

BUDGET AND COUNCIL TAX 2017/18

<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
<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 2017/18, 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 2.7% increase.
- Financial Policy Panel made no recommendation to Council but requested that the report includes three options for Council Tax (a freeze, an increase of 1.98% and an increase of £4.95)

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 32,324.01 (Band 'D' equivalent properties) for the year 2017/18 calculated in accordance with the Local Government Finance Act 1992, as amended (the "Act").
2. That the following estimates recommended by the policy committees be approved:-
 - a) The revised revenue estimates for the year 2016/17 and the revenue estimates for 2017/18
 - b) The capital programme for 2017/18 and the provisional programme for 2018 to 2020, as summarised in the capital strategy statement.

- 3. That the fees and charges recommended by the policy committees be approved for 2017/18.**
- 4. That the Council Tax Requirement for the Council's own purposes for 2017/18 is £6,045,236.**
- 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 2017/18 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 2017/18 in accordance with sections 31 to 36 of the Act:**
 - a) £53,806,686 being the aggregate of the amounts which the Council estimates for the items set out in section 31A(2) of the Act**
 - b) £47,761,450 being the aggregate of the amounts which the Council estimates for the items set out in section 31(A)3 of the Act**
 - c) £6,045,236 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.**
 - d) £187.02 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	887.70	1,035.65	1,183.60	1,331.55	1,627.45	1,923.35	2,219.25	2,663.10

SURREY POLICE AUTHORITY

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	149.71	174.67	199.62	224.57	274.47	324.38	374.28	449.14

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 2017/18 for each of the categories of dwellings.

EPSOM AND EWELL BOROUGH COUNCIL

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	124.68	145.46	166.24	187.02	228.58	270.14	311.70	374.04

AGGREGATE OF COUNCIL TAX REQUIREMENTS

Band:	A	B	C	D	E	F	G	H
	£	£	£	£	£	£	£	£
Amount	1,162.09	1,355.78	1,549.46	1,743.14	2,130.50	2,517.87	2,905.23	3,486.28

1 Introduction

- 1.1 The Council is required to agree a budget for 2017/18 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 2017/18 and future years as a basis for determining council tax.
- 1.5 The Financial Policy Panel on 2 February 2017 recommended that budget options based on a council tax increase of 0% (freeze), 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 met.
- 1.7 All options are consistent with the council tax policy of ensuring that council tax stays below the average payable of the Surrey Districts.

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

- 2.1 The Medium Term Financial Strategy includes the following objectives for Council Tax and the revenue budget:-

Council Tax

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

Budget Position

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

3 Current Year Position

- 3.1 The 'probable outturn' comprises a revised forecast for the current year ending 31 March 2017, 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 2016/17

	Published Policy Book 2016/17	Mid-Year Forecast 2016/17	Variance
	£000	£000	£000
Strategy & Resources Committee	2,348	2,235	
Asset Rents (Landlord Account)	(2,879)	(2,879)	
Environment Committee	1,990	2,051	
Community & Wellbeing Committee	6,268	6,226	
Total	7,727	7,633	-94

- 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 savings arising from vacant posts
- Homelessness costs reduced
- Increased income from car parking
- Additional income from acquisition of new investment property
- Higher than anticipated returns from treasury management

Adverse:

- Planning income
 - Cemetery income
- 3.3 The budget included no planned use of the working balance to finance services. For the purpose of preparing this budget report it has been assumed that in 2016/17 the Council will make a contribution back to working balances of £94,000.
- 3.4 The working balance carried forward at 31 March 2016 was £3.2 million. Using the service income and expenditure position as recently reported to the policy committees, the forecast working balance for 31 March 2017 is £3.3 million.
- 3.5 Members will note that the Council planned to use £500,000 of New Homes Bonus to fund services in 2016/17 and this draw-down has still been assumed in the forecast position.
- 3.6 Variations from budget as identified during the year have been taken into account in preparing estimates for 2017/18. Areas of significant concern have also been reported to the relevant policy committee so that a plan of action can be agreed.

4 Budget Strategy

- 4.1 The 2017/18 revenue budget and the capital investment programme comprise the Council's spending plans for the forthcoming year.
- 4.2 The Budget Targets for 2017/18 were agreed at Strategy & Resources Committee on 27 September 2016 as follows:-
- 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.
 - 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.
 - That a provision for 2017/18 pay award is made of £180,000 which represents 1% pay increase and 0.6% for progression.
 - That further efficiencies be identified to address the anticipated budget shortfall of £220,000 in 2017/18.
 - 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.

4.3 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:-

- September 2016: Review of local taxation level and budget targets (including efficiency savings, efficiency plan, staffing and income levels):
- October 2016: treasury management, an update of funds held on s106 and CIL
- December 2016: capital programme and capital reserves:
- February 2017: business rate retention

5 2017/18 Revenue Budget

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

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

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

5.3 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 1** to this report.

5.4 The main year-on-year changes in the cost of service provision are detailed in **Appendix 2** to this report.

5.5 The comparison to the 2016/17 published budget is also shown in the table below at committee total level:-

POLICY COMMITTEE BUDGETS 2017/18

	2016/17 Published Budget	2017/18 Recommended Budget	Variance
	£000	£000	£000
Strategy & Resources Committee	2,348	2,403	
Asset Rents (Landlord Account)	(2,879)	(2,879)	
Environment Committee	1,990	1,877	
Community & Wellbeing Committee	6,268	6,244	
Total	7,727	7,645	- 82
External Funding (Council Tax, Revenue Support Grant, retained Business Rates)	(7,727)	(7,645)	82
Shortfall of income to cover planned expenditure & required use of Working Balance	0	0	0

Staff Budget

- 5.6 A total of £11.2 million of staff costs, staff on-costs and agency costs have been included in the policy committee estimates compared to £11.5 million in 2016/17. This will form the salary control total for budget monitoring purposes, subject to adjustments needed where service changes are agreed by the Council.
- 5.7 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.
- 5.8 The Strategy and Resources Committee agreed a 1.5% pay award for April 2017.
- 5.9 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.

Pensions

- 5.10 Following the 2016 pension fund valuation there is no increase to the level of employer's pension on-cost. No additional provision has been made for deficit funding in 2017/18. The next valuation will be based on the Surrey Pension Fund position at 31 March 2019.

6 Fees and Charges

- 6.1 Each policy committee has received a report on fees and charges for 2017/18. Income from the recommended charges has been included in the committee estimates.
- 6.2 A summary of the additional income from increases in discretionary charges included in the budgets recommended by the Committees, totalling £198,000 is attached at **Appendix 3**.

7 Economic Indicators

- 7.1 The latest Treasury economic indicators (December 2016) are shown at **Appendix 5**.

8 Equalities Implications

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

9 Risk Management

- 9.1 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**.
- 9.2 The highest service financial risks remain the demands for housing and homelessness prevention
- 9.3 **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 2017/18 is deemed to be medium.
- 9.4 A higher risk remains with the financial outlook due to the state of the UK public finances and the impact of Brexit on the national and local economy, which could result in the need for further government public spending cuts.
- 9.5 The Government's announcement of a four year settlement last year has provided a clearer picture of the levels of core funding for this Council until 2020. However, this year the Government undertook a review of funding for Councils from New Homes Bonus and this has resulted in significant cuts to this source of income for Epsom and Ewell Borough Council. As a result of the reduced levels of funding available from New Homes Bonus the updated Financial Plan makes provision for the reduction in allocation of grant to finance services over the next 3 years.

9.6 Government intends to further review the method of awarding New Homes Bonus grant funding for 2018/19 and this could result in a further reduction allocation for future years.

9.7 There continues to be doubts over 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.

10 Revenue Budget Overview 2017/18

10.1 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.

10.2 The budget requirement comprises gross expenditure on services, less gross income from services, less the planned use of revenue reserves.

10.1 The Budget Requirement in 2016/17 was £7,727,000. The budget requirement for 2017/18 is calculated as follows:-

Net Expenditure on Services	£000	External Finance	£000
Gross Expenditure	46,440	Revenue Support Grant	0
		Transitional Grant	83
		Retained Business Rate Income	1,237
Gross Income	- 38,795	Small Business Rate Relief Grant	290
		Collection Fund Deficit (business rates)	-111
		Collection Fund Surplus (council tax)	101
Net Expenditure	7,645	External Finance	1,600
T/F from Working Balance	0	Council Tax Income	6,045
Budget Requirement	7,645	Income from grant and Council Tax	7,645

10.2 The reduction in the Budget Requirement (net spending) is 1.1%.

10.3 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.

10.4 The Council Tax Requirement for 2017/18 is £6,045,236 subject to any budget changes made at the Council meeting.

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

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

11 Local Government Finance Settlement

11.1 The Government made an offer of a fixed, four-year Local Government Finance Settlement in February 2016, covering the years 2016/17 to 2019/20. The offer made to each local authority is conditional on the authority producing and publishing an Efficiency Plan that will outline how it will achieve its objectives within the available resources set in in the settlement.

11.2 The Council agreed to accept the offer of the four year settlement and rename the Cost Reduction Plan, agreed in the Medium Term Financial Strategy, the Efficiency Plan.

11.3 The following table shows the spending assessment figures announced for 2017/18.

GOVERNMENT FUNDING	2016/17 Actual £000	2017/18 Final Settlement £000
Formula Grant Funding (Revenue Support Grant)	417	0
Business Rates Baseline Funding	1,300	1,324
Transitional Grant	93	83
Government Settlement Funding Assessment	1,810	1,407 (- £403k, -22%)

11.4 The government's funding assessment was reduced by £403,000 or 22% in 2017/18.

11.5 The latest settlement figures received show that there are only minor changes to the four year settlement provided in February 2016. The latest settlement includes a tariff adjustment of £624,000 in 2019/20 and there still remains uncertainty on how the changes to business rates proposed for 2020/21 will impact on this Council.

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

11.6 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 the four years of £1.5 million or 65%.

12 Core Spending Power

12.1 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. Core Spending Power is different from Government funding as this includes income received from council tax and New Homes Bonus Grant.

Grants	2016/17 £'000	2017/18 £'000
Revenue Support Grant	417	0
Transitional Grant	93	83
Retained Business Rates	1,300	1,326
Total Grant Funding	1,810	1,409
New Homes Bonus	2,120	1,558
Council Tax*	5,829	6,066
	7,949	7,624
Core Spending Power	9,759	9,033

*figure from provisional financial settlement

12.2 Nationally the reduction in spending power for 2017/18 is 1.1%. Epsom and Ewell Borough Council's spending power will reduce by 7.4%.

13 New Homes Bonus Grant

13.1 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.

13.2 The level of grant awarded has steadily increased from when it was introduced in 2011/12, with the council receiving £2.1 million in 2016/17.

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

13.3 As expected for 2017/18 New Homes Bonus allocations and details of the consultation on the future of the scheme have been announced. The number of years that the scheme will be based upon (currently 6 years' in 2016/17) will reduce to 5 years in 2017/18 and 4 years from 2018/19 onwards. The scheme will now also only reward growth in homes above 0.4% per annum.

13.4 The changes have resulted in a significant reduction in the overall award with this grant falling by nearly £700,000 for 2017/18 and by even more for 2018/19.

	Award under original scheme £'000	Award under revised scheme £'000
2012/13	500	0
2013/14	344	344
2014/15	596	596
2015/16	411	411
2016/17	158	158
2017/18	212	45
Grant Award	2,221	1,554

- 13.5 The provisional payment for 2017/18 is £1,554,000 and compares to the forecast included within the Financial Plan of £2,116,000.
- 13.6 Under the New Homes Bonus protocol, £500,000 of this grant has been allocated to help fund services in 2017/18 and the balance of £1,054,000 will be made available for capital investment or corporate projects.
- 13.7 Further significant reductions in funding available from New Homes Bonus are expected for 2018/19 through to 2019/20 and the latest projections show that by 2019/20 there will be insufficient New Homes Bonus available to fund services as agreed under the protocol.

	2018/19 £'000	2019/20 £'000	2020/21 £'000
2015/16	411	0	0
2016/17	158	158	0
2017/18	45	45	45
2018/19*	50	50	50
2019/20*		50	50
2020/21*			50
Projected Grant	664	303	195

* forecast

- 13.8 The reduced levels of grant for New Homes Bonus need to be incorporated into the updated Financial Plan with funding available to fund services reduced to levels of expected from grant for 2019/20 and 2020/21.
- 13.9 To manage the risk of a change in, or the end of, this specific grant it was agreed as part of the Medium Term Financial Strategy 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 2017/18 government settlement includes £1,407,000 for this Council as a 'settlement funding assessment' comprising £1,324,000 Business Rates Baseline funding and £83,000 transitional grant.
- 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 2016/17 £000	EEBC Budget 2016/17 (NNDR1) £000	EEBC Latest Forecast 2016/17 £000	EEBC Budget 2017/18 (NNDR1) £000	
Rates Collectable	23,894	24,025	23,884	24,675	
Less: payable to central government	-11,947	-12,013	-11,942	-12,338	50%
Less: payable to SCC	-2,389	-2,402	-2,388	-2,467	20% of local share
NNDR Baseline	9,558	9,610	9,554	9,870	Rates kept before tariff
Less 'Tariff'	-8,258	-8,258	-8,258	-8,431	Tariff set by govt to go to 'top-up authorities'
Retained Business Rates	1,300	1,352	1,296	1,439	
Less: loss of 50% of underlying growth		-136	-110	-202	
Est. of Retained Business Rates	1,300	1,216	1,186	1,237	
Add back: Small Business Rate Relief Grant		219	223	290	Separate grant funding for extension of SBRR
EEBC Income including relief grants	1,300	1, 435	1,409	1,527	

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 2016	684
Planned use to partially offset 2016/17 deficit and levy payment	-164
Forecast balance 31 March 2017	520
Planned use to partially offset Prior Year Deficit (2015/16 deficit £80k & 2016/17 deficit £31k)	-69
Forecast balance 31 March 2018	451

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 2017/18 is £1,226,000 compared to the budget forecast of £1,527,000 (including section 31 business relief grants) providing a worst case loss of business rates compared to the budget of £301,000 next year.

15 Reserves

15.1 The reserves as contained in the audited financial statements at 31 March 2016 may be summarised as follows:-

	Balance 31 March 2015 £000	Balance 31 March 2016 £000	
Capital Receipt Reserves	4,082	4,968	Receipts from the sale of assets earmarked for capital programme commitments and invested under the Treasury Management policy. Includes £580k earmarked Hospital Cluster Receipt.
Community Infrastructure Levy	612	2,526	Receipts available for funding of infrastructure improvements
Earmarked Strategic Reserves	6,347	7,287	Provisions for future expenditure or against identified liabilities
Working Balance	3,333	3,171	General Fund working balance

15.2 The policies for the reserves are contained in Section 3 of the Financial Plan 2016-2020 approved by Council in February 2016.

15.3 The levels of revenue reserves are set out in **Appendix 7**.

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

	Capital Reserves £'000
Balance brought forward at 1 April 2016 *	4,388
Earmarked for Property Acquisition	- 275
Estimated use to fund 2016/17 capital expenditure	- 1,751
Estimated Balance at 31 March 2017	2,362
Planned use for 2017/18 programme	- 643
Allowance for Receipts in Year	0
Note: excludes allowance for programme slippage	
Estimated Balance at 31 March 2018	1,719

** Excludes £580,000 earmarked for Horton Chapel / Hospital Cluster*

15.5 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**.

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

- No use of the General Fund Working Balance to fund services
- £643,000 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 comprises an update of the forecast in the Financial Plan 2016-2020 to take account of the 2017/18 budget proposals and central government public sector spending plans.

	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</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	8,581	8,365	8,566	8,383
Pay & Prices Increases	+ 380	+ 370	+ 370	+ 370
Contingency for Service Changes and Pressures	+ 471	+ 395	+ 174	+ 100
Increases in Fees & Charges	- 200	- 200	- 200	- 210
Contributions from reserves/provisions	- 225	+ 225	0	0
Star Chamber / Service Savings	- 642	- 589	- 527	0
Forecast Net Cost of Services	8,365	8,566	8,383	8,643
Interest on Balances	- 220	- 220	- 220	- 220
Use of New Homes Bonus	- 500	- 500	- 303	- 196
<i>Funding Shortfall</i>	<i>0</i>	<i>- 37</i>	<i>- 436</i>	<i>- 559</i>
Transfer from Working Balance	0	0	0	0
Forecast Net Expenditure	7,645	7,809	7,424	7,668
Formula Grant Forecast	0	0	0	0
Transitional Grant	83	0	0	0
Business Rates Forecast	1,527	1,558	1,589	1,620
Tariff Adjustment	0	0	- 625	- 625
Council Tax Income Forecast	6,045	6,251	6,460	6,673
Collection Fund Surplus / (Deficit)	- 10	0	0	0
Collection Fund Income	7,645	7,809	7,424	7,668

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
- £500,000 of New Homes Bonus receipts are used to fund revenue services in 2017/18 and 2018/19 but is expected to reduce to £303,000 in 2019/20.
- Council tax charges have been increased by £4.95 for a band D equivalent property per annum and other charges by 3% per annum

- Savings and the development of new income streams have been identified of £2,707,000 over the four years (2016/17 to 2019/20) as part of the budget process.
- Further savings of around £400,000 will need to be found between 2018 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 £2.2 million over the next three 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 this period.

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 2016.
- 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 2017-2020.
- 17.4 A capital investment programme of £1,249,000 is recommended for 2017/18 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: £622,000
- 17.6 Use of central government grant: £535,000
- 17.7 Use of revenue reserves: £25,000
- 17.8 Schemes will also be carried forward from the 2016/17 programme where not completed by 31 March 2017.

18 Prudential Indicators and Authorised Limits for 2017/18

- 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 Council has been debt free since 1994 However on 21 November 2016, the Council granted approval for borrowing to finance a Commercial Property Acquisition Fund.

18.3 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 to finance the core capital programme in 2017/18.

18.4 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 2.72% 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 Budget Book 2017/18 and the estimate reports presented to the policy committees in January 2017.

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.

Increase:	0%	1.98%	£4.95 Recommendation
Council Tax	£182.07	£185.67	187.02
Increase per annum	£0	£3.60	£4.95
Increase per week	0p	7p	10p
Income Generated 2017/18	£0	£116,000	£160,000
Adjustment needed to Draft Budget Book	£160,000 adverse	£44,000 adverse	£0
Income Generated Future Years Council Tax Base	0	£116,000	£160,000

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 2017/18 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 2016/17 Collection Fund is estimated in respect of Council Tax items, the amount is to be apportioned in 2017/18 between authorities that precept on the collection fund in accordance with the ratio of their 2016/17 precepts.
- 21.3 The calculation of the estimated position on the Council's 2016/17 Collection Fund in respect of Council Tax items is detailed at **Appendix 14**.
- 21.4 A surplus of £100,580 is forecast for this Council and will be credited to the General Fund Revenue Account for 2017/18.
- 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 2016/17 in 2017/18. A deficit of £110,647 is forecast for this Council and will be charged to the General Fund Revenue Account for 2017/18. The calculation is shown in **Appendix 14**.

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 12**.

23 Council Tax Recommendation

- 23.1 The budget target included an increase of £4.95 per annum on a band d equivalent property 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 2.72%.

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 2017/18	£	£
Budget Requirement		7,644,974
Revenue Support Grant	0	
Transitional Grant	82,624	
Non Domestic Rates retained	1,237,674	
Small Business Rate Relief Grant	289,507	
External Support:		(1,609,805)
Sub-Total		6,035,169
Add: Collection Fund Deficit (business rates)		110,647
Less: Collection Fund Surplus (council tax)		(100,580)
Council Tax Requirement		6,045,236

23.4 Precepts have been recommended as follows:-

Awaiting confirmation	£	%
Surrey County Council	43,041,036	76
Surrey Police	7,259,003	13
Epsom and Ewell Borough Council	6,045,236	11
Total	56,345,275	

23.5 In accordance with Regulation 3 of the local authorities (Calculation of Tax Base) Regulations 2012, the Council calculated the amount of 32,324.01 as its Council Tax base for the year 2017/18. 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 14**. This covers options of 0%, 1.98% and £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 2016/17 would be as follows:-

Recommendations	2016/17 £	2017/18 £	Variation	
			£	%
Surrey County Council	1,268.28	1,331.55	63.27	4.99
Surrey Police Authority	220.19	224.57	4.38	1.99
Epsom & Ewell Borough Council	182.07	187.02	4.95	2.72
Total	1,670.54	1,743.14	72.60	4.35

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 2016/17 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
 - 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.
- 24.3 The policy committees have received detailed estimates of revenue and capital expenditures for 2017/18 and have also received assessments on the main financial risks.
- 24.4 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.
- 24.5 A corporate budget risk assessment is appended to this report (**Appendix 6**), as is a statement on the level of reserves (**Appendix 8**).
- 24.6 The Director of Finance and Resources considers that the budget proposals for 2017/18 are robust and sustainable.

- 24.7 The updated financial forecast (**Appendix 9**) identifies 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 £2.2 million by 2019/20. 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 2018/19 budget review process.
- 24.8 The major challenge in the Financial Plan over the next three years is the delivery of the £1.8 million of savings already identified and finding a further £400,000 reduction in the Council's net expenditure by 2020.

25 Conclusions

- 25.1 Last year the Council reviewed its financial position and agreed a new four year financial plan. This provided an 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 2017/18.
- 25.4 This Council agreed to accept Central Government's four year financial settlement which reduces core funding by 22% for 2017/18 and will fall by 57% by 2019/20. The level of cuts means that the Council will have to make significant reductions to its net cost of services to be able to deliver a sustainable balanced budget.
- 25.5 The settlement removes RSG funding for this Council and from 2017/18 and the Council will only receive funding through either its share of retained business rates and new homes bonus. However, Government announced as part of the provisional settlement, changes to the award of New Homes Bonus grant, the changes result in a significant reduction in the allocation of funding for this Council, with this Council losing out on £700,000 grant for 2017/18 with further reductions anticipated in the future.
- 25.6 There is still a risk to the Council's finances that the Government could still reduce New Homes Bonus grant and our share of business rates that we can retain and therefore increase the funding gap to achieve a balanced budget for these years.
- 25.7 It remains a priority to review identified savings included within the updated Four Year Cost Reduction Plan totalling £2,707,000 and where feasible expedite the delivery of any of the savings in to 2017/18.

- 25.8 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.
- 25.9 The major challenge for this Council is the delivery of the £1.8 million of savings identified in the Cost Reduction Plan over the next 3 years (2017/18 to 2019/20) and 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 £400,000 by 2019/20.
- 25.10 Budget and Council Tax decisions for 2017/18 should be consistent with the draft Medium Term Financial Strategy and the Financial Plan for 2016 – 2020.
- 25.11 The main financial risks identified for next year's budget are set out in **Appendix 6** to this report.
- 25.12 The draft budget is based on a £4.95 annual increase (Band D equivalent) in council tax with options of 0% 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.
- 25.13 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