

BUDGET AND COUNCIL TAX 2016/17

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

REPORT SUMMARY

- This report fulfils the statutory requirement to agree a budget for 2016/17, comprising both revenue and capital expenditure plans, and to set a Council Tax for the year.
- **The council tax recommendation is for an increase of £4.95 per annum (Band D property) an equivalent of 2.8% increase.**
- Financial Policy Panel made no recommendation to Council but requested that the report includes four options for Council Tax (a freeze, an increase of 1.52%, an increase of 1.98% and an increase of £4.95)
- The report also recommends the approval of the Financial Plan for 2016-20, including a new Medium Term Financial Strategy

RECOMMENDATIONS

See (1) to (10) below

Notes

1. That it be noted that, under delegated powers, the Director of Finance and Resources calculated the amount of the Council Tax Base as 32,013.5 (Band 'D' equivalent properties) for the year 2016/17 calculated in accordance with the Local Government Finance Act 1992, as amended (the "Act").

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2. That the following estimates recommended by the policy committees be approved:-
 - a. The revised revenue estimates for the year 2015/16 and the revenue estimates for 2016/17
 - b. The capital programme for 2016/17 and the provisional programme for 2017 to 2019, as summarised in the capital strategy statement.
3. That the fees and charges recommended by the policy committees be approved for 2016/17.
4. That the Council Tax Requirement for the Council's own purposes for 2016/17 is **£5,828,698**.
5. That the Council receives the budget risk assessment at Appendix 6 and notes the conclusion of the Director of Finance and Resources that these budget proposals are robust and sustainable as concluded in this report.
6. That the Council receives the Director of Finance & Resources' Statement on the Reserves as attached at Appendix 8.
7. That the Council agrees the Prudential Indicators and Authorised Limits for 2016/17 as set out in Appendix 11 including:-
 - a. Affordability Prudential Indicators
 - b. The actual and estimated Capital Financing Requirement
 - c. The estimated levels of borrowing and investment
 - d. The authorised and operational limits for external debt
 - e. The treasury management prudential indicators
8. That the following amounts be now calculated for the year 2016/17 in accordance with sections 31 to 36 of the Act:
 - a. £56,512,986 being the aggregate of the amounts which the Council estimates for the items set out in section 31A(2) of the Act
 - b. **£50,684,288** being the aggregate of the amounts which the Council estimates for the items set out in section 31(A)3 of the Act
 - c. **£5,828,698** being the amount by which the aggregate at 8(a) above exceeds the aggregate at 8(b) above, calculated by the Council, in accordance with section 31A(4) of the Act, as its council tax requirement for the year.

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- d. **£182.07** being the amount at 8(c) above divided by the amount at 1. above, calculated by the Council, in accordance with section 31(B) of the Act, as the basic amount of its council tax for the year

9. To note that Surrey County Council and Surrey Police Authority have issued precepts to the Council in accordance with Section 40 of the Local Government Finance Act 1992 for each category of dwellings in the Council's area as indicated in the table below:-

SURREY COUNTY COUNCIL

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	845.52	986.44	1,127.36	1,268.28	1,550.12	1,831.96	2,113.80	2,536.56

SURREY POLICE AUTHORITY

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

10. That the Council, in accordance with Section 30 to 36 of the Local Government Finance Act 1992, hereby sets the aggregate amounts shown in the tables below as the amounts of Council Tax for 2016/17 for each of the categories of dwellings.

EPSOM AND EWELL BOROUGH COUNCIL

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

AGGREGATE OF COUNCIL TAX REQUIREMENTS

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

1 Introduction

- 1.1 The Council is required to agree a budget for 2016/17 and, having regard to the cost of service provision and estimates of income, the level of Council Tax for the coming year.
- 1.2 Legislation also requires:-
- The preparation of budget plans for a three year period
 - The setting of prudential indicators which determine the level of Council borrowing and capital expenditure, together with the treasury management strategy
 - The Council's Chief Finance Officer to report on the robustness of the estimates and the adequacy of the reserves
 - The Council to consider the risks in its budget strategy
- 1.3 The Council has now completed its review of service income and expenditure. The policy committees have considered their service estimates and they have recommended budgets, charges and capital investment for the next financial year.
- 1.4 This report provides an overview of the General Fund Revenue Account budget position for 2016/17 and future years as a basis for determining council tax.
- 1.5 The Financial Policy Panel on 2 February 2016 recommended that budget options based on a council tax increase of 0% (freeze), 1.52%, 1.98% and up to £5 per annum on band d equivalent property. These options are shown in the report.
- 1.6 The budget report is based on a recommended increase of £4.95 per annum (for band d property) in council tax reflecting the final grant settlement figures received after the Financial Policy Panel meeting, which allowed district councils to increase council tax by up to £5 or 2% whichever provided the higher increase in income.
- 1.7 All options are consistent with the council tax policy of ensuring that council tax stays below the average of the Surrey Districts.

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

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

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

3 Current Year Position

3.1 The 'probable outturn' comprises a revised forecast for the current year ending 31 March 2016, based on the mid-year budget review. The following table summarises the financial performance anticipated for the year as reported to each of the policy committees.

POLICY COMMITTEES' BUDGETS 2015/16

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

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

Favourable:

- Salaries saving as a result of DMA review

Adverse:

- Planning income

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

4 Financial Plan 2016-2020

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

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

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

5 Budget Strategy

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

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

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

5.3 The Financial Policy Panel has received regular updates and given guidance on the preparation of the estimates. For more detail, Councillors may wish to refer to background papers on these agendas. The following specific agendas may provide useful background to the budget review programme:-

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

6 2016/17 Revenue Budget

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

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

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

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

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

6.4 The detailed fees and charges proposals and capital appraisals for all policy committees can be found on the appropriate policy committee agenda (January committee cycle). The estimates for services, as recommended by the policy committees, are summarised at [Appendix 2](#) to this report.

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

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

POLICY COMMITTEE BUDGETS 2016/17

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

Staff Budget

6.7 A total of £11.5 million of staff costs, staff on-costs and agency costs have been included in the policy committee estimates compared to £11.4 million in 2015/16. This will form the salary control total for budget monitoring purposes, subject to adjustments needed where service changes are agreed by the Council.

6.8 The budget includes the full staffing costs for Nonsuch JMC and Epsom & Walton Downs Conservators where the Council's liability is 50% and 60% respectively.

6.9 The Strategy and Resources Committee agreed a 1.5% pay award for April 2016.

6.10 It is anticipated that a two per cent staff vacancy margin, staff turnover savings net of temporary staff cover, will be required to manage staff costs within the control total.

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

Pensions

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

7 Fees and Charges

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

8 Economic Indicators

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

9 Equalities Implications

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

10 Risk Management

- 10.1 A financial risk assessment was completed for each of the policy committee revenue budgets. The main financial risks have been included in a corporate budget risk assessment at Appendix 6.
- 10.2 The highest service financial risks remain the demands for housing and homelessness prevention

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- 10.3 Appendix 7 also identifies the means of managing the risks identified. In relation to the size of the working balance and the capital reserves, which act as a contingency against such risks, the overall level of revenue budget risk in 2016/17 is deemed to be medium.
- 10.4 A higher risk remains with the financial outlook due to the state of the UK public finances, which require further government public spending cuts and the impact of new welfare reforms.
- 10.5 The Government's announcement of a four year settlement provides a clearer picture of the levels of core funding for this Council until 2020. However, there remains doubts over the levels of funding the Council will receive from New Homes Bonus and whether growth in business rates income can be achieved. The Council operates in a difficult financial environment and risks remain high in the long term.

11 Revenue Budget Overview 2016/17

- 11.1 The Council's budget requirement can be measured by the amount of Council expenditure that will be financed from external finance (revenue support grant and retained business rates) and from council tax income.
- 11.2 The budget requirement comprises gross expenditure on services, less gross income from services, less the planned use of revenue reserves.
- 11.1 The Budget Requirement in 2015/16 was £7,645,000. The budget requirement for 2016/17 is calculated as follows:-

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

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

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11.3 In April 2012 central government brought in a new measurement of spending defined at the 'Council Tax Requirement'. This is the estimate of tax to be raised i.e. Band D tax level multiplied by the council tax base (the number of Band D equivalent properties). The Council is required to show this information in the council tax leaflet.

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

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

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

12 Local Government Finance Settlement

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

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

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

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

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

12.4 The four year funding settlement sees the Council's core funding from RSG and retained business rates reduce from £2.3 million in 2015/16 to £783,000 in 2019/20 a cut in funding over next four years of £1.5 million or 65%.

13 Spending Power and New Homes Bonus

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

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

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

NEW HOMES BONUS GRANT

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

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

14 Business Rate Retention

- 14.1 The 2016/17 government settlement includes **£1,810,000** for this Council as a 'settlement funding assessment' comprising £417,000 Revenue Support Grant, £1,300,000 Business Rates Baseline funding and **£93,000 transitional grant**.

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14.2 Until 2012/13 formula grant funding, including redistributed business rates, had been fixed in the local government finance settlement and this allocation was not varied during the year. Under the local retention scheme Councils enjoy gains or suffer losses from variations to the business rates collected, whether due to changes in collection rates or more/fewer businesses.

14.3 The implementation of the Business Rate Retention scheme has generally been recognised as being turbulent for a number of reasons:-

- The economic environment is already difficult for many businesses
- A very high level of outstanding appeals were with the Valuation Office dating back to the 2010 revaluation and even 2005 in some cases
- The new system covers both rate reductions due to successful appeals as well as the reimbursement of rates back to the valuation date

14.4 The Financial Policy Panel recently received more information on the business rate collection forecast and the latest position is summarised in the table below:

	Gov't Baseline 2015/16	EEBC Budget 2015/16 (NNDR1)	EEBC Latest Forecast 2015/16	EEBC Budget 2016/17 (NNDR1)	
	£000	£000	£000	£000	
Rates Collectable	23,697	23,101	23,057	24,025	
Less: payable to central government	-11,848	-11,551	-11,528	-12,013	50%
Less: payable to SCC	-2,370	-2,310	-2,306	-2,402	20% of local share
NNDR Baseline	9,479	9,240	9,223	9,610	Rates kept before tariff
Less 'Tariff'	-8,190	-8,190	-8,190	-8,258	Tariff set by govt to go to 'top-up authorities'
Retained Business Rates	1,289	1,050	1,033	1,352	

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

14.5 The above table includes the estimate of income received from retained business rates plus government section 31 grant awarded to councils to compensate for the additional business rate reliefs.

14.6 The Council agreed to set up a Business Rate Equalisation Reserve in 2013/14 to help manage the fluctuations in business rates retained under the new arrangements. The following estimate is made of that reserve:-

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

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14.7 Central Government has again set the Safety Net on individual council levy rates at 92.5% of baseline funding. The safety net for 2016/17 is £1,202,000 compared to the budget forecast of £1,435,000 (including section 31 business relief grants) providing a worst case loss of business rates compared to the budget of £233,000 next year.

15 Reserves

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

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

15.2 A review of revenue and capital reserves and provisions was reported to the Financial Policy Panel in September 2015.

15.3 The policies for the reserves are contained in Section 3 of the Financial Plan 2016-2020 ([Appendix 1](#)).

15.4 The levels of revenue reserves are set out in [Appendix 7](#).

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

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

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

15.6 The Council is required to consider the level of its reserves in setting its budget. The Director of Finance's statement of the adequacy of the financial reserves is attached at [Appendix 8](#).

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

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

- No use of the General Fund Working Balance to fund services
- £695,000 of capital reserves to fund the capital programme (including spend to save schemes subject to approval of business case)

16 Financial Forecast

16.1 The following financial forecast is taken from Section 5 of the Financial Plan 2016-2020:-

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	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>
	<u>Budget</u> <u>£000</u>	<u>Forecast</u> <u>£000</u>	<u>Forecast</u> <u>£000</u>	<u>Forecast</u> <u>£000</u>
Cost of Service b/f	9,651	8,702	8,684	8,939
Pay & Prices Increases		+ 360	+ 360	+ 360
Contingency for Service Changes and Pressures		+ 334	+ 528	+ 257
Increases in Fees & Charges		- 200	- 200	- 210
Star Chamber / Service Savings	- 949	- 512	- 433	- 381
Forecast Net Cost of Services	8,702	8,684	8,939	8,965
Interest on Balances	- 220	- 220	- 220	- 220
Use of Business Rate Equalisation Reserve	- 121			
Use of New Homes Bonus	- 634	- 500	- 500	- 500
<i>Funding Shortfall</i>	0	- 383	- 485	- 895
Transfer from Working Balance	0	0	0	0
Forecast Net Expenditure	7,727	7,581	7,734	7,350
Formula Grant Forecast	417	0	0	0
Transitional Grant	93	83	0	0
Business Rates Forecast	1,435	1,464	1,493	1,523
Tariff Adjustment	0	0	0	- 625
Council Tax Income Forecast	5,829	6,034	6,241	6,452
Collection Fund Surplus / (Deficit)	- 47	0	0	0
Collection Fund Income	7,727	7,581	7,734	7,350

16.2 The Financial Plan provides more analysis behind the forecast including the assumptions used however key points to note are:-

- The forecast covers existing services plus makes contingencies for government reforms

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- £500,000 of New Homes Bonus receipts are used to fund revenue services (£634,000 in 2016/17).
- Council tax charges have been increased by 2% and other charges at by 3% per annum
- Savings have been identified of £2,274,000 over the next four years as part of the budget process such as through service reviews and 'star chamber' exercise.
- Further savings of around £900,000 will need to be found between 2017 and 2020 if a balanced budget is to be achieved at the end of this period.

16.3 The Council needs to deliver a total of over £3 million in savings and if the Council wishes to reduce reliance on New Homes Bonus this figure rises to above £3.5 million over the next four years if it is to achieve a balanced budget by 2020 and a programme of reviews has been implemented to deliver the necessary savings over the next four years.

17 Capital Programme

- 17.1 The review of capital spending requirements was overseen by the Capital Member Group. The Financial Policy Panel considered the financing requirement for new capital investment in December 2015.
- 17.2 A provisional three year forward programme was reported to the policy committees in the last committee cycle. Supported schemes have been included in the draft capital programme.
- 17.3 The updated capital strategy statement is attached at Appendix 10 and includes a summary of proposed investment for 2016-2019.
- 17.4 A capital investment programme of £1,031,000 is recommended for 2016/17 and the following funding is required to allow the schemes in this programme to be completed:-
- 17.5 Use of Capital Reserves for the core programme and for spend to save schemes, subject to policy committee approval to business cases: £695,000
- 17.6 Use of central government grant: £286,000
- 17.7 Use of revenue reserves: £50,000
- 17.8 Schemes will also be carried forward from the 2015/16 programme where not completed by 31 March 2016.

18 Prudential Indicators and Authorised Limits for 2016/17

- 18.1 The Local Government Act 2003 introduced a system of capital controls for local authorities. Details of the regulations are set out in Appendix 11 to this report.
- 18.2 The Financial Policy Panel has considered the capital financing requirements as part of the capital programme review and it is not anticipated that the Council will undertake any long term borrowing in 2016/17.
- 18.3 Prudential Indicators and Authorised Limits have been proposed in the appendix on this basis and on the basis of the capital strategy recommended to the Council.

19 Council Tax Options

- 19.1 The current Surrey District Council Tax levels are shown at Appendix 12.
- 19.2 The policy in the Medium Term Financial Strategy is to ensure that Council Tax stays below the average of the Surrey Districts.
- 19.3 The final Government Grant settlement announced a relaxation to capping limits for council tax, allowing District Councils to increase their council tax by either £5 per annum (property D equivalent) or 2% before needing to hold a referendum. The recommendation in the budget report is for an increase of £4.95 per annum, which represents a 2.79% increase.
- 19.4 The decision must take into account a number of factors including the medium term budget forecast including the level of savings already required to achieve a balanced budget in future years.
- 19.5 A range of council tax increases are illustrated at Appendix 13. All options are based on the service estimates in the Policy Book 2016/17 and the estimate reports presented to the policy committees in January 2016.
- 19.6 Council tax for the £4.95 increase and the other options requested by the Financial Policy Panel are shown in the table below.

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

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

20 Consultation with Non-Domestic Ratepayers

20.1 The Council has provided information about the Council's spending proposals and business rates reliefs on the web and promoted use through the Business Partnership. Any response specific to the 2016/17 budget will be identified at the meeting.

21 Collection Fund

21.1 In accordance with the Local Authorities (Funds) (England) Regulations 1992, the Borough Council as the billing authority is required to estimate on 15 January each financial year the surplus or deficit on its Collection Fund for that year in respect of Council Tax. The estimates are required to be made on an accruals basis in accordance with proper accounting practices.

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

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

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

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21.5 The business rates retention scheme was introduced under the 2012 Local Government Finance Act and requires the allocation of estimated surpluses and deficits for 2015/16 in 2016/17. A deficit of £121,123 is forecast for this Council and will be charged to the General Fund Revenue Account for 2016/17. The calculation is shown in Appendix 15.

22 Precepts

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

22.2 A schedule of precept dates has been agreed with the precepting authorities, details of which are attached at Appendix 16.

23 Council Tax Recommendation

23.1 The budget target included a 2% increase in Council Tax.

23.2 Following confirmation of changes in government funding and the council tax referendum rules, along with the need to minimise the use of working balances, the recommendation in this report is based on a £4.95 increase per annum in council tax (band D equivalent), which represents an increase of 2.79%.

23.3 Based on this figure the Borough Council's calculation of the amount to be raised by way of Council Tax based on the proposed council tax requirement is as follows:-

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

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23.4 Precepts have been recommended as follows:-

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

23.5 In accordance with Regulation 3 of the local authorities (Calculation of Tax Base) Regulations 2012, the Council calculated the amount of 32,013.5 as its Council Tax base for the year 2016/17. This represents the number of Band D equivalent properties.

23.6 The requirements which are to be placed upon the Collection Fund, translated into a Council Tax for each property band are detailed at Appendix 16. This covers options of 0%, 1.52% and 1.98%, £4.95 per annum (Band D equivalent).

23.7 Based on the recommendation in this report, the change in the council tax levy per Band D equivalent dwelling, when compared to 2015/16 would be as follows:-

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

24 Robustness of the Estimates

24.1 The Local Government Act 2003 requires that when a local authority is agreeing its budget and precept, the Chief Finance Officer must report on the robustness of the estimates made for the purpose of the calculations.

24.2 The Director of Finance and Resources as the Council's Chief Finance Officer advises that:-

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

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

24.1 It is the Director of Finance and Resources' opinion that the assumptions used in preparing the estimates are realistic and that the committees should be able to meet their obligations within the proposed budget allocations.

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

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

24.2 The medium term forecasts identify the need for further significant cost reduction and income generation as set out in this report so as to improve the forecast budget position by **at least £3 million, or over £3.5 million should New Homes Bonus be withdrawn or significantly reduced** between 2016 and 2020. Given the withdrawal of grant funding from central government in 2017/18, and the uncertainty over business rate retention forecasts, the Council will need to update the financial forecast and review its spending plans as part of the 2017/18 budget review process.

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

25 Conclusions

25.1 The Council has reviewed its financial position and prepared a new four year financial plan. This provides a best estimate of the resources available for services compared to the cost of those services over the next four years.

25.2 The priorities in the Corporate Plan will guide the allocation of resources through service plans and annual service targets.

25.3 The proposed budget makes provision for all services next year and takes into account variations in income and expenditure this year, as well as changes to government grant funding. The budget also includes the full year effect of savings made last year and new efficiency savings for 2016/17.

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- 25.4 Central Government core funding has been cut by 21% for 2016/17 and an anticipated 65% by 2019/20. The level of cuts are more severe than originally expected and will require a significant cut in net cost of services for the Council to be able to deliver a sustainable balanced budget.
- 25.5 The provisional settlement removes RSG funding for this Council from 2017/18 and the Council will only receive funding through either its share of retained business rates or new homes bonus. However, there is still a risk to the Council's finances that the Government could still reduce our share of business rates that we can retain and therefore increase the funding gap to achieve a balanced budget for these years.
- 25.6 It will be made a priority to review identified savings included within £2,274,000 and expedite the delivery of any of the savings in to 2016/17 where achievable. In addition a number of workstreams have been agreed and work on these will commence early in the New Year. If additional savings can be delivered in 2016/17 these savings will be used to reduce the drawdown from New Homes Bonus.
- 25.7 The Council has been able to prepare a balanced budget through a range of changes to services, increases to income and an increased use of new homes bonus. Revenue reserves are sufficient to manage further variations in income and expenditure.
- 25.8 The major challenge in the Financial Plan is the delivery of the £2.3 million of savings, whether of any of these can be brought forward to match the cuts in Government funding and the need to identify further savings of around £900,000 by 2019/20.
- 25.9 Budget and Council Tax decisions for 2016/17 should be consistent with the draft Medium Term Financial Strategy and the Financial Plan for 2016 – 2020.
- 25.10 The main financial risks are identified in Section 16 of the Financial Plan 2016-2020. Service plans will need to include strategies to manage identified risks. The development of a new cost reduction plan will be crucial to managing financial risks and achieving further budget savings.
- 25.11 The draft budget is based on a £4.95 annual increase (Band D equivalent) in council tax with options of 0%, 1.52% and 1.98%. The proposed budget will still require cost reduction but the increase would help to maintain the resources needed for service delivery in the medium term.
- 25.12 The Council will maintain its council tax policy under any of the option presented with the tax being below the Surrey average.

WARD(S) AFFECTED: N/A

BUDGET AND COUNCIL TAX REPORT 2016/17

LIST OF APPENDICES

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