

**FINANCIAL POLICY PANEL
2 FEBRUARY 2016**

2016/17 BUDGET AND FINANCIAL PLAN 2016 - 2020

<u>Report of the:</u>	Head of Financial Services
<u>Contact:</u>	Lee Duffy
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
<u>Annexes/Appendices</u> (attached):	Annexe 1: Summary of 2016/17 Estimates Annexe 2: Draft Financial Plan 2016-20 Annexe 3: Key Components of the Medium Term Financial Strategy 2016/2020 Annexe 4 : Four Year Cost Reduction Plan 2016/2020
<u>Other available papers</u> (not attached):	Draft Budget Book 2016/17 Policy Committee Budget Reports 2016/17

REPORT SUMMARY

This report provides an update on the preparation of the budget for 2016/17. The report seeks any final guidance from the Panel prior to the preparation of the Budget and Council Tax report for the Council on 11 February 2016. The report also seeks final guidance on the Financial Plan for 2016-2020, including assumptions on New Homes Bonus.

RECOMMENDATION (S)

That the Panel provides the Director of Finance and Resources with any further guidance needed on the presentation of the 2016/17 Budget and Council Tax report and on the Financial Plan 2016-2020.

Notes

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

1.1 The Strategy and Resources has agreed the following key service priority:-

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

FINANCIAL POLICY PANEL 2 FEBRUARY 2016

2 Introduction

- 2.1 Service estimate reports have been prepared for each of the four policy committees. The estimates are contained in the draft Budget Book 2016/17 which has been issued to all Councillors.
- 2.2 The estimates were prepared on the basis of budget guidelines agreed by the Council last September.
- 2.3 The overall budget target for 2016/17 was agreed at Strategy & Resources Committee on 29 September 2015 as follows:-
 - Estimates are prepared including options to reduce organisational costs by £650,000 subject to government grant announcement, to minimise the use of working balances and maintain a minimum working balance of £2.5million in accordance with the Medium Term Financial Strategy.
 - That at least £400,000 additional revenue is generated from an increase in discretionary fees and charges, based on an overall increase in yield of 6.0%.
 - That a provision for pay award is made of £230,000 that represents a 1.5% increase.
 - That further savings are identified for inclusion within the medium term financial strategy that will reduce the Council's net operating costs by a minimum of £1,644,000 over the period 2017/18 to 2019/20.
 - That the Capital Member Group seeks to limit schemes included within the capital expenditure programme that enable the retention of agreed minimum level of capital reserves.
- 2.4 The funding of the capital programme was agreed in December, subject to schemes being supported by the policy committees in the January Committee cycle.
- 2.5 Subject to the decisions of the policy committees, the proposed increases to discretionary fees and charges are estimated to generate £752,000 in 2016/17.
- 2.6 This report provides details of the provisional local government finance settlement and seeks guidance from the Panel on the presentation of the budget and council tax report for 2016/17.
- 2.7 The report also seeks guidance on balancing the budget for 2016/17 and on finalising the Financial Plan 2016-2020.

**FINANCIAL POLICY PANEL
2 FEBRUARY 2016**

3 Provisional Government Funding Proposals

3.1 Details of the provisional local government finance settlement were sent by e-mail to all councillors on 18 December 2015.

3.2 The following table shows the provisional grant figures for 2016/17:-

2016/17 SETTLEMENT FUNDING ASSESSMENT	Revenue Support Grant £000	Baseline Funding (Business Rates) £000	Total £000
Total	417	1,300	1,717

3.3 The following table compares the provisional settlement funding with the current year (2015/16) final settlement figures:-

Reduction in Funding	£000	£000
2015/16 Funding Settlement	2,295	
2016/17 Provisional Assessment	1,717	- 578 (- 25.0%)

3.4 In its spending announcements the Department of Communities and Local Government (DCLG) also refers to changes in 'spending power'. This is a term used to measure the impact of all government grant changes on local authority budgets. Nationally the reduction in spending power for 2016/17 is 2.8%. Epsom and Ewell Borough Council's spending power will reduce by 2%. When considering the impact on council budgets this figure is misleading as it includes the increase in New Homes Bonus. Only part of New Homes Bonus is used by most Councils to fund services as this is not core funding or guaranteed for future years.

3.5 The Government also announced provisional settlement figures for 2017/18, 2018/19 and 2019/20. Grant funding from revenue support grant completely disappears in 2017/18 and our core funding from this year onwards only consists of our retained share of business rates.

3.6 The Government provisional 4 year settlement has front loaded cuts to Council funding, with reductions in grant of £975,000 over the first 2 years and an increase of £90,000 in our baseline funding for the last 2 years of the settlement. This compares to assumptions made in the Financial Plan that went to S&R that expected a reduction of grant in the first 2 years of £430,000 and a further reduction of £343,000 for 2018/19 and 2019/20.

**FINANCIAL POLICY PANEL
2 FEBRUARY 2016**

- 3.7 The funding settlement also introduces an increase in tariff payable to government from the Council's share of retained business. Advice given by our independent advisor expects the tariff to be excluded from the current business rate scheme, which would allow this to be partly mitigated by the use of the safety net funding (92.5% of baseline funding). As a result, the advice we have been given is that tariff payments will be due to government of £50,000 in 2017/18, £320,000 in 2018/19 and £620,000 in 2019/20.

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £000	2019/20 £000
Provisional Settlement					
Revenue Support Grant	1,006	417	0	0	0
Retained Business Rates - Baseline	1,289	1,300	1,320	1,360	1,410
Government Baseline Funding	2,295	1,717	1,320	1,360	1,410
Tariff Adjustment	0	0	-50	-320	-620
Provisional Settlement Total	2,295	1,717	1,270	1,040	790
Projections within Financial Plan					
Revenue Support Grant	1,006	764	541	335	145
Retained Business Rates - Baseline	1,289	1,298	1,324	1,350	1,377
Forecast Funding	2,295	2,062	1,865	1,685	1,522
Changes in Funding	0	-345	-595	-645	-732

4 Use of New Homes Bonus in 2016/17

- 4.1 The Council additionally benefits from the award of New Homes Bonus grant based upon the number of new residential properties in the borough in the preceding year with a supplement for affordable housing.

FINANCIAL POLICY PANEL
2 FEBRUARY 2016

4.2 The provisional payment for 2016/17 is £2,116,000 comprising:-

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

4.3 This compares to the previous forecast for 2016/17 of £2,000,000.

4.4 Under the New Homes Bonus protocol, £500,000 of this grant has been allocated to help fund services in 2016/17. As there currently a deficit on the general fund as a result of the reduction in grant settlement and an increase in national insurance payments, it is proposed that the use of New Homes Bonus is increased to £773,000 and the balance of £1,343,000 will be made available for capital investment or corporate projects.

4.5 Next year's allocation of £158,499 is based upon housing delivery October 2014 to October 2015. Namely:

4.6 An addition of 62 properties in the Borough

4.7 An increase of 57 empty properties brought back into use

4.8 A net increase of 119 properties (including 56 affordable housing units)

4.9 Government has announced that New Homes Bonus funding will continue however, it will be subject to reform following consultation that ends on 10 March 2016. The level of funding available is expected to be reduced significantly by the reforms to this grant but the current method of grant allocation will remain for 2016/17.

4.10 The budget forecasts in the Financial Plan 2016-2020 are based on the following application of New Homes Bonus:-

4.11 Approximately £500,000 per annum to be used for managing the revenue budget and where there is a funding shortfall in achieving a balanced budget due to front loading of cuts in Government grant funding it may be necessary to increase the use of new homes bonus.

4.12 Sums above this figure are allocated to the Corporate Project Reserve, to be released by the Council on non-recurring schemes, including the affordable housing element for housing purposes.

FINANCIAL POLICY PANEL 2 FEBRUARY 2016

- 4.13 It is proposed that a minimum level of £1 million is retained within the Corporate Projects Reserve to mitigate any changes made to future New Homes Bonus funding.
- 4.14 The allocation of New Homes Bonus monies will still be reviewed and determined annually as part of the budget review process.
- 4.15 The Panel may wish to confirm this approach or suggest an alternative strategy.

5 Budget Overview

- 5.1 The service estimates, as recommended to the policy committees, are contained in the Budget Book 2016/17.
- 5.2 The Budget Book currently shows a balanced budget for 2016/17. However, there is a **change** made to the budget since the production of the Budget Book and this is **a provision has been made in the budget of £180,000 for additional NI contributions, due to changes announced by Government to the level of NI payable for staff contracted out of the pension scheme.**
- 5.3 To retain a balanced budget for next year and accommodate the above increase in expenditure the use of New Homes for 2016/17 has been increased to £773,000.
- 5.4 The draft budget reflects the provisional grant settlement figures announced in December.
- 5.5 There are a number of risks on unsettled budget items:-
- The estimate of retained business rates
 - The final grant settlement
 - The pay settlement (for decision by Strategy and Resources on 27 January)
 - The council tax decision
 - The continuing impact of welfare changes on budgets such as homelessness and housing benefits
- 5.6 The Strategy and Resources Committee budget currently includes a £67,000 of contingencies to mitigate any unforeseen costs in implementing changes to services identified as part of the budget process.

**FINANCIAL POLICY PANEL
2 FEBRUARY 2016**

6 Council Tax Options

- 6.1 The 2016/17 budget target included additional income from a 2% increase in council tax. This figure took into account the fact that central government required any tax increases above 2% to be subject to a referendum in 2015/16, a cost that would fall on Council residents, it is assumed that this is not an option Councillors wish to explore.
- 6.2 Within the draft Budget income from the council tax charge has been increased by 1.98% for 2016/17.
- 6.3 To the average Band 'D' council tax payer (those not receiving discounts or support) the charge for borough services is currently £177.12 per property. So, for example, each 1% increase will cost £1.77 per annum.
- 6.4 For the Council's finances, revenue from council tax provides a more certain income base to pay for services going forward as government revenue support grant is being reduced and will be lost altogether in the future.
- 6.5 Given the referendum limit the Panel may feel it's appropriate for options of 0%, 1.52% and 1.98% to be included in the budget report.
- 6.6 Annexe 1 comprises an overview of the draft budget for 2016/17 showing the impact of different council tax options with increases shown between 0% and 2%.
- 6.7 The Panel may wish to consider the following options in the budget report.

Increase:	0%	1.52%	1.98%
Council Tax	£177.12	£179.82	£180.63
Increase per annum	£0	£2.70	£3.51
Increase per week	0 pence	5 pence	7 pence
Income Generated 2016/17	£0	£86,000	£112,000
Adjustment needed to Draft Budget Book	£112,000 adverse	£26,000 adverse	0
Income Generated Future Years Council Tax Base	£0	£86,000	£112,000

- 6.8 Surrey County Council's cabinet has proposed a 3.99% council tax increase to help their future funding position. At the time of writing this report Surrey Police are proposing an increase of 2%. The Surrey County Council and Surrey Police Authority charges (precepts) will be determined early in February.

**FINANCIAL POLICY PANEL
2 FEBRUARY 2016**

7 Business Rates Retention

7.1 The current year (2015/16) settlement included £2,295,000 for this Council comprising £1,006,000 Revenue Support Grant and £1,289,000 Business Rates Baseline funding. Whilst the Revenue Support Grant was fixed, the business rate figure depended on rates actually collected in year.

7.2 The baseline funding distribution was based on central government's needs and resources formula and was calculated to provide a neutral position going into the new funding regime. The following table shows an overview of central government's calculation of business rates retained by this Council contained within the 2015/16 funding settlement:-

2015/16	Gov't Baseline £'000	EEBC Budget £'000	EEBC Latest Forecast £'000	
Rates Collectable	23,697	23,101	23,057	
Less: payable to central government	(11,848)	(11,551)	(11,528)	50%
Less: payable to SCC	(2,370)	(2,310)	(2,306)	10%
Epsom & Ewell Share (NDR Baseline)	9,479	9,240	9,223	40% of collection
Less 'Tariff'	(8,190)	(8,190)	(8,190)	Tariff set by govt. to go to 'top-up authorities'
	1,289	1,050	1,033	
Small Business Rate Relief Grant	0	212	217	Grant funding to offset relief given on business rates
Localism Relief Grant	0	196	200	Grant funding to offset relief given on business rates
	1,289	1,458	1,450	
Baseline Funding	1,289	1,289	1,289	Funding baseline set but central government
Estimated Growth above baseline	0	169	161	
50% Retained	0	85	81	
Net Retained	1,289	1,374	1,370	

FINANCIAL POLICY PANEL
2 FEBRUARY 2016

- 7.3 As reported last year, the Council anticipated that there could be some small growth in business rates with a sum collected of £23,101,000 and £85,000 anticipated as retained growth.
- 7.4 Until 2012/13 formula grant funding, including redistributed business rates, had been fixed in the local government finance settlement and this allocation was not varied during the year. Under the local retention scheme councils enjoy gains or suffer losses from variations to the business rates collected, whether that be due to changes in collection rates or more/fewer businesses.
- 7.5 The business rates collected this year is currently forecast at £44,000 below the original budget forecast. There was also unfunded deficit brought forward from last year of £259,000. This results in a combined deficit on the fund of £303,000 with the Council's share being £121,000.
- 7.6 The funding position for 2016/17 still needs to be finalised, but based on provisional NNDR1 information the Council can anticipate to retain £1,435,000 of income.

2016/17	EEBC Latest Forecast £'000	
Rates Collectable	24,025	
Less: payable to central government	(12,013)	50%
Less: payable to SCC	(2,402)	10%
Epsom & Ewell Share (NNDR Baseline)	9,610	40% of collection
Less 'Tariff'	(8,258)	Tariff set by govt. to go to 'top-up authorities'
	1,352	
Small Business Rate Relief Grant	219	Grant funding to offset relief given on business rates
	1,571	
Baseline Funding	1,299	Funding baseline set but central government
Estimated Growth above baseline	272	
50% Retained	136	
Net Retained	1,435	

**FINANCIAL POLICY PANEL
2 FEBRUARY 2016**

7.7 The deadline for submitting the business rate estimates for 2016/17 is 30 January and officers at the time of writing this report were still working on estimates using the experience of the impact of appeals and other variations to rates collected in 2015/16.

7.8 The Panel will note that the safety net threshold for 2016/17 is estimated at £1,202,000 compared to £1,435,000 used as income in the draft estimates. This limits the exposure of losses to £233,000 next year compared to the estimate used in the Budget Book.

7.9 The Panel will receive an update on the finalised estimate of business rates in the certified NNDR1 at the meeting.

8 Local Government Finance Settlement

8.1 Any changes in the finalised local government finance settlement will be made available to the Panel, once they have been issued or reported to all councillors if not available for the meeting.

8.2 This Council has submitted a formal response on the settlement to Department for Communities and Local Government.

9 Financial Outlook as a Context for Council Tax and Budget Decisions

9.1 The draft Financial Plan 2016-2020 is attached at annexe 2.

9.2 The following financial forecast is taken from section 5 of that plan:-

	2016/17 Budget £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000
Cost of Service b/f	9,651	8,702	8,683	8,939
Pay & Prices Increases		+ 360	+ 360	+ 360
Contingency for Service Changes and Pressures		+ 334	+ 528	+ 257
Increases in Fees & Charges		- 200	- 200	- 210
Star Chamber / Service Savings	- 949	- 513	- 432	- 380
Forecast Net Cost of Services	8,702	8,683	8,939	8,966
Interest on Balances	- 220	- 220	- 220	- 220
Use of Business Rate Equalisation Reserve	- 121			
Use of New Homes Bonus	- 773	- 500	- 500	- 500
<i>Funding Shortfall</i>	<i>0</i>	<i>- 606</i>	<i>- 938</i>	<i>- 1,067</i>
Transfer from Working Balance	0	0	0	0

**FINANCIAL POLICY PANEL
2 FEBRUARY 2016**

	2016/17 Budget £000	2017/18 Forecast £000	2018/19 Forecast £000	2019/20 Forecast £000
Cost of Service b/f	9,651	8,702	8,683	8,939
Pay & Prices Increases		+ 360	+ 360	+ 360
Contingency for Service Changes and Pressures		+ 334	+ 528	+ 257
Increases in Fees & Charges		- 200	- 200	- 210
Star Chamber / Service Savings	- 949	- 513	- 432	- 380
Forecast Net Cost of Services	8,702	8,683	8,939	8,966
Interest on Balances	- 220	- 220	- 220	- 220
Use of Business Rate Equalisation Reserve	- 121			
Use of New Homes Bonus	- 773	- 500	- 500	- 500
<i>Funding Shortfall</i>	<i>0</i>	<i>- 606</i>	<i>- 938</i>	<i>- 1,067</i>
Forecast Net Expenditure	7,588	7,357	7,281	7,179
Formula Grant Forecast	417	0	0	0
Business Rates Forecast	1,435	1,464	1,260	1,300
Tariff Adjustment	0	- 50	- 320	- 620
Council Tax Income Forecast	5,783	5,943	6,108	6,277
Collection Fund Surplus / (Deficit)	- 47	0	0	0
Collection Fund Income	7,588	7,357	7,281	7,179

9.3 The Financial Plan provides more analysis behind the forecast however key points to note are:-

- The forecast covers existing services plus makes contingencies for government reforms
- £500,000 of New Homes Bonus receipts are used to fund revenue services (£773,000 in 2016/17).
- Council tax charges have been increased by 2% and other charges at by 3% per annum
- Savings have been identified of £2,274,000 over the next four years as part of the budget process such as through service reviews and 'star chamber' exercise.

FINANCIAL POLICY PANEL 2 FEBRUARY 2016

- Further savings of over £1 million will need to be found between 2017 and 2020 if a balanced budget is to be achieved at the end of this period.

- 9.4 The provisional settlement identifies a change to the level of tariff payable to the Government for redistribution of business rates. From 2017/18 onwards, Government has increased the tariff payable on the Council's share of business rates. The independent financial advice the Council has received suggests that this additional tariff will be payable in full regardless of whether the safety net level is triggered.
- 9.5 The increase in tariff payable to Government is £50,000 in 2017/18, £320,000 in 2018/19 and £620,000 in 2019/20.
- 9.6 It is proposed that it is made a priority to review identified savings included within £2,274,000 and expedite the delivery of any of the savings in to 2016/17 if achievable. If a funding gap still remains it is then proposed that an additional drawdown of up to £273,000 is taken from New Homes Bonus to balance the budget for 2016/17.

10 Financial Plan 2016-2020

- 10.1 The Financial Plan at Annexe 2 has been prepared to provide context for the Medium Term Financial Strategy.
- 10.2 A final draft of the Medium Term Financial Strategy is contained in Section 1 of the Financial Plan (page 5 of Annexe 2).
- 10.3 The Panel are asked to recommend the Financial Plan 2016-2020 and Medium Term Financial Strategy for approval by the Council.

11 Financial and Manpower Implications

- 11.1 The forecast financial position for 2016/17 is set out in this report.
- 11.2 The four year forecast is contained in the draft Financial Plan 2016-2020.
- 11.3 The staff budget for 2016/17 will be finalised once the budget and council decisions are taken. The estimates make provision for a pay settlement currently subject to staff consultation.
- 11.4 The planned use of reserves includes:-
- 11.4.1 The draft revenue budget includes £405,000 use of strategic reserves (£121,000 from the Business Rates Equalisation Reserve) and £773,000 from New Homes Bonus to fund service expenditure;
- 11.4.2 Approximately £695,000 of capital reserves used to fund capital schemes (excluding carried forward schemes);
- 11.4.3 Capital schemes to be funded from strategic revenue reserves £50,000.

**FINANCIAL POLICY PANEL
2 FEBRUARY 2016**

12 Proposals

- 12.1 It is requested that the Panel provides the Director of Finance and Resources with any final guidance needed to finalise the 2016/17 budget and council tax report, with particular reference to council tax options.
- 12.2 It is also requested that the Panel recommend that the Financial Plan 2016-2020 for Council approval.
- 12.3 The Budget and Council Tax meeting is on 11 February 2016.
- 12.4 A separate report will go to Strategy and Resources Committee in July providing an update on the Council's financial position.

13 Risk Assessment and Conclusions

- 13.1 The Council is providing services during a period of sustained significant cuts to public spending that provide a higher than normal level of risk to Council finances and services.
- 13.2 Financial forecasting is particular difficult over the next four years due to central government's impending reduction in funding of New Homes Bonus grant as well as predicting the impact of any benefit reforms on services provided by the Council.
- 13.3 The provisional settlement removes RSG funding for this Council from 2017/18 and the Council will only receive funding through either its share of retained business rates or new homes bonus. However, there is still a risk to the Council's finances that the Government could still reduce our share of business rates that we can retain and therefore increase the funding gap to achieve a balanced budget for these years.
- 13.4 It is proposed that it is made a priority to review identified savings included within £2,274,000 and expedite the delivery of any of the savings in to 2016/17 where achievable. In addition a number of workstreams have been agreed and work on these will commence early in the New Year.
- 13.5 It is proposed any savings that can be found in addition to those incorporated into the 2016/17 budget will used to reduce the use of New Homes Bonus down to £500,000.
- 13.6 Therefore, the 2016/17 revenue budget has been prepared without use of revenue reserves. Capital reserves will still be required to help fund the capital programme.
- 13.7 The major challenge in the Financial Plan is the delivery of the £2.3 million of savings, whether of any of these can be brought forward to match the cuts in Government funding and the need to identify further savings of over £1 million by 2019/20.

**FINANCIAL POLICY PANEL
2 FEBRUARY 2016**

- 13.8 Budget and Council Tax decisions for 2016/17 should be consistent with the draft Medium Term Financial Strategy and the Financial Plan for 2016 – 2020.

WARD(S) AFFECTED: All