

BUDGET TARGETS 2017/18

<u>Report of the:</u>	Chief Accountant
<u>Contact:</u>	Michael Smith
Urgent Decision?(yes/no)	No
If yes, reason urgent decision required:	N/A
<u>Annexes/Appendices</u> (attached):	Annexe 1 – Four Year Settlement Brief Annexe 2 – Updated Four Year Plan
<u>Other available papers</u> (not attached):	Policy Book 2016/17

REPORT SUMMARY

This report updates the financial forecast and recommends financial targets for preparing the draft budget for 2017/18 and financial planning for 2018/19 & 2019/20.

RECOMMENDATION (S)

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

- 1) That the Council accepts the Four Year Settlement from Central Government with the following actions:**
 - a) That the approved cost reduction plan is renamed the Efficiency Plan and the MTFS is retitled MTFS and Efficiency Plan.**
 - b) That the Chief Executive in consultation with the Chairman and Vice Chairman of Strategy and Resources be authorised to make such further changes as they consider appropriate to the MTFS and Efficiency Plan, for example, to enable the Council to respond to any emerging guidance or good practice and meet the 14 October 2016 deadline.**
 - c) That Members and Leadership Team develop the Efficiency Plan during October to January as part of the 2017/18 budget setting process.**

Notes

2) The following overall revenue budget target for 2017/18:

a) Estimates are prepared including options to reduce organisational costs by £556,000, to minimise the use of working balances and maintain a minimum working balance of £2.5m 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, based on minimum overall increase in yield of 3% in 2017/18;

c) That a provision for 2017/18 pay award is made of £180,000 which represents 1% pay increase and 0.6% for progression.

3) That further efficiencies be identified to address the budget shortfalls of £220,000 in 17/18, £374,000 in 18/19 and £688,000 in 19/20.

4) That Capital Member Group seek to limit schemes included within the capital expenditure programme that enable the retention of agreed minimum level of capital reserves.

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.

2 Background

2.1 The Strategy and Resources Committee has agreed the following key service priority:

2.1.1 Set budget targets for 2017/18 that keeps the tax level below the Surrey average.

2.1.2 Delivery of the Financial Plan for 2016-2020 whilst limiting use of New Homes Bonus.

2.2 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.

3 Introduction

3.1 The Council carried out a comprehensive review of its finances leading to the approval of the Four Year Financial Plan 2016-20.

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- 3.2 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.
- 3.3 To address the funding shortfall the Council has reported a new medium term financial strategy and an efficiency saving programme to reduce actual spending in cash terms.

4 Government Four Year Settlement

- 4.1 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 leaves 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 2017/18 is £1.4m.

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

- 4.2 As a further comparison our baseline funding in 2010/11 was £4.2m. The anticipated baseline funding for 2019/20 is £783k.
- 4.3 Annexe 1 includes a briefing note on the fixed, four year settlement offer that the Council received from Central Government. To accept the offer Local Authorities must send a letter or email to the DCLG by 5pm on Friday 14 October.
- 4.4 Whilst the four year settlement is unfavourable it does provide a platform from which we can continue to plan for the future. There is an additional risk that should we not accept the offer we may be exposed to even greater or potentially fast-tracked tariff adjustments that we currently have for 2019/20.
- 4.5 Therefore it is recommended that we accept the four year settlement which will allow officers greater time to tackle the challenges and deficits ahead with greater certainty. The majority of other authorities with a business rate tariff adjustment appear to be accepting the settlement.

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- 4.6 Following Financial Policy Panel on 13 September the Panel has recommended that if the settlement be accepted, the Council should still make strong representation to appropriate individuals and bodies regarding the funding cuts.
- 4.7 To accept the settlement Local Authorities must produce an Efficiency Plan to demonstrate a four year budget with transparency on the benefits for the Council and the community. Significant work has gone into the recent MTFS and it is therefore proposed that the current cost reduction plan is renamed the Efficiency Plan and the MTFS is retitled MTFS and Efficiency Plan. This plan will need regular review in light of changes over the next four years. Annexe 2 shows the latest version of the 4 year plan.

5 The Council's Financial Position

2015/16 Final Accounts

- 5.1 The final accounts for 2015/16 were reported to Strategy and Resources Committee in June 2016. The District Auditor, Grant Thornton, will report back to the Strategy and Resources Committee later this month. Adjustments to the draft accounts will also be reported. To date no changes have been identified either to the financial performance for 2015/16 or to the level of cash reserves available as at 31 March 2016.
- 5.2 At the time of writing this report the Auditors intend to issue an unqualified audit opinion in respect of the Council's financial statements.
- 5.3 At the end of 2015/16 the Council's reserve levels stood at £3.171m for general fund balances and £9.813m for strategic earmarked reserves. A breakdown of these reserves can be found in the Council's Statement of Accounts published online.
- 5.4 The 2015/16 budget allowed for a withdrawal of £229,000 from general fund reserves. The actual withdrawal at year end was £162,000 leaving the Council with a general fund balance of £3.171m. This is £671,000 above the £2.5m internally set threshold.
- 5.5 The 2016/17 budget was set with a balanced budget and anticipated no use of general fund reserves.

Capital Reserves

- 5.6 The following statement of the Council's Capital Reserves is also taken from the financial statements for 2015/16:

	Usable Capital Receipts £'000
Balance brought forward at 1 April 2015	4,082
Amounts received in 2015/16	1,641

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	Usable Capital Receipts £'000
Amounts applied to finance new capital investment	(755)
Increase in realised capital resources	886
Balance carried forward at 31 March 2016	4,968

5.7 The estimated commitments on capital reserves required to fund schemes in the 2016/17 capital programme total £1.637 million; £942,000 for schemes brought forward and £695,000 for new schemes.

5.8 The estimate of uncommitted capital reserves is therefore reduced to £2.7 million.

6 Budget Outlook for 2017/18

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

	2016/17 Budget £'000	2017/18 Forecast £'000	2018/19 Forecast £'000	2019/20 Forecast £'000
Net cost of service b/f	8,594	8,583	8,521	8,828
Add back savings in base budget 16/17	1,068	n/a	n/a	n/a
Pay and Price increases	387	360	360	360
Contingency for service changes	0	334	528	257
Increase in fees and charges	(400)	(200)	(200)	(200)
Identified savings (breakdown in 6.4)	(1,068)	(556)	(381)	(478)
Forecast net cost of services	8,583	8,521	8,828	8,767
Interest on balances	(220)	(220)	(220)	(220)
Use of New Homes Bonus	(634)	(500)	(500)	(500)
Forecast Net Expenditure	7,727	7,801	8,108	8,047
Funded by:				
Base income from Council Tax	5,829	6,034	6,241	6,452
Retained Business Rates	1,388	1,464	1,493	1,523
Tariff adjustment	0	0	0	-625
Revenue Support Grant	417	0	0	0
Transitional Grant	93	83	0	0
Total funding	7,727	7,581	7,734	7,350
Forecast Budget Shortfall	0	220	374	687

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- 6.2 The forecast budget shortfall for 2017/18 is £220,000 and over the next 4 years financial years (inclusive of 2016/17) the total deficit is £1.281m. This shortfall includes the following assumptions:
- 6.2.1 That £500k New Homes Bonus Grant is used to fund services in 17/18, 18/19 and 19/20. There is still uncertainty around the long term continuation of New Homes Bonus Grant.
- 6.2.2 Increases in yield from fees and charges are increased by 3% from 2017/18 onwards.
- 6.2.3 In line with the recent government announcement on public sector pay that the provision for pay award be set at 1% for 17/18 to 19/20.
- 6.2.4 A provision of £50k in 2016/17 and £100k for the following three years to mitigate the impact of further benefit reforms announced by government in the summer budget.
- 6.3 The 2017/18 budget figures will change throughout the budget setting process as managers and Accountants review budgets and trends.
- 6.4 The following savings for 2017/18 were agreed in principle by the relevant Policy Committees in the 2016/17 budget targets reports last year:

	£'000	Committee
Alternative payroll provision	10	S&R
Cap discretionary rate relief	22	S&R
Shared ICT service	10	S&R
Charging for enabling officer	3	ENV
Cease additional cuts to highway verges	150	ENV
Issuing of licences for professional park use	10	CW
Introduce vending in parks	5	CW
Venues service review	64	CW
Operational efficiencies and income generation	238	All
Total savings	512	

- 6.5 Since these savings were agreed in principle there have been a number of changes mainly as a result of recent decisions. As a result the forecast for savings in 2017/18 has increased by £44,000:

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	£'000
Total savings agreed in principle at Committee	512
Rental income from approved property purchases	70
Handback of Highways Tree Maintenance to SCC	31
Cease sweeping up verge grass cutting (brought forward from 18/19)	52
Restructuring of Highways Horticultural team	41
Option to hand back highway verge maintenance to SCC rejected	(150)
Updated total savings for 2017/18	556

6.6 A budget review in 2016/17 identified £119,000 worth of efficiency savings that will be rolled into 2017/18 budget. This has been incorporated into the four year plan in Annexe 2.

2017/18 deficit

6.7 This leaves the Council with a budget deficit of £220,000 for 17/18. It is anticipated that further savings should be achievable to address the funding gap through:

6.7.1 Service reviews – In addition to the venues review we will also be looking at car parks through the car park working group of ways to increase income and reduce costs.

6.7.2 Efficiency savings – officers will continue to review service delivery to identify any further efficiencies, income streams and economies of scale.

6.7.3 Income generation – The Capital bid process will include schemes that have the potential to generate future income streams for the council.

6.8 It is proposed that officers undertake reviews throughout the year and during the budget setting process to help deliver a balanced budget for 2017/18. If necessary a list of proposals will be presented to members by officers with suggestions of how- to reduce the £220,000 shortfall.

6.9 The following main factors were used to prepare the forecasts:

Assumptions	BASE £m	2016/17 forecast £'000	2017/18 forecast £'000	2018/19 forecast £'000	2019/20 forecast £'000
General Inflation	9,000	2.0%*	2.0%	2.0%	2.0%
Pay bill growth	11,000	2.1%	1%	1%	1%
Fees and Charges	6,600	3.0%	3.0%	3.0%	3.0%
Interest rate used		1.25%**	1.5%**	1.75%**	2.00%**

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Assumptions	BASE £m	2016/17 forecast £'000	2017/18 forecast £'000	2018/19 forecast £'000	2019/20 forecast £'000
Increase in Council Tax	(5,829)	£5 increase on Band D	£5 increase on Band D	£5 increase on Band D	£5 increase on Band D

* allows for unavoidable price inflation only

**assumes additional resources available from interest equalisation reserve to contribute towards maintaining a minimum £220,000 interest budget per annum to general fund (see Annexe 2 for further workings)

7 Budget Timetable 2017/18

7.1 In May the Financial Policy Panel received a preliminary report on preparing the 2017/18 budget and agreed a budget reporting timetable. The table below summaries the overview of the budget review process:

Annual Review	Financial Planning
May	Financial Review
June	End of year Financial Reports
July – September	Review of Revenue and Capital Reserves Set budget targets for 2016/17
October – December	Estimates and Budget Options including local government funding 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 17/18
March	Publish budget Council tax information and billing

8 New Homes Bonus

8.1 The New Homes Bonus protocol agreed by Strategy and Resources in September 2013 allowed for £500,000 per annum of grant to be used to finance the general fund.

8.2 The 2016/17 budget had an increased use of £634,000 due to the late changes in the government settlement. The budgeted use of New Homes Bonus from 2017/18 to 2019/20 is for £500,000 per annum. In 2017/18 we are expecting to receive £2.117m New Homes Bonus Grant.

- 8.3 It is important that we continue to reduce our reliance of New Homes Bonus as Government will be reviewing this funding stream. Whilst uncertainty remains it is widely anticipated that this source of funding will be reduced in the future.

9 Forecast for 2018/19 and 2019/20

- 9.1 Annexe 2 projects a further deficit of £374,000 in 2018/19 and £688,000 in 2019/20. If the £220,000 shortfall in 2017/18 is addressed this would reduce the deficit in 2018/19 to £154,000 and 2019/20 to £468,000.

- 9.2 There are still a number of risks that may impact on these projections such as the impact of any delays or changes to efficiency savings, welfare reforms, building maintenance and funding requirements from the next pension fund valuation.

- 9.3 A programme has been implemented to deliver the necessary savings and additional income over the next four years. The key features of this programme are:

9.3.1 Continuation of delivering the 'Star Chamber' service reviews

9.3.2 A base review entailing reviews of the year end position for 2016/17, identifying any potential savings, additional cost pressures and areas where savings can be developed. These will be used to update the four year financial plan.

9.3.3 'Doing Business Better' reviews to be undertaken over the next four years for services with the aim of increasing efficiency, effectiveness and cost.

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

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

10 Fees and Charges

- 10.1 Budgeted income for 2016/17 totals £8.2 million compared to £7.6 million received last year. Material income streams are now monitored more frequently in year with the introduction of monthly monitoring in addition to our quarterly monitoring.

- 10.2 The 2017/18 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. Any shortfall in income will need to be offset by additional cost savings so that a balanced budget can be achieved.

11 Council Tax and Government Funding

11.1 The forecast assumes an increase of £5 on Band D equivalent property 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.

11.2 The current Band D for the Borough is £182. The Borough's council tax is benchmarked against the other Surrey District council tax levels below:

SURREY	Average council tax for the authority excluding parish precepts (Band D)		Average council tax for the authority including parish precepts (Band D)	
	£	% change	£	% change
Elmbridge	207	1.94	208	1.93
Epsom & Ewell	182	2.79	182	2.79
Guildford	157	3.29	183	3.28
Mole Valley	164	1.95	169	2.53
Reigate & Banstead	209	1.95	215	1.96
Runnymede	150	3.46	150	3.46
Spelthorne	187	2.74	187	2.74
Surrey Heath	206	2.47	221	2.56
Tandridge	199	2.58	220	3.29
Waverley	167	3.09	218	3.65
Woking	222	2.28	222	2.28

Source: DCLG Web August 2016

11.3 The forecast all assumes a 2% increase in the Council's share of retained business rates income for each financial year.

11.4 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 currently stands at £684,000.

12 Capital Programme

12.1 The capital programme agreed in February 2016 can be found in the Policy Book 2016/17.

12.2 The capital programme review for 2017-2018 is under way. The Capital Member Group will meet this month to review draft bids.

13 Proposals

- 13.1 The recommendations to the Strategy and Resources Committee are covered in the recommendations of this report.
- 13.2 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 2017/18.

14 Financial and Manpower Implications

- 14.1 **Chief Finance Officer's comments:** *Decisions on a pay settlement for April 2017 are not required prior to the budget being agreed however resource constraints will need to be taken into account in any pay award.*
- 14.2 *The financial outlook for 2017/18 was contained in the Four Year Financial Plan and is in Annexe 2 of this report.*
- 14.3 The 2017/18 budget figures will change throughout the budget setting process as managers and Accountants review budgets and trends.

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

- 15.1 The Council will continue to fulfil its statutory obligations on all services provided.
- 15.2 **Monitoring Officer's comments:** *No comments for the purpose of this report.*

16 Sustainability Policy and Community Safety Implications

- 16.1 No implications for the purpose 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 2017/18 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 2017/18, 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 £566,000 in 2017/18 and £1.281 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 continue to be the increase in homelessness expenditure and the impact of further benefit reforms being proposed by government. The main corporate finance risks are the level of grant reductions.
- 18.7 The budget position for 2017/18 will be reassessed later this year when detailed service estimates have been prepared.

WARD(S) AFFECTED: All