

Budget Targets 2019/20

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):	10 Year Financial Forecast
Other available papers (not attached):	Policy Book 2018/19

Report summary

This report updates the financial forecast and recommends financial targets for preparing the draft budget for 2019/20

Recommendation (s)

That the Panel recommends to the Strategy and Resources Committee:

1) The following overall revenue budget target for 2019/20:-

- a) Estimates are prepared including options to reduce organisational costs by £406,000 subject to government grant announcement, in order 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 £200,000 additional revenue is generated from an increase in discretionary fees and charges;
- c) That a provision for pay award is made of £280,000 that represents an increase to the staffing budget of 2.5%;
- d) That further savings and efficiencies be identified to address the budget shortfall of £113,000 in 2019/20;
- e) That £200,000 from the financial gain of being part of the Pilot for Business Rates is used to mitigate the potential payment of £625,000 to government for 'negative RSG'

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

- 1.1 The Medium Term Financial Strategy aims to maintain the financial health of the Council whilst delivering the priorities in the Corporate Plan.

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- 1.2 The Strategy and Resources Committee has agreed the following key service priority:-
 - 1.2.1 Set budget targets for 2019/20 to keep the tax level below the Surrey average.
 - 1.2.2 Delivery of the Financial Plan for 2016-2020 whilst limiting use of New Homes Bonus.
- 1.3 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 Introduction

- 2.1 The Council carried out a comprehensive review of its finances leading to the approval of the Four Year Financial Plan 2016-2020.
- 2.2 The major challenge for the Council is to deliver year-on-year savings to achieve a balanced budget during the funding cuts faced in the four-year settlement.
- 2.3 To address the funding shortfall the Council has produced an efficiency saving programme and has reduced actual spending in cash terms.
- 2.4 In June, the Financial Policy Panel received a preliminary report on preparing the 2019/20 budget and agreed a budget reporting timetable.
- 2.5 This report provides an update on the Council's financial position prior to the Strategy and Resources Committee approving budget targets for 2019/20.

3 Government Four Year Settlement

- 3.1 The funding outlook for the Council has changed significantly for the four years following the final financial settlement in early 2016. A widely expected phased cut to funding was front loaded and left the Council with no Revenue Support Grant from 2017/18 onwards, and an overall 66% reduction in funding between 15/16 and 19/20. The baseline funding for 2019/20 is £1.4m.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Revenue Support Grant	417	0	0	0
Retained Business Rates - Baseline	1,300	1,326	1,366	1,396
Transitional Grant	93	83	0	0
Tariff Adjustment – (Negative RSG)	0	0	0	-625
Government Settlement	1,810	1,409	1,366	771

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- 3.2 As a further comparison, our baseline funding in 2010/11 was £4.2m. The anticipated baseline funding for 2019/20 is £771k.

4 Government Consultation on 'Negative RSG'

- 4.1 At the 2018/19 Provisional Local Government Finance Settlement, the then Secretary of State confirmed that a consultation would take place (in Spring 2018) on these amounts, with the outcome feeding into the 2019/20 local government finance settlement. The Secretary of State stated, "I can confirm that my department will be looking at fair and affordable options for dealing with Negative RSG".

- 4.2 On 24 July 2018, the government published a consultation document in regards to the 2019/20 Finance Settlement. The technical consultation sets out these options, including the MHCLG's preferred option. These are summarised below:

Option 1: Directly "eliminating" Negative RSG via forgone business rates receipts

- 4.3 This is **MHCLG's preferred option**.
- 4.4 Using the Government's share of business rates, negative RSG would be removed for 2019/20. This would increase funding for the affected authorities by the previous negative RSG amount.
- 4.5 This option would initially appear to have no impact on local government overall and just provide additional funding to the affected authorities. Of course, those not benefitting from this may ask where the £153m would have been spent, if not removing negative RSG.

Option 2: Altering the Core Funding methodology

- 4.6 In order to alter the distribution of the reductions, various amendments to the Core Funding methodology were examined. The initial approach tested a reduction in the weighting given to council tax in the Core Funding methodology, although this was considered to unfairly disadvantage certain councils (i.e. those with high council tax levels). This approach redistributed RSG across England and reduced overall Negative RSG. However, it did not eliminate Negative RSG entirely (and altered the RSG of all authorities).

Option 3: Moving existing funding, or injecting additional funds into Core Funding

- 4.7 A third option of providing increased funding involved amendments to the existing relative needs formulas, via population-based metrics or through the existing RSG allocation methodology. However, these methods did not target the additional funding to those authorities with Negative RSG, with over £2billion required to raise those with Negative RSG to £0 RSG.

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Option 4: Remaining with the status quo of the current settlement methodology, such that authorities will have tariffs and top-ups adjusted

- 4.8 The option of do nothing was also considered. However, this approach is ruled out because the government made a commitment during the implementation of the business rates retention scheme, that tariff and top-ups would be fixed until the system is reset.
- 4.9 The Government's commitment to address negative RSG for this Council is viewed as a positive development. However, referring back to the minister's commitment that 'any solution will need to be fair and affordable' might result in compensating losses in funding received by this Council such as scrapping of the New Homes Bonus grant, a reduction in the Council's retained share of business rates income or cutting specific grants received for essential services such as homelessness.
- 4.10 The outcome of the consultation will be published (and reflected) in the 2019/20 provisional local government finance settlement, which is expected in December 2018.
- 4.11 For the purpose of budget, planning the forecasts assumes that the 'Negative RSG' remains. Although government is committed to addressing Negative RSG they have also stated that any solution needs to be affordable, therefore there are significant risks to other sources of local government funding that may be effected as a result in any changes to the financial settlement.

5 The Council's Financial Position

- 5.1 The final accounts for 2017/18 were reported to Strategy and Resources Committee in July 2018. The District Auditor, Grant Thornton, at this meeting issued an unqualified audit opinion in respect of the Council's financial statements.
- 5.2 At the end of 2017/18, the Councils reserve levels stood at £3.348m for general fund balances and £12.851m for strategic earmarked reserves. A breakdown of these reserves can be found in the Council's Statement of Accounts published online.
- 5.3 The 2017/18 budget did not anticipate any withdrawal from general fund reserves to finance the provision of services. The actual year-end position allowed the Council to make a contribution to general fund balances of £14,000 leaving the Council with a general fund balance of £3.348m. This is £848,000 above the £2.5m internally set threshold.
- 5.4 The 2018/19 budget was set with a balanced budget and anticipated no use of general fund reserves.

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Capital Reserves

5.5 The following statement of the Council's capital reserves is also taken from the financial statements for 2017/18:-

	Useable Capital Receipts £'000
Balance brought forward at 1 April 2017	4,313
Amounts received in 2017/18	+ 223
Funds returned due to substitution of CIL funding	+ 117
Amounts applied to finance new capital investment	- 344
Reduction in realised capital resources	- 4
Balance carried forward at 31 March 2018	4,309

5.6 The estimated commitments on capital reserves required to fund schemes in the 2018/19 capital programme total £1.267 million; £386,000 for schemes brought forward, £188,000 earmarked for future residential property acquisitions and £693,000 for new schemes.

5.7 The estimate of uncommitted capital reserves is therefore reduced to £3.0 million.

6 Budget Outlook for 2019/20

6.1 A financial model has been prepared and the following table summarises the latest budget forecast:-

	2018/19 Budget £'000	2019/20 Forecast £'000	2020/21 Forecast £'000	2021/22 Forecast £'000
Net Cost of Services b/f		8,403	8,130	8,774
Pay & price increases		470	590	598
Changes to contingencies for service changes and pressures		435	80	150
Changes in external funding		155	24	0
Increase in fees & charges		-200	-200	-210
Net change in contribution from reserves/provisions		-575	150	150
Identified savings		-558	0	0
Forecast Net Cost of Services	8,403	8,130	8,774	9,462
Interest on balances	-120	-80	-120	-175

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	2018/19 Budget £'000	2019/20 Forecast £'000	2020/21 Forecast £'000	2021/22 Forecast £'000
Use of New Homes Bonus	-500	-473	-184	0
Transfer from Working Balance	0	0	0	0
Forecast Net Expenditure	7,783	7,577	8,470	9,287
Council Tax income	6,290	6,526	6,771	7,025
Retained Business Rates	1,532	1,563	1,594	1,626
Tariff Adjustment (Negative RSG)	0	-625	-781	-977
Adjustments	-39	0	0	0
External Funding	7,783	7,464	7,584	7,674
Funding Shortfall	0	113	886	1,613

6.2 The forecast budget shortfall for 2019/20 is £113,000 and over the next 3 years financial years (inclusive of 2019/20) the total deficit is £2.612m. This shortfall includes the following assumptions:

- 6.2.1 That this Council is still liable to pay 'Negative RSG' and this payment will increase by c£200k per annum. This is a prudent approach considering cuts in funding experienced by the Council over the last 10 years.
- 6.2.2 That £473k New Homes Bonus Grant is used to fund services in 2019/20, the criteria for eligibility for this grant has been changed and funding for future years will reduce significantly. The forecast removes any funding from New Homes Bonus Grant to fund services in 2021/22.
- 6.2.3 Increases in yield from fees and charges are increased by 3% from 2019/20 onwards.
- 6.2.4 Provision for increase in pay bill of £280k reflects the second year of the pay award approved by Strategy & Resources Committee. The forecast pay award for 2020/21 onwards is based on an annual increase of 2%.
- 6.2.5 Reduction in funding from SCC of £60k to support provision of services for refuse collection.
- 6.2.6 A provision of £100k in 2019/20 and 2020/21 to mitigate the impact of benefit reforms.

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- 6.2.7 Loss of housing benefit admin grant of £45k in 2019/20 and a further £24k in 2020/21.
 - 6.2.8 A provision for an increase in property maintenance costs of £50k for 2019/20 and 2021/22.
 - 6.2.9 A provision in 2019/20 of £70k to cover the cost of local elections.
 - 6.2.10 An increase in verge maintenance provision of £59k to provide additional cover for grass cutting during March to June.
 - 6.2.11 Reduced level of savings of £71k achieved from disposal of interest in Ebbisham Centre.
 - 6.2.12 Additional resources included for Health and Community Safety of £60k.
 - 6.2.13 £100k per annum used to finance projects within the Council's capital programme to limit use of diminishing capital reserves.
 - 6.2.14 £200k of funding utilised from business rates pilot to part mitigate impact of 'negative RSG' payment in 2019/20 to 2021/22.
- 6.3 The 2019/20 budget figures will change throughout the budget setting process as managers and Accountants review budgets and trends.
- 6.4 The following savings for 2019/20 were agreed in principle by the relevant Policy Committees in the 2016/17 budget targets reports.

	£'000	Committee
Review operation of parks	77	C&W
Introduce vending in parks	5	C&W

2019/20 Deficit

- 6.5 It is anticipated that further savings of £113,000 should be achievable to address the gap for 2019/20 and the areas that officers expect these to come from are:
- 6.5.1 Efficiency Savings – Officers will continue to look at how services are delivered to maximise efficiency and the use of IT.
 - 6.5.2 A base review, this entails reviewing the year-end position for 2017/18, identifying any potential savings, additional cost pressures and areas where savings can be developed.

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6.5.3 Property Related – to realise cost reduction of Council operational buildings, increase income from investment properties and generate new receipts from surplus buildings/land.

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

6.6 It is proposed that officers undertake reviews throughout the year and during the budget setting process to help deliver a balanced budget for 2019/20. If necessary, a list of proposals will be presented to members by officers with suggestions of how to reduce the £113,000 shortfall.

6.7 The following main factors were used to prepare the forecast.

Assumptions Used	Base £'000	2018/19 Budget	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast
General Inflation - prices	9,500		2.0%*	2.0%	2.0%
Pay bill growth	11,000		2.5%	3.6%**	3.6%**
Fees & Charges allowance: annual increased yield on discretionary charges	6,600		3.0%	3.0%	3.0%
Interest rate used		0.80%	0.80%	1.00%	1.25%
Increase in Council Tax	6,290	£192.60	3%	3%	3%
Increase in property base	32,658***	0.75%	0.75%	0.75%	0.75%

* allows for unavoidable price inflation only

** assumes pay award in 2020/21 and 2021/22 of 2%

*** Band D equivalent

7 Budget Timetable

7.1 In June, the Financial Policy Panel received a preliminary report on preparing the 2019/20 budget and agreed a budget reporting timetable. The table below summaries the overview of the budget review process:

	Financial Planning
June	Financial Review
July	End of Year Financial Reports
September	Review of Revenue and Capital Expenditure Set Budget Targets for 2019/20

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	Financial Planning
October - December	Estimates and Budget Options Capital finances and appraisals
January	Service estimates and investment plans for following year Capital schemes to Council
February	Determine budget and council tax Approve capital programme for 2019/20
March	Publish budget Council tax information and billing

8 New Homes Bonus

- 8.1 Further significant reductions in funding available from New Homes Bonus are expected for 2019/20 when projections show that there will be insufficient New Homes Bonus available to fund services of £500,000 per annum as agreed under the protocol.
- 8.2 The grant is expected to reduce to £473,000 in 2019/20 and fall further to £364,000 in 2020/21. Reliance on this funding to finance services has been removed within the forecast from 2021/22.
- 8.3 The current forecast anticipates the continued use of £473,000 of New Homes Bonus in 2019/20 but use of funding reduces down to £184,000 in 2020/21.
- 8.4 Under the Local Government Finance Settlement Consultation, government has indicated that there are likely to be further changes to the grant scheme post 2020. It is unclear at this time whether any new scheme will honour legacy payments, which make up the majority of our current grant.

9 EEPIC (Property Investment Company)

- 9.1 The Council agreed to set up an investment property company towards the end of 2017, since its inception the Company has acquired two properties, which, after deducting interest payments and contributions to reserves, will provide an overall benefit to the Council's general fund in 2019/20 of around £700,000. This funding is included in the base budget.

10 Forecast for 2020/21 to 2028/29

- 10.1 **Annex 1** projects a further deficit of £886,000 in 2020/21 and £1,613,000 in 2021/22. If the £113,000 shortfall in 2019/20 is addressed this would reduce the deficit in 2020/21 to £763,000 and 2021/22 to £1,500,000.

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- 10.2 The 10-year forecast removes the reliance on funding from retained business rates and new homes bonus to finance the running of council services. The position also provides funding for a sustainable capital programme from revenue by the end of 2028/29.
- 10.3 2019/20 represents the last year of the current Medium Term Financial Strategy and a new Strategy will need to be produced for 2020/21.

11 Fees and Charges

- 11.1 Budgeted income from discretionary fees and charges totals nearly £7 million. Additional income targets were again set this year for Council run venues along with increases in other fees and charges. The 2019/20 budget forecast assumes an additional yield on charges set by the Council generating £200,000 based on a minimum overall increase of 3.0% in total income.

12 Council Tax and Retained Business Rates

- 12.1 The forecast assumes an increase of 3% per annum in council tax income. It is anticipated this level of tax increase would keep the council tax in the lower half of the Surrey Districts, consistent with the council tax policy.
- 12.2 The current Band D for the Borough is £192.60. The Borough's council tax is benchmarked against the other Surrey District council tax levels below:

SURREY	Average council tax for the authority including parish precepts - Band D	
	£	% change
Runnymede	159.59	3.23
Mole Valley	181.50	3.19
Epsom & Ewell	192.60	2.98
Guildford	195.40	3.03
Spelthorne	197.44	2.60
Elmbridge	215.76	1.88
Reigate & Banstead	227.25	3.01
Tandridge	232.37	2.85
Surrey Heath	232.40	2.85
Woking	233.46	2.98
Waverley	234.79	3.81

Source: DCLG website August 2018

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- 12.3 The forecast also assumes a 2% increase in the Council's share of retained business rates income for each financial year.
- 12.4 The Council maintains a Business Rates Equalisation Reserve to finance any fluctuations in its share of Business Rate income. The uncommitted balance on this reserve currently stands at £185,000.

13 Capital Programme

- 13.1 The capital programme review for 2019-2020 is under way. The Capital Member Group has met this month to review draft bids.

14 Proposals

- 14.1 The recommendations to the Strategy and Resources Committee are covered 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 2019/20.

15 Financial and Manpower Implications

- 15.1 **Chief Finance Officer's comments:** *The financial outlook for 2019/20 is detailed in this report.*
- 15.2 *The 2019/20 budget figures will change throughout the budget setting process as managers and the Finance Team review budgets and trends.*

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

- 16.1 **Monitoring Officer's comments:** *No comments for the purposes of this report*

17 Risk Assessment

- 17.1 A high level of risk to Council finances has arisen from the resultant public sector spending cuts. The main risks for next year are set out in the 2019/20 budget report.
- 17.2 The longer-term financial risks are contained in the Four Year Financial Plan 2016-2020.

18 Conclusion and Recommendations

- 18.1 The recommendations to the Strategy and Resources Committee are covered in the recommendations of this report.
- 18.2 This report covers budget targets for 2019/20, taking into account the financial forecast for the next three years and the Council's approved Medium Term Financial Strategy.

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- 18.3 Based on the assumptions used, the forecast identifies that cost reductions are required in the region of £113,000 in 2019/20 and £1.613 million in total over the next three financial years.
- 18.4 The budget strategy involves 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.
- 18.5 The budget strategy also requires prudent use of government grants such as the New Homes Bonus to limit reliance on specific grants for funding council services.
- 18.6 The greatest financial risks appear to be further potential funding cuts from Central Government and from Surrey County Council for services provided by this Council.
- 18.7 The budget position for 2019/20 will be reassessed later this year when detailed service estimates have been prepared.

Ward(s) affected: (All Wards);