

BUDGET TARGETS 2018/19

<u>Report of the:</u>	Head of Financial Services
<u>Contact:</u>	Lee Duffy
<u>Urgent Decision?(yes/no)</u>	No
<u>If yes, reason urgent decision required:</u>	N/A
<u>Annexes/Appendices (attached):</u>	Annexe 1 – Updated Four Year Plan
<u>Other available papers (not attached):</u>	Policy Book 2017/18

REPORT SUMMARY

This report updates the financial forecast and recommends financial targets for preparing the draft budget for 2018/19 and financial planning for 2019/20 & 2020/21.

RECOMMENDATION (S)

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

- (1) The following overall revenue budget target for 2018/19:-
 - (a) estimates are prepared including options to reduce organisational costs by £588,000 subject to government grant announcement, to minimise the use of working balances and maintain a minimum working balance of £2.5 million in accordance with the medium term financial strategy;
 - (b) that at least £200,000 additional revenue is generated from an increase in discretionary fees and charges, based on minimum overall increase in yield of 3.0%;
 - (c) that a provision for pay award is made of £228,000 that represents an increase to the staffing budget of 1.5%;

Notes

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| <p>(2) That further savings and efficiencies be identified to address the budget shortfalls of £90,000 in 2018/19, £577,000 in 2019/20 and £791,000 in 2020/21;</p> <p>(3) That the Capital Member Group seek to limit schemes included within the capital expenditure programme that enable the retention of agreed minimum level of capital reserves.</p> | |
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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.
- 1.2 The Strategy and Resources Committee has agreed the following key service priority:-
 - 1.2.1 Set budget targets for 2018/19 to keep the tax level below the Surrey average.
 - 1.2.2 Delivery of the Financial Plan for 2016-2020 whilst limiting use of New Homes Bonus
- 1.3 It is the Financial Policy Panel's role to advise the Strategy and Resources Committee on all matters relating to the budget and policy framework.

2 Introduction

- 2.1 The Council carried out a comprehensive review of its finances leading to the approval of the Four Year Financial Plan 2016-2020.
- 2.2 The major challenge for the Council is to deliver year-on-year savings to achieve a balanced budget during the funding cuts faced in the four year settlement.
- 2.3 To address the funding shortfall the Council has produced an efficiency saving programme and has reduced actual spending in cash terms.
- 2.4 In May the Financial Policy Panel received a preliminary report on preparing the 2018/19 budget and agreed a budget reporting timetable.
- 2.5 The following table is taken from the Financial Plan and provides an overview of the budget review process:-

Annual Review	Financial Planning
May	<ul style="list-style-type: none"> Financial Review
June	<ul style="list-style-type: none"> End of Year Financial Reports
July – September	<ul style="list-style-type: none"> Review of Revenue and Capital Reserves Update of Four Year Budget Forecast Set Budget Targets for 2018/19
October – Nov December	<ul style="list-style-type: none"> Estimates and Budget Options Capital Appraisals Capital Finances
January	<ul style="list-style-type: none"> Service estimates and investment plans for following year
February	<ul style="list-style-type: none"> Determine Budget and Council Tax
March	<ul style="list-style-type: none"> Publish Budget Council Tax Information & Billing
April	Start of new Financial Year

- 2.6 This report provides an update on the Council's financial position prior to the Strategy and Resources Committee approving budget targets for 2018/19.

3 Government Four Year Settlement

- 3.1 The funding outlook for the Council has changed significantly for the four years following the final financial settlement in early 2016. A widely expected phased cut to funding was front loaded and left the Council with no Revenue Support Grant from 2017/18 onwards, and an overall 66% reduction in funding between 15/16 and 19/20. The baseline funding for 2018/19 is £1.4m.

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

- 3.2 As a further comparison our baseline funding in 2010/11 was £4.2m. The anticipated baseline funding for 2019/20 is £783k.

4 The Council's Financial Position

2016/17 Revenue Account Final Accounts

- 4.1 The final accounts for 2016/17 were reported to Strategy and Resources Committee in June 2017. 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 2016/17 or to the level of cash reserves available as at 31 March 2017.
- 4.2 At the time of writing this report the Auditors intend to issue an unqualified audit opinion in respect of the Council's financial statements.
- 4.3 At the end of 2016/17 the Council's reserve levels stood at £3.334m for general fund balances and £13.188m for strategic earmarked reserves. A breakdown of these reserves can be found in the Council's Statement of Accounts published online.
- 4.4 The 2016/17 budget did not anticipate any withdrawal from general fund reserves to finance the provision of services. The actual year end position allowed the Council to make a contribution to general fund balances of £163,000 leaving the Council with a general fund balance of £3.334m. This is £834,000 above the £2.5m internally set threshold.
- 4.5 The 2017/18 budget was set with a balanced budget and anticipated no use of general fund reserves.

Capital Reserves

- 4.6 The following statement of the Council's capital reserves is also taken from the financial statements for 2016/17:-

	Usable Capital Receipts £'000
Balance brought forward at 1 April 2016	4,388
Amounts received in 2016/17	+ 737
Amounts applied to finance new capital investment	- 812
Reduction in realised capital resources	- 75
Balance carried forward at 31 March 2017	4,313

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- 4.7 The estimated commitments on capital reserves required to fund schemes in the 2017/18 capital programme total £1.864 million; £1,221,000 for schemes brought forward and £643,000 for new schemes.
- 4.8 The estimate of uncommitted capital reserves is therefore reduced to £2.4 million.

5 Budget Outlook for 2018/19

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

	<u>2017/18</u> <u>Budget</u> £'000	<u>2018/19</u> <u>Forecast</u> £'000	<u>2019/20</u> <u>Forecast</u> £'000	<u>2020/21</u> <u>Forecast</u> £'000
Net Cost of Service b/f		8,365	8,619	8,525
Add back prior year use of reserves/provisions		225		
Pay & Price Increases		418	395	395
Contingency for Service Changes and Pressures		395	174	100
Changes in External Funding		4	65	65
Increase in Fees & Charges		-200	-200	-210
Identified savings (breakdown in 5.4)		-588	-528	0
Forecast Net Cost of Services	8,365	8,619	8,525	8,875
Interest on Balances	-220	-220	-220	-220
Use of New Homes Bonus	-500	-500	-304	-196
Transfer from Working Balance (-)	0	0	0	0
Forecast Net Expenditure	7,645	7,899	8,001	8,459
Base income from Council Tax	6,045	6,251	6,460	6,673
Retained Business Rates	1,527	1,558	1,589	1,620
Tariff adjustment	0	0	-625	-625
Transitional Grant	83	0	0	0
Adjustments	-10	0	0	0
Total Funding	7,645	7,809	7,424	7,668
Forecast Budget Shortfall	0	90	577	791

- 5.2 The forecast budget shortfall for 2018/19 is £90,000 and over the next 3 years financial years (inclusive of 2018/19) the total deficit is £1.458m. This shortfall includes the following assumptions:
- 5.2.1 That £500k New Homes Bonus Grant is used to fund services in 18/19, the criteria for eligibility for this grant has been changed and as a result funding for future years will reduce significantly, with levels expected to drop to £304k in 2019/20 and £196k in 2020/21.
 - 5.2.2 Increases in yield from fees and charges are increased by 3% from 2018/19 onwards.
 - 5.2.3 Provision for increase in pay bill reflects current proposal submitted to Staff Consultative Group costing £228k in 2018/19,
 - 5.2.4 Reduction in funding from SCC of £254k to support provision of services for refuse collection and highways horticultural, partially offset by an increase in garden waste subscription fees of £119k to mitigate loss of funding.
 - 5.2.5 Homelessness grant funding secured in 2018/19 for £131k per annum for 3 years
 - 5.2.6 No provision has been provided for income from the acquisition of new commercial properties.
 - 5.2.7 No provision has been included for an increase in business rates payable on council owned properties due to loss of transitional reliefs.
 - 5.2.8 No provision has been made for an increase in member allowances over and above rpi.
 - 5.2.9 £200k included to fund expenditure previously charged to capital for IT and bin container replacement
 - 5.2.10A provision of £100k in 2018/19 and 2019/20 to mitigate the impact of benefit reforms.
 - 5.2.11 Loss of housing benefit admin grant of £45k in 2018/19 and a further £24k in 2019/20
 - 5.2.12A provision for an increase in property maintenance costs of £50k for 2018/19 and 2019/20.
- 5.3 The 2018/19 budget figures will change throughout the budget setting process as managers and Accountants review budgets and trends.
- 5.4 The following savings for 2018/19 were agreed in principle by the relevant Policy Committees in the 2017/18 budget targets reports last year:

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	£'000	Committee
Restructuring of Senior Management Team	60	S&R
Disposal of Ebbisham Centre	52	C&W / S&R
Cease sweeping up highway verge cuttings after cutting	52	Environment
Issuing licences for professional users of parks	10	C&W
Allotments – self management	4	C&W
Introduce vending in parks	5	C&W
Operational efficiencies and income generation	405	All
Total savings	588	

2018/19 deficit

- 5.5 The following statement of the Council's capital reserves is also taken from the financial statements for 2016/17:-
- 5.6 This leaves the Council with a budget deficit of £90,000 for 18/19. It is anticipated that further savings should be achievable to address the funding gap through:
- 5.6.1 **Efficiency savings** – officers will continue to review service delivery to identify any further efficiencies, income streams and economies of scale.
- 5.6.2 **Income generation** – officers will deliver an Income Generation Plan that will identify new income streams for the Council and also highlight areas where further income can be increased from existing services
- 5.6.3 **A base review** – this entails reviewing the year end position for 2016/17, identifying any potential savings, additional cost pressures and areas where savings can be developed.
- 5.6.4 **Property related** – to generate additional income from investment in commercial property and to realise cost reductions in the operation of Council owned property.
- 5.7 It is proposed that officers undertake reviews throughout the year and during the budget setting process to help deliver a balanced budget for 2018/19. If necessary a list of proposals will be presented to members by officers with suggestions of how to reduce the £90,000 shortfall.
- 5.8 The following main factors were used to prepare the forecast.

ASSUMPTIONS USED	BASE £'000	2017/18 Budget	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast
General Inflation - prices	9,500		2.0%*	2.0%	2.0%
Pay bill growth	11,000	2.1%	2.1%**	1.9%	1.9%
Fees & Charges allowance: annual increased yield on discretionary charges	6,600		3.0%	3.0%	3.0%
Interest rate used		1.00%	1.25%***	1.5%***	2.00%***
Increase in Council Tax	6,045	£187.02	£5 increase on Band D	£5 increase on Band D	£5 increase on Band D
Increase in Property Base		32,324 Properties	0.75%	0.75%	0.75%

* allows for unavoidable price inflation only

** assumes pay proposal submitted to Staff Consultative Group is approved.

*** assumes additional resources available from interest equalisation reserve to maintain a minimum £220,000 per annum for general fund use

6 Budget Timetable 2018/19

6.1 In May the Financial Policy Panel received a preliminary report on preparing the 2018/19 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 expenditure Set budget targets for 2018/19
October - December	Estimates and Budget Options Capital finances and appraisals
January	Service estimates and investment plans for following year Capital schemes to Council
February	Determine budget and council tax Approve capital programme for 2018/19
March	Publish budget Council tax information and billing

7 New Homes Bonus Scheme

- 7.1 The New Homes Bonus protocol agreed by Strategy and Resources Committee in September 2013 allowed for £500,000 per annum of grant to be used to finance general fund services.
- 7.2 Central Government last year changed the criteria for the award of the grant and as a result significantly reduced the amount of New Homes Bonus payable. The level of funding is expected to reduce from the £1,554,000 for 2017/18 down to £664,000 in 2018/19.
- 7.3 The current forecast anticipates the continued use of £500,000 of New Homes Bonus in 2018/19 but this funding reduces down to £304,000 in 2019/20 and £196,000 in 2020/21.

8 Forecast for 2019/20 and 2020/21

- 8.1 **Annexe 1** projects a further deficit of £577,000 in 2019/20 and £791,000 in 2020/21. If the £90,000 shortfall in 2018/19 is addressed this would reduce the deficit in 2019/20 to £487,000 and 2020/21 to £701,000.
- 8.2 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 and further reductions in external funding for services from Surrey County Council.
- 8.3 A programme has been implemented to deliver the necessary savings and additional income required to meet the funding shortfalls. The key features of this programme are:
 - 8.3.1 Continuation of delivery of savings identified in the Council's Efficiency Plan
 - 8.3.2 A base review of the year end position for 2016/17, identifying any potential savings, additional cost pressures and areas where saving can be developed. These will be used to update the four year financial plan.
 - 8.3.3 Property related – to generate additional income from investment in commercial property and to realise cost reductions in the operation of Council owned property.
 - 8.3.4 Income generation – officers will deliver an Income Generation Plan that will identify new income streams for the Council and also highlight areas where further income can be increased from existing services

9 Fees and Charges

- 9.1 Budgeted income from discretionary fees and charges totals nearly £7 million. Additional income targets were again set this year for Council run venues along with increases in other fees and charges. The 2018/19 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.
- 9.2 Any shortfall in income will need to be offset by additional cost savings so that a balanced budget can be achieved.

10 Council Tax and Retained Business Rates

- 10.1 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.
- 10.2 The current Band D for the Borough is £187.02. The Borough's council tax is benchmarked against the other Surrey District council tax levels below:-

SURREY	Average council tax for the authority including parish precepts - Band D	
	£	% change
Runnymede	154.59	3.34
Mole Valley	175.89	3.93
Epsom & Ewell	187.02	2.72
Guildford	189.65	3.47
Spelthorne	192.44	2.67
Elmbridge	211.77	1.93
Reigate & Banstead	220.60	2.42
Tandridge	225.93	2.70
Surrey Heath	225.96	2.41
Waverley	226.18	3.56
Woking	226.71	2.23

Source :DCLG website August 2017

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

- 10.4 The Council maintains a Business Rates Equalisation Reserve to finance any fluctuations in its share of Business Rate income. The uncommitted balance on this reserve currently stands at £795,000.

11 Capital Programme

- 11.1 The capital programme review for 2018-2019 is under way. The Capital Member Group has met this month to review draft bids.

12 Proposals

- 12.1 The recommendations to the Strategy and Resources Committee are covered in the recommendations of this report.
- 12.2 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 2018/19.

13 Financial and Manpower Implications

- 13.1 **Chief Finance Officer's comments:** *Decisions on a pay settlement for April 2018 are not required prior to the budget being agreed however resource constraints will need to be taken into account in any pay award.*
- 13.2 *The financial outlook for 2018/19 was contained in the Four Year Financial Plan and is shown in Annexe 1 of this report.*
- 13.3 *The 2018/19 budget figures will change throughout the budget setting process as managers and the Finance Team review budgets and trends.*

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

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

15 Risk Assessment

- 15.1 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 2018/19 budget report.
- 15.2 The longer term financial risks are contained in the Four Year Financial Plan 2016-2020.

16 Conclusion and Recommendations

- 16.1 The recommendations to the Strategy and Resources Committee are covered in the recommendations of this report.
- 16.2 This report covers budget targets for 2018/19, taking into account the financial forecast for the next three years and the Council's approved Medium Term Financial Strategy.

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- 16.3 Based on the assumptions used, the forecast identifies that cost reductions are required in the region of £90,000 in 2018/19 and £1.458 million in total over the next three financial years
- 16.4 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.
- 16.5 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.
- 16.6 The greatest financial risks appear to be further potential funding cuts from Central Government and from Surrey County Council for services provided by this Council.
- 16.7 The budget position for 2018/19 will be reassessed later this year when detailed service estimates have been prepared.

WARD(S) AFFECTED: (All Wards);