prices Increases		590*	598	606	618
Increases in Fees & Charges		- 290	- 210	- 210	- 216
Policy Committee budget changes		161	150	150	250
Changes to external funding		80	0	0	0
Allowance for increased income from property		-100	-100	-100	-200
Reduction in transfers to Property Equalisation Reserve		0	0	-500	0
Savings Target		- 285	- 180	- 180	- 180
Forecast Net Cost (before use of interest)	8,328	8,484	8,742	8,508	8,780
Interest credited to General Fund	-96	-130	-175	-240	-270
Funding to /from Business Rates Equalisation Reserve	-1,845	0	-200	-150	-100
Forecast Net Cost of Services	6,387	8,354	8,367	8,118	8,410
Retained Business Rates Forecast	1,585	1,425	816	832	849
Council Tax Income Forecast	6,525	6,770	7,024	7,287	7,561
Collection Fund Surplus / (Deficit)	-1,723	0	0	0	0
Assumed Collection Fund Income (Formula Grant + Council Tax)	6,387	8,195	7,840	8,119	8,410

** assumes annual pay increases limited to 2% and allows for unavoidable price inflation only*

Forecast Budget Shortfall (required use of working balance)	0	159	527	- 1	0
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6.1 The forecast position is dependent on the detailed assumptions used and the ability of the Council to make the necessary savings.

6.2 The following factors have been used to prepare the forecast:-

FOUR YEAR FORECAST: ASSUMPTIONS USED		<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>
	<i>BASE</i>	<u>Indicative</u>	<u>Indicative</u>	<u>Indicative</u>	<u>Indicative</u>
	<u>£000</u>				
General Inflation - prices	9,500	2%*	2%	2%	2%
Annual pay award	11,000	2%*	2%	2%	2%
Fees & Charges allowance: annual increased yield on discretionary charges	-6,600	3%**	3%	3%	3%
Interest rate used		1.0%	1.25%	1.5%	1.5%
Change in Retained Business Rates	-1,585	-10.1%	-38.4%	2.0%	2.0%
Increase in Council Tax income	-6,525	3%	3%	3%	3%

** assumes annual pay increases limited to 2% and allows for unavoidable price inflation only*

*** increase to parking charges are applied every 2 years*

6.3 Assumptions have been made on potential significant changes to government financing as a result of the Fair Funding and the Business Rates Retention reviews and are discussed further below. These include:-

6.3.1 New Homes Bonus

6.3.2 Localisation of Business Rates

7 New Homes Bonus Scheme

7.1 The Council in recent years has benefited from the award of New Homes Bonus grant, based upon the number of new residential properties in the borough in the preceding year, with a supplement for affordable housing.

- 7.2 The methodology for this grant allocation was changed in 2017/18 by Government which resulted in a significant reduction in funding allocations in 2018/19. Originally the Council received a rolling 6 years of individual allocations; this was reduced down to 4 years from 2018/19 alongside a further reduction by only awarding funding for growth in homes above the 0.4% per annum baseline.
- 7.3 The amount of funding available from New Homes Bonus has diminished substantially over the last few years, in 2016/17 the Council received in excess of £2 million. With most of the current award made up from legacy payments there is a strong likelihood that this source funding could reduce even further in the future or be removed altogether as part of the Fair Funding Review.
- 7.4 Due to the future uncertainty regarding this grant the 2019/20 Budget approved by Council in February 2019 agreed that New Homes Bonus is no longer used as a source of funding for on-going services.
- 7.5 If the current scheme remains unchanged following the Fair Funding Review then the following grant is forecast over the next three years;

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
2016/17	158			
2017/18	46	46		
2018/19	219	219	219	
2019/20	21	21	21	21
2020/21		21	21	21
2021/22			21	21
2022/23				21
Projected Grant (based on current scheme)	444	307	282	84

8 Localisation of Business rates

- 8.1 The Government last year announced they would be undertaking a review of Retained Business Rates. The impact of the review remains unknown and in all likelihood will be delayed until 2021/22. However, the Council can still expect to see a reset of its Baseline position for 2020/21, which means that the benefit that the Council was receiving from the fund for being above its baseline will be removed. For the purpose of the forecast position it is assumed that the Baseline will be reset for 2020/21 and as a result reduce the funding receivable from retained business rates to £1,425k.
- 8.2 The impact of the Review is expected in 2021/22 and business rates income is anticipated to reduce by a further £625k which is the equivalent to the amount of negative RSG which was removed from the settlement in 2020/21 but likely to feature as part of the future settlement for business rates.
- 8.3 The forecast assumes these reductions are seen in 2020/21 and 2021/22, with the Council's subsequent share of retained business rates income for 2022/23 and 2023/24 increasing by 2%.
- 8.4 The Council maintains a Business Rate Equalisation Reserve to finance any fluctuations in its share of Business Rate income. The uncommitted balance on this reserve if the proposed transfer identified in the Review Reserves report takes place will be £500,000.

9 Economic Indicators

- 9.1 A table of the latest economic indicators is attached at **Annex 3**.
- 9.2 These statistics are issued by HM Treasury and the tables compare economic indicators available in July 2019 to those published one year ago.
- 9.3 The following table provides a summary of the main national economic issues that have an impact on the Council's budget at least for this year and next:-

	Indicators	EEBC Budget Impact
Inflation	The Government's inflation target is 2%. Inflation (CPI) 2.0% in June 2019. HM Treasury collates independent average forecasts which for CPI are 1.8% for 2019 and 2.1% for 2020.	On prices the main concern is the level of increase on energy, fuel and index linked contracts. The level of increase will require additional funding to be allocated in 2020/21. The provisional forecast for 2020/21 includes a pay award settlement at 2% (the Government's target for

		inflation). Currently CPI remains at 2%, however, this could increase in the next few months as a result of current economic uncertainty.
Interest Rates	The bank base rate remains at 0.75% and is only expected to increase slowly from 2020 onwards	Interest on Balances was budgeted at 0.8% for 2019/20. The forecast return on investments anticipates a gradual increase in returns up to 1.5% by 2023/24.
Household wealth and Demand	<p>GDP growth was at 0.5% (Apr to June)</p> <p>Unemployment in UK at 3.8% (1.29m to May)</p> <p>The seasonally adjusted retail sales index is at 2.9% (June)</p>	<p>Benefits: The number of benefit applications has generally reduced in the last couple of years. However, with the implementation of Universal Credit this may account for some of the decrease in the number of applicants.</p> <p>Homelessness: The number of households in temporary accommodation is currently greater than last year (46 at the end of quarter one) and this trend for an increasing number of homeless households appears to be continuing into 2019/20.</p>

10 Financial Modelling

- 10.1 The ten year financial forecast includes assumptions as set out in paragraph 6.2 of this report.
- 10.2 The budget outlook estimates the level of savings needed based on a central case forecast. **Annex 3** provides an analysis of the impact of best case/worst case variations to the assumptions used.
- 10.3 Given uncertainties over the economy and public sector funding, significant variations may occur requiring careful monitoring and impact analysis throughout the budget process and the next four years.

11 Fees and Charges

- 11.1 The 2020/21 budget forecast assumes an additional yield on charges set by the Council generating £290,000 based on a minimum overall increase of 3.0% in total income, 6% for car parks as it was agreed that these charges will be adjusted every other year and no increases were applied for 2019/20.

- 11.2 Any shortfall in income will need to be offset by additional cost savings so that a balanced budget can be achieved.

12 Council Tax

- 12.1 The forecast assumes an increase of 3% per annum in council tax income. This level of tax increase would keep the council tax at the lower end of the Surrey Districts, consistent with the council tax policy.
- 12.2 The current Band D for the Borough is £198.36. The Borough's council tax is benchmarked against the other Surrey District council tax levels in **Annex 4**.
- 12.3 Although the forecast is based on a 2.99% increase options can be prepared for higher or lower levels of council tax. For each 1% increase the gain is £63,000 per annum. The cumulative effect of any variations to council tax increases need to be taken into account in the forward projections.
- 12.4 Currently central government has set a cap on the percentage increase allowed. For this Authority an increase of 3% or above would require a referendum to be held.

13 Capital Programme

- 13.1 The capital programme agreed in February 2019 can be found on page 78 of the Budget Book 2019/20.
- 13.2 The Strategy and Resources Committee (July 2019) agreed that schemes totalling £4.91 million be carried forward and added to the £1.11 million programme approved for 2019/20.
- 13.3 The capital programme review for 2020-2024 is under way. The Capital Member Group held their first meeting earlier this month. Scope for capital investment will be restrained taking into account the revenue budget position, the reducing level of capital reserves and the limited scope for capital disposals at the current time.
- 13.4 A separate report on the agenda reviews the level of capital reserves, but the forecast position shifts funding of the Council's core capital programme away from use of diminishing capital receipts to being financed through the revenue general fund. By the end of 2023/24 £0.5m of the estimated £0.7m annual capital programme is expected to be financed from revenue.
- 13.5 It is anticipated that the core programme will be restricted to essential investment in existing assets and investment in projects that will reduce future running costs or raise additional income (spend to save schemes) however there is scope for external funding of schemes and in particular the use of specific grants such as the disabled facility grants.

14 Proposals

- 14.1 The proposals for the Strategy and Resources Committee are set out in the recommendations of this report.
- 14.2 The Panel is requested to advise whether any changes are needed to the budget strategy or the charging assumptions used in setting the budget target for 2020/21.

15 Financial and Manpower Implications

- 15.1 Decisions on a pay settlement for April 2020 are not required prior to the budget being agreed however resource constraints will need to be taken into account in any pay award.

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

- 16.1 The Council will continue to fulfil its statutory obligations on all services provided.

17 Sustainability Policy and Community Safety Implications

- 17.1 The Council's new Medium Term Financial Strategy will support the Council's new Corporate Plan, including the sustainability and community safety priorities therein.

18 Partnerships

- 18.1 None for the purposes of this report.

19 Risk Assessment and Conclusions

- 19.1 This report covers budget targets for 2020/21, taking into account the financial forecast for the next ten years. The report also considers the major risks to and uncertainties over the Council's finances over the next four years.
- 19.2 2020/21 will comprise the first year of a new four year financial plan. In setting budget targets the Panel is also being asked to provide advice on the development of the new Medium Term Financial Strategy.
- 19.3 Based on the assumptions used, the forecasts indicate that further significant budget reductions are required in the region of £544,000 in 2020/21 and £1.825 million over the next four financial years after allowing for price increases, charging increases and government grant cuts.

- 19.4 The budget strategy involves increasing income and reducing expenditure in regards to property, continuing to deliver efficiency savings and generate extra service income whilst reviewing service levels so that service costs can be reduced as needed to achieve a balanced budget year on year.
- 19.5 The budget strategy also requires limiting the reliance on funding from government such as retained business rates and specific grants for funding council services.
- 19.6 Following the review of the Corporate Priorities, service plans should facilitate a reduction in the net cost of providing services over the next four years.
- 19.7 The greatest financial risks continue to be the increase in homelessness expenditure and the impact of further benefit reforms. The main corporate finance risks are the level of funding reductions as a result of the Fair Funding Review.
- 19.8 The budget position for next year will be reassessed later this year when detailed estimates have been prepared.

Ward(s) affected: (All Wards);

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REVENUE BUDGET FOUR YEAR FORECAST

Status: Financial Planning Based on 2019/20 Budget

	MTFS		NEW MTFS				FORECAST					
FOUR YEAR BUDGET PROFILES	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Budget	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
NET SPEND B/F FROM PREVIOUS YEAR		7,783	6,387	8,354	8,367	8,118	8,410	8,938	9,452	9,922	10,348	10,780
add back: Use of New Homes Bonus in Previous Year		500	0	0	0	0	0	0	0	0	0	0
add back: Interest on Balances as credited to the revenue account in previous year		120	96	130	175	240	270	400	500	500	500	500
add back: Use of Reserves/Provisions in Previous Year		-475	1,845	0	0	0	0	0	0	0	0	0
Net Expenditure on Services before changes (Base Budget excluding use of interest on Balances and use of working balance)	8,403	7,928	8,328	8,484	8,542	8,358	8,680	9,338	9,952	10,422	10,848	11,280
Allowance for Pay and Price Inflation												
General Inflation - price base		+190	+190	+190	+190	+194	+198	+202	+206	+210	+214	+218
General Inflation pay bill base		+292	+400	+408	+416	+424	+433	+442	+450	+459	+469	+478
Other		+51										
Prices Increases net of Increased Fees & Charges		+533	+590	+598	+606	+618	+631	+643	+656	+669	+683	+696
Increases in costs / Reductions in income												
Pension Fund Valuation 2022						+100	+100	+100				
Increase in cost of waste collection		+107	+31									
Resources for staff learning and development		+35										
Transit site		+20										
Change in corporate contingencies		+127										
Provision for business improvement work to increase capacity		+20										
Apprenticeship scheme		+39										
Increase in provision for property maintenance		+50	+50	+50	+50	+50						
Property and Regeneration Manager			+50									
Local elections		+70	-70									
Verge maintenance		+59										
Reduction in savings on Ebbisham Centre		+71										
Community Safety		+36										
Funding of projects within the capital programme		+100	+100	+100	+100	+100	+100	+100	+50			
Health and Wellbeing		+36										
Verge maintenance		+37										
Increases in costs / Reductions in income		+807	+161	+150	+150	+250	+200	+200	+50	+0	+0	+0
Changes to External Funding												
Bourne Hall (SCC)			+80									
Loss of Housing Benefit Admin Grant		+25										
Grant funding from DCLG for Local Council Tax Admin Subsidy		+50										
Remove funding from Property Company towards funding capital programme		-115										
Higher Needs		+23										
Changes to External Funding		-17	+80	+0	+0	+0	+0	+0	+0	+0	+0	+0
New Home Bonus												
Estimated New Homes Bonus	-833	-444	-307	-282	-84	-84	-84	-84	-84	-84	-84	-84
Transfer to Corporate Project Reserve	+333	+444	+307	+282	+84	+84	+84	+84	+84	+84	+84	+84
NHB Funding used to support General Fund services	-500	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0
Cost Reduction Plan												
Star Chamber		-406	-185	-180	-180	-180						
Acquisition of Commercial Property/ Increased income		-152	-100	-100	-100	-200						
Base review		-75										
Housing Benefit net subsidy												
Treasury Management												
EEPIC Dividend			-100									
Savings from Leadership Team restructure		-167										
Cost Reduction Plan		-800	-385	-280	-280	-380	+0	+0	+0	+0	+0	+0
Contributions from Reserves/Provisions												
Funding from business rates equalisation reserve of retained business rates income deficit		-1,845		-200	+50	+50	+50					
Reduced contributions to the Property Equalisation Reserve					-500							
		-1,845	+0	-200	-450	+50	+50	+0	+0	+0	+0	+0

	MTFS		NEW MTFS				FORECAST					
FOUR YEAR BUDGET PROFILES	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	Budget	Budget	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Fees and Charges												
Increased yield on discretionary Fees and Charges		-123	-290	-210	-210	-216	-223	-229	-236	-243	-251	-258
Income generation												
		-123	-290	-210	-210	-216	-223	-229	-236	-243	-251	-258
Interest on Balances (excludes interest credited to strategic reserves)												
Average level of investments												
Investments (average)	0	12,000	13,000	14,000	16,000	18,000	20,000	20,000	20,000	20,000	20,000	20,000
Interest rate used (supplemented by interest equalisation reserve)	0.80%	0.80%	1.00%	1.25%	1.50%	1.50%	2.00%	2.50%	2.50%	2.50%	2.50%	2.50%
Total Interest Forecast	-120	-96	-130	-175	-240	-270	-400	-500	-500	-500	-500	-500
Add: Use of interest equalisation reserve	0	0	0	0	0	0	0	0	0	0	0	0
Interest credited to General Fund to Finance Services	-120	-96	-130	-175	-240	-270	-400	-500	-500	-500	-500	-500
SUMMARY OF FORECASTS												
Net Expenditure on Services before changes (Base Budget excluding use of interest on Balances and use of working balance)	8,403	7,928	8,328	8,484	8,542	8,358	8,680	9,338	9,952	10,422	10,848	11,280
Price Increases (inflation)		+533	+590	+598	+606	+618	+631	+643	+656	+669	+683	+696
Increases in costs / Reductions in income		+807	+161	+150	+150	+250	+200	+200	+50	+0	+0	+0
Changes to External Funding		-17	+80	+0	+0	+0	+0	+0	+0	+0	+0	+0
NHB Funding used to support General Fund services	-500	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0
Cost Reduction Plan		-800	-385	-280	-280	-380	+0	+0	+0	+0	+0	+0
Contributions from Reserves/Provisions		-1,845	+0	-200	-450	+50	+50	+0	+0	+0	+0	+0
Fees and Charges		-123	-290	-210	-210	-216	-223	-229	-236	-243	-251	-258
Interest credited to General Fund to Finance Services	-120	-96	-130	-175	-240	-270	-400	-500	-500	-500	-500	-500
Forecast Net Cost of Services	7,783	6,387	8,354	8,367	8,118	8,410	8,938	9,452	9,922	10,348	10,780	11,218
Final Outturn variance	-68											
Revised Net cost of Services	7,715	6,387	8,354	8,367	8,118	8,410	8,938	9,452	9,922	10,348	10,780	11,218
SETTLEMENT ASSESSMENT FUNDING FORECAST												
RSG	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0
Transitional Grant	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0	+0
Tariff Adjustment	0	0	0	0	0	0	0	0	0	0	0	0
Retained Business Rates	1,203	983	1,425	816	832	849	716	580	442	301	157	0
Small Business Rate Relief Grant	329	602	0	0	0	0	0	0	0	0	0	0
Localism Relief Grant	0	0	0	0	0	0	0	0	0	0	0	0
Formula Grant / Business Rate Retention	1,532	1,585	1,425	816	832	849	716	580	442	301	157	0
Base Income from Council Tax		6,290	6,525	6,770	7,024	7,287	7,561	7,845	8,140	8,445	8,762	9,091
Increase in council tax base		+46	+49	+51	+53	+55	+57	+59	+61	+63	+66	+68
	6,290	6,336	6,574	6,821	7,076	7,342	7,618	7,904	8,201	8,508	8,828	9,159
Forecast for increase of 3% in Council Tax income		+189	+196	+203	+211	+219	+227	+236	+244	+254	+263	+273
Council Tax Income Forecast	6,290	6,525	6,770	7,024	7,287	7,561	7,845	8,140	8,445	8,762	9,091	9,432
Deficit on Retained Business Rates	-180	-1,803	0	0	0	0	0	0	0	0	0	0
Collection Fund Surplus	141	80	0	0	0	0	0	0	0	0	0	0
Assumed Collection Fund Income (Formula Grant + Council Tax)	7,783	6,387	8,195	7,840	8,120	8,410	8,561	8,720	8,886	9,063	9,247	9,432
Forecast Budget Shortfall (required use of working balance)	-68	0	159	527	-1	0	377	732	1,035	1,285	1,533	1,786
GENERAL FUND WORKING BALANCE PROJECTION: AFTER SERVICE COST REDUCTION												
Estimated Working Balance b/f	3,348	3,416	3,416	3,257	2,730	2,731	2,731	2,354	1,622	586	-699	-2,233
Resulting Working Balance c/f	3,416	3,416	3,257	2,730	2,731	2,731	2,354	1,622	586	-699	-2,231	-4,018

	MTFS		NEW MTFS				FORECAST					
FOUR YEAR BUDGET PROFILES	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2021/22</u>	<u>2022/23</u>	<u>2023/24</u>	<u>2024/25</u>	<u>2025/26</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>
	<u>Budget</u>	<u>Budget</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>	<u>Forecast</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Strategic Reserves (Significant)												
Interest Equalisation	631	400	400	400	400	400	400	400	400	400	400	400
Insurance	466	441	416	391	366	341	316	291	266	241	216	191
Property Maintenance	573	498	423	348	273	198	123	48	0	0	0	0
VAT	319	250	250	250	250	250	250	250	250	250	250	250
Corporate Projects	3,249	3,393	3,400	3,382	3,166	2,950	2,734	2,518	2,302	2,086	1,870	1,654
Business Rates Equalisation	3,066	1,000	1,000	800	650	550	500	500	500	500	500	500
	8,304	5,982	5,889	5,571	5,105	4,689	4,323	4,007	3,718	3,477	3,236	2,995
Property Income Equalisation	2,180	3,596	4,271	4,946	5,121	5,296	5,471	5,646	5,821	5,996	6,171	6,346
	10,484	9,578	10,160	10,517	10,226	9,985	9,794	9,653	9,539	9,473	9,407	9,341

Capital Reserves	4,947	2,626	2,076	1,626	1,276	1,026	876	826	826	826	826	826
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Potential to transfer some of the interest equalistion to another strategic reserve
£25k per annum of the insurance reserve is being used to fund revenue budget
Assumed £75k use of property maintenance reserve per annum for backlog property maintenance works
No use of VAT reserve anticipated however with a number of property schemes could be needed
Assumed £300k per annum of corporate projects reserve being used to fund revenue budget/schemes
The business rates equalisation reserve assumes the NHS is successful in its appeal and the deficit in 2017/18 cleared in 2019/20
Anticipates that property income equalisation reserve meets the target of 1 year rental income for 5 properties secured with borrowing
Assumes £700k annual capital programme requiring financing from reserves revenue or capital

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FINANCIAL MODELLING FOR 2020-24 FINANCIAL PROJECTION (SEPTEMBER 2019)

	Base	Variation per 1%	Best Case				Financial Forecast				Worst Case			
			2020-21	2021-22	2022-23	2023-24	2020-21	2021-22	2022-23	2023-24	2020-21	2021-22	2022-23	2023-24
		+ / -	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Pay Inflation	£11,000,000	£110,000	1	1	1	1	2	2	2	2	3	3	3	3
Price Inflation	£9,500,000	£95,000	0	0	0	0	2	2	2	2	3	3	3	3
Interest on Balances in Year	£13,000,000	£130,000	1.5	1.75	2	2	1	1.25	1.5	1.5	0.5	0.5	0.5	0.5
Retained Business Rates	£1,585,000	£16,000	2	2	2	2	-10.1	-44.8	2	2	-49.5	0	0	0
Council Tax	£6,525,000	£65,000	3	3	3	3	3	3	3	3	0	0	0	0
Fees and Charges	£6,600,000	£66,000	3	3	3	3	2	2	2	2	0	0	0	0
Rent Income *	£3,992,000	£40,000	3	3	3	5.5	2.5	2.5	2.5	5	-5	-5	-5	-5

* includes dividend income from EEPIC

Best Financial Case Scenario

Pay settlements constrained due to low levels of inflation
 No Inflation
 Interest rates start to move upwards mid 2020
 Fair Funding Review has no reduction on the Council's share of retained business rates
 No further loss of grants or contributions
 New Homes Bonus funding continues
 Welfare benefit changes have favourable impact on Council budget and housing demands met
 Council tax increased marginally above inflation to help fund services
 Income generated from fees and charges slightly above inflation
 No tenancy reductions and some rent review increases

Worst Financial Case Scenario

Higher pay increase unavoidable due to high level of inflation
 Inflation increases above the Governments target of 2%
 No increase in interest rates
 Fair Funding Review reduces baseline funding from business rates to fund other LA funding pressures
 Further loss of grant / contributions
 New Homes Bonus funding lost as part of the Fair Funding Review
 Welfare benefit changes have significant adverse impact & increased demand for hsg/homeless services
 No increase on council tax
 No increase in income received from fees & charges
 Loss of significant tenancies with much lower future rent reviews

Financial Forecast

Pay award at Government inflation target of 2%
 Price inflation of 2% only allowed for unavoidable cost increases (e.g. contracts)
 Interest rates start to move upwards mid 2021
 Fair Funding Review reduces Council's share of retained business rates to baseline level (which is reduced by negative RSG in 2021/2)
 No further loss of grants or contributions
 New Homes Bonus available as windfall no commitment to fund services
 Welfare benefit changes have limited impact on the Council's budget
 Council tax increased marginally above inflation to help fund services
 Income generated from fees and charges in line with inflation
 No loss of tenancies but some rent renegotiation

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FORECASTS FOR THE UK ECONOMY – HM TREASURY (a comparison of independent forecasts)

This edition of the comparison contains 23 new forecasts, all of which were received between July 1st and July 12th 2019. The tables below summarise the average and range of independent forecasts for 2019 and 2020 and show the average of this month's new forecasts.

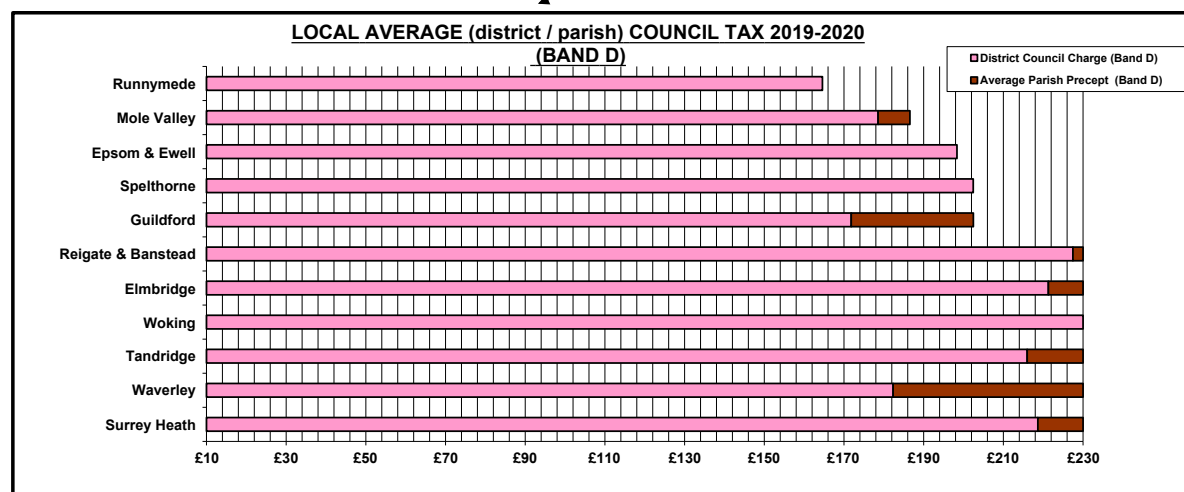
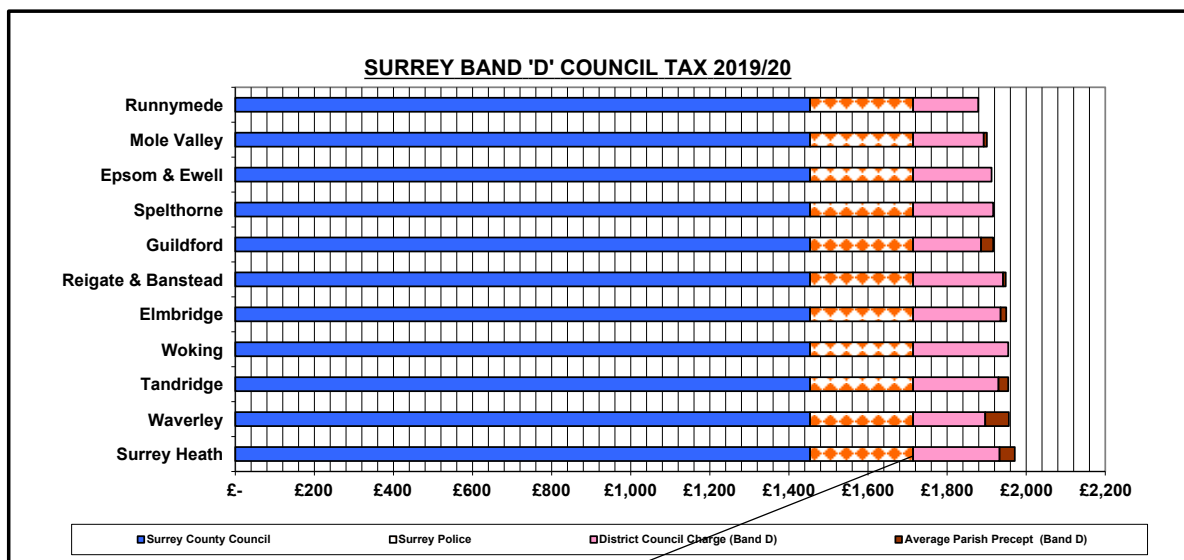
Forecasts 2019					
	Independent				Average of new forecasts
	Averages		July		
	July	June	Lowest	Highest	
GDP growth (per cent)	1.3	1.4	1.1	1.9	1.3
Inflation rate (Q4: per cent)					
-CPI	1.8	1.8	1.3	2.8	1.8
-RPI	2.5	2.5	2.0	3.4	2.5
LFS unemployment rate (Q4: %)	3.9	4.0	3.6	4.5	3.9
Current account (£bn)	-87.9	-85.2	-127.3	-23.0	-93.1
PSNB (2019-20: £bn)	30.1	29.9	22.0	41.0	29.5

Forecasts 2020					
	Independent				Average of new forecasts
	Averages		July		
	July	June	Lowest	Highest	
GDP growth (per cent)	1.4	1.4	0.9	2.0	1.4
Inflation rate (Q4: per cent)					
-CPI	2.1	2.1	1.6	3.5	2.1
-RPI	2.9	2.9	2.1	4.2	2.9
LFS unemployment rate (Q4: %)	4.1	4.1	3.3	4.9	4.1
Current account (£bn)	-81.9	-79.5	-131.1	-18.0	-85.4
PSNB (2020-21: £bn)	26.9	26.4	6.9	48.4	24.8

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2019-2020 COUNCIL TAX (average per dwelling and Band D for 2 adults)

SURREY DISTRICT	Surrey County Council	Surrey Police	District Council Charge (Band D)	Average Parish Precept (Band D)	Local Average (Band D)	Average Council Tax (Band D)
Runnymede	£ 1,453.50	260.57	164.59	0.00	164.59	1,878.66
Mole Valley	£ 1,453.50	260.57	178.56	7.99	186.55	1,900.62
Epsom & Ewell	£ 1,453.50	260.57	198.36	0.00	198.36	1,912.43
Spelthorne	£ 1,453.50	260.57	202.44	0.00	202.44	1,916.51
Guildford	£ 1,453.50	260.57	171.82	30.65	202.47	1,916.54
Reigate & Banstead	£ 1,453.50	260.57	227.46	6.70	234.16	1,948.23
Elmbridge	£ 1,453.50	260.57	221.30	14.15	235.45	1,949.52
Woking	£ 1,453.50	260.57	240.46	0.00	240.46	1,954.53
Tandridge	£ 1,453.50	260.57	215.98	24.49	240.47	1,954.54
Waverley	£ 1,453.50	260.57	182.33	59.76	242.09	1,956.16
Surrey Heath	£ 1,453.50	260.57	218.66	38.41	257.07	1,971.14



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**KEY COMPONENTS OF THE MEDIUM TERM
FINANCIAL STRATEGY 2016-2020**

The Council's Medium Term Financial Strategy sets out the approach that the Council has agreed to manage its finances.

COUNCIL TAX

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

BUDGET POSITION AND REVENUE RESERVE

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

INCOME

- Increase income from fees and charges by 6% in 2016/17 and 3% per annum thereafter
- Maintain 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 three year capital programme of £2.5 million
- 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 £3.1 million by 2019/20.

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