

**FINANCIAL POLICY PANEL  
8 SEPTEMBER 2015**

**BUDGET TARGETS 2016/17**

Report of the: Head of Financial Services  
Contact: Lee Duffy  
Urgent Decision?(yes/no) No  
If yes, reason urgent decision required: N/A  
Annexes/Appendices (attached):  
Other available papers (not attached): Policy Book 2015/16

**REPORT SUMMARY**

This report updates the financial forecast and recommends financial targets for preparing the draft budget for 2016/17 and financial planning for 2017/18, 2018/19 & 2019/20.

**RECOMMENDATIONS**

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

- (1) The following overall revenue budget target for 2016/17:-
  - (a) estimates are prepared including options to reduce organisational costs by £850,000 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 £230,000 that represents a 1.5% increase;
- (2) 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;
- (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.

*Notes*

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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:-

*“ Set budget targets for 2016/17 to keep the tax level below the Surrey average.*

- *Prepare Financial Plan 2016-2020”*

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 2012-2016.

2.2 The major challenge for the Council is to deliver year-on-year savings to achieve a balanced budget during a period of public sector spending cuts.

2.3 Over the past six years the Council's financial resources have been reduced by the economic downturn which has most severely affected government grants but has also dampened projected revenues from some services as well as reducing interest on investments.

2.4 To address the funding shortfall the Council has maintained an efficiency saving programme and has reduced actual spending in cash terms.

2.5 The following table provides a context of the reduction in central government 'formula grant' funding since 2013:-

<b>Year</b>	<b>Cash Reduction</b>	<b>% reduction</b>
2012/13	£334,000	11
2013/14	£321,000	11
2014/15	£405,000	13
2015/16	£405,000	15

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- 2.6 As far as possible these figures are on a like or like basis and the impact of service changes and changes to funding methodology have been removed. Excluding these adjustments, formula grant in 2010/11 of £4.2 million has been reduced to baseline funding assessment of £2.3 million for 2015/16.
- 2.7 In May the Financial Policy Panel received a preliminary report on preparing the 2016/17 budget and agreed a budget reporting timetable.
- 2.8 The following table is taken from the Financial Plan and provides an overview of the budget review process:-

<b>Annual Review</b>	<b>Financial Planning</b>
<b>May</b>	<ul style="list-style-type: none"> <li>• Financial Review</li> </ul>
<b>June</b>	<ul style="list-style-type: none"> <li>• End of Year Financial Reports</li> </ul>
<b>July – September</b>	<ul style="list-style-type: none"> <li>• Review of Revenue and Capital Reserves</li> <li>• Update of Four Year Budget Forecast</li> <li>• Set Budget Targets for 2016/17</li> </ul>
<b>October – Nov December</b>	<ul style="list-style-type: none"> <li>• Estimates and Budget Options</li> <li>• Capital Appraisals</li> <li>• Capital Finances</li> </ul>
<b>January</b>	<ul style="list-style-type: none"> <li>• Service estimates and investment plans for following year</li> </ul>
<b>February</b>	<ul style="list-style-type: none"> <li>• Determine Budget and Council Tax</li> </ul>
<b>March</b>	<ul style="list-style-type: none"> <li>• Publish Budget</li> <li>• Council Tax Information &amp; Billing</li> </ul>
<b>April</b>	

- 2.9 This report provides an update on the Council's financial position prior to the Strategy and Resources Committee approving budget targets for 2016/17.

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**3 The Council's Financial Position**

3.1 The Panel last reviewed the level of revenue and capital reserves in September 2014.

Revenue Reserves and Provisions

3.2 The following statement of the Council's revenue reserves is taken from the draft financial statements for 2014/15:-

	<b>Balance at April 2014 £'000</b>	<b>Income £'000</b>	<b>Expenditure £'000</b>	<b>Transfers £'000</b>	<b>Balance at March 2015 £'000</b>
<b>Current Balances</b>					
General Fund	3,417	0	0	(84)	3,333
Collection Fund Adjustment Account – Council Tax	57	0	0	34	91
Collection Fund Adjustment Account – Business Rates	(682)	0	0	278	(404)
<b>Total Current Balances</b>	<b>2,792</b>	<b>0</b>	<b>0</b>	<b>228</b>	<b>3,020</b>
<b>Strategic Reserves</b>					
Insurance	547	5	(63)	0	489
Repairs and Renewals	744	37	(88)	0	693
Interest Equalisation	665	0	(34)	0	631
VAT Reserve	179	55	0	0	227
Planning Delivery Grant Reserve	210	0	0	0	210
Property Maintenance	250	2	(31)	0	221
Commuted Sums	1,965	39	(39)	0	1,965
Hospital Cluster Interest	224	2	0	0	226
Corporate Project Reserve	919	1,364	(1,890)	0	393
Community Safety	87	2	(3)	0	86
Historic Buildings	3	0	0	0	3
Local Partnership Fund	3	0	0	0	3
Young People Partnership Fund	49	0	(11)	0	38
Yell Funds	3	0	0	0	3
Training Reserve	29	0	(5)	0	24
Prevention, Personalisation	291	180	(113)	0	358

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	<b>Balance at April 2014 £'000</b>	<b>Income £'000</b>	<b>Expenditure £'000</b>	<b>Transfers £'000</b>	<b>Balance at March 2015 £'000</b>
and Partnership Fund					
Civic Investment Fund	75	0	(30)	0	45
Business Rates Equalisation Reserve	685	331	(287)	0	729
Other	0	3	0	0	3
<b>Total Strategic Reserves</b>	<b>6,921</b>	<b>2,593</b>	<b>( 2,555)</b>	<b>0</b>	<b>6,959</b>
<b>Total Revenue Reserves</b>	<b>9,713</b>	<b>2,593</b>	<b>( 2,555)</b>	<b>228</b>	<b>9,979</b>

- 3.3 The 2015/16 budget allows for a withdrawal of £229,000 from revenue reserves to help fund service delivery, although there will continue to be expenditure incurred in accordance with the fund policies.

Capital Reserves

- 3.4 The following statement of the Council's capital reserves is also taken from the financial statements for 2014/15:-

	<b>Usable Capital Receipts £'000</b>
<b>Balance brought forward at 1 April 2014</b>	<b>4,714</b>
Amounts received in 2014/15	+ 10
Amounts applied to finance new capital investment	- 642
<b>Reduction in realised capital resources</b>	<b>- 632</b>
<b>Balance carried forward at 31 March 2015</b>	<b>4,082</b>

- 3.5 The estimated commitments on capital reserves required to fund schemes in the 2015/16 capital programme total £1.921 million; £985,000 for schemes brought forward and £936,000 for new schemes.
- 3.6 The estimate of uncommitted capital reserves is therefore reduced to £2.7 million.
- 3.7 A separate report on this agenda reviews the reserves and provisions held.

2014/15 Revenue Account Final Accounts

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3.8 The final accounts for 2014/15 were reported to Strategy and Resources Committee in June 2015. The District Auditor will report back to the Committee later this month and any adjustments to the draft accounts will also be reported. To date no changes have been identified either to the financial performance for 2014/15 or to the level of cash reserves available as at 31 March 2015.

3.9 In summary the Council transferred £84,000 from the revenue working balance leaving just over £3.3 million in this reserve. Strategic revenue reserves were increased by £38,000 to just under £7 million. The Council used £632,000 of capital reserves (net of receipts in year) after funding schemes in the capital programme leaving a balance of £4.1 million at the year end.

**4 Budget Outlook for 2016/17**

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

	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>
	<b>Budget</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>	<b>Forecast</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Net Cost of Service b/f		8,556	8,601	8,565	8,550
Changes to Base Budget		475	0	0	0
Pay & Prices Increases		410	360	360	360
Contingency for Service Changes and Pressures		403	334	528	257
Increases in Fees & Charges		-200	-200	-200	-200
Identified Savings		-190	0	0	0
<b>Savings Target to achieve balanced budget</b>		<b>-853</b>	<b>-530</b>	<b>-703</b>	<b>-411</b>
<b>Forecast Net Cost of Services</b>	<b>8,556</b>	<b>8,601</b>	<b>8,565</b>	<b>8,550</b>	<b>8,556</b>
Interest on Balances	-182	-200	-200	-200	-200
Use of New Homes Bonus	-500	-500	-500	-500	-500
Transfer from Working Balance (-)	-230	0	0	0	0
<b>Forecast Net Expenditure</b>	<b>7,644</b>	<b>7,901</b>	<b>7,865</b>	<b>7,850</b>	<b>7,856</b>
Formula Grant Forecast	1,006	764	541	335	145
Adjustments	-317	0	0	0	0
Business Rates Forecast	1,374	1,402	1,430	1,458	1,487
Council Tax Income Forecast	5,581	5,735	5,894	6,057	6,224
<b>Collection Fund Income</b>	<b>7,644</b>	<b>7,901</b>	<b>7,865</b>	<b>7,850</b>	<b>7,856</b>

4.2 The savings target for the four year period has reduced from the £3.3m reported in July and this is down to the following changes.

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4.2.1 On the basis of recent advice New Homes Bonus Grant funding for services of £500k per annum has been added back into the forecast. However, until December when the government announces settlement figures the funding remains at risk.

4.2.2 Increases in yield from fees and charges income have been adjusted upwards from 2% to 3% over the next four years, generating a further £70k per annum.

4.2.3 In line with the recent government announcement on public sector pay, the provision for pay award has been reduced from 2% to 1.5% for 2016/17 and down to 1% for the following three years. This saves the £60k in 2016/17 and £110k per annum for the subsequent years.

4.2.4 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.

4.3 The following main factors were used to prepare the forecast.

<b>ASSUMPTIONS USED</b>	<b>BASE £m</b>	<b>2015/16 Budget</b>	<b>2016/17 Forecast</b>	<b>2017/18 Forecast</b>	<b>2018/19 Forecast</b>	<b>2019/20 Forecast</b>
<b>General Inflation - prices</b>	9.0		2.0%*	2.0%	2.0%	2.0%
<b>Pay bill growth</b>	11.0		2.1%**	1.6%	1.6%	1.6%
<b>Fees &amp; Charges allowance: annual increased yield on discretionary charges</b>	6.6		3.0%	3.0%	3.0%	3.0%
<b>Interest rate used</b>		1.25%	1.25%***	1.5%***	1.75%***	2.00%***
<b>Reduction in core Government Funding (RSG reduction less Business Rates Growth)</b>	2.4		9.0%	9.0%	9.0%	9.0%
<b>Increase in Council Tax</b>	5.6	£177.12	2%	2%	2%	2%
<b>Increase in Property Base</b>		31,512 Properties	0.75%	0.75%	0.75%	0.75%

\* allows for unavoidable price inflation only

\*\* assumes pay controls apply (1.5% pay settlement and 0.6% for bonus and progression)

\*\*\* assumes additional resources available from interest equalisation reserve to maintain a minimum £200,000 per annum for general fund use

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- 4.4 The following table provides the updated forecast of budget pressures compared to this year's approved budget

<b>Budget Deficit Forecast 2016/17</b>		<b>£000</b>
<b>Budget deficit carried forward from 2015/16</b>		<b>229</b>
<b>Changes to Base Budget</b>		
Removal of provision for local elections	-60	
Deletion of one-off funding from landlord deposits	+75	
Senior Management Restructure	-140	
Ewell Court House back operating	-50	
		<b>-175</b>
<b>Forecast of Potential Cost Increases</b>		
General Price Inflation (estimate based on unavoidable increases in specific budgets only, e.g. fuel and energy, contracts and business rates)	+ 180	
Allowance for Staff Pay increase (based on 1.5%) plus performance based progression (0.6%)	+ 230	
Provision for impact of benefit reforms on services	+50	
Increase in provision for property maintenance	+ 150	
Increase in provision for cost of homelessness	+100	
Increase in Pension Fund contributions following revaluation	+ 133	
		<b>+ 843</b>
<b>Allowance for Funding Reductions</b>		
Contingency for reduction in Government Funding (based on indicative figures for Retained Business Rates / Formula Grant)	+ 242	
Anticipated reduction in government grant funding for housing benefit admin	+30	
Increased Use of Interest on Balances (based on 1.25% average return and £42,000 drawdown on interest equalisation reserve)	-18	
		<b>+ 254</b>
<b>Resulting Budget Deficit</b>		<b>1,151</b>



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<b>Additional Revenue from Possible Charging Decisions</b>	<b>£000</b>
Increase in Fees and Charges at an overall yield of 3.0%	-200
Council Tax Increase (provisionally at 2.0% adjusted for changes to properties)	-154
Increase in Retained Business Rates (less reduction in contribution from Business Rates Equalisation Reserve)	+373
Prior year surplus / deficit on council tax and business rates	-317
	-
	<b>298</b>
<b>Estimate of Required Savings to achieve Balanced Budget</b>	<b>853</b>

- 4.5 Whilst this does not comprise a full update of the service estimates, the forecast does confirm that the Council will need to make significant savings of £2.5 million over the next 4 years assuming New Homes Bonus grant continues or £3.0 million should this funding cease. The savings target figures for each financial year assumes no use of working balances and no growth.

**5 Service and Financial Planning**

- 5.1 Officers are currently working on a programme to assist in addressing the funding shortfall for 2016/17 and further three years.
- 5.2 The key features of the programme comprise:-

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- 5.2.1 A base review, this entails reviewing the year end position for 2014/15, 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.
- 5.2.2 A 'Star Chamber' exercise where Service Heads will present options for their services on how savings to the Council can be generated over the next four years.
- 5.2.3 A number of Service Reviews phased over the next four years.
- 5.2.4 'Doing Business Better' reviews to be undertaken over the next four years for services with the aim of increasing efficiency, effectiveness and cost.
- 5.2.5 Property Related Review – to realise cost reduction of Council operational buildings, increase income from investment properties and generate new receipts from surplus buildings/land.
- 5.2.6 Income Generation Review – to include analysis of charging powers and service utilisation and identify options for income generation.
- 5.3 Based on information currently available, the minimum savings requirement for 2016/17 to enable a balanced budget will be £853,000.
- 5.4 It is proposed that officers undertake the work outlined in 5.2 above and present members with a list of proposals which could help deliver balanced budgets in 2016/17 onwards.
- 5.5 These reviews may provide savings and income in 2016/17 and/or may provide additional opportunities for savings in future years.

## **6 New Homes Bonus Scheme**

- 6.1 The uncommitted balance of new homes bonus held grant is £1,580,000. However, until the announcement of the Government financial settlement in December there remains uncertainty on how new homes bonus may be awarded for 2016/17 onwards and this funding may be significantly reduced, but under the current system the Council can expect to receive a grant for 2016/17 of £2,030,000 (forecast increase of £70,000).
- 6.2 A New Homes Bonus Protocol was approved by Strategy and Resources Committee last year where it was agreed to continue to use of £500,000 per annum to fund services.
- 6.3 The resource forecasts show the estimated income from New Homes Bonus. Only £500,000 per annum of that funding is used to finance service delivery in the revenue budget projections.

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**7 Localisation of Business Rates/Government Revenue Support Grant**

- 7.1 The Government is yet to provide any provisional grant settlement figures for 2016/17, however it was announced the further cuts in public sector can be expected and a reduction to our base funding of 9% per annum until 2020 would not be unrealistic.
- 7.2 The current financial forecast anticipates an overall reduction in central government funding of over £1 million including the loss housing benefit admin grant over the four year period.
- 7.3 The forecast all assumes a 2% increase in the Council's share of retained business rates income for each financial year.
- 7.4 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 £330,000.

**8 Economic Indicators**

- 8.1 The following table provides a summary of the main national economic issues that have an impact on the Council's budget at least for this year and next:-

	<b>Indicators</b>	<b>EEBC Budget Impact</b>
<b>Inflation</b>	<p>The Government's inflation target is 2%. Inflation (CPI) 0.1% in July 2015, down from 1.6% in July 2014.</p> <p>Public sector pay to increase by 1% for the next four financial years as announced by Chancellor of Exchequer within the summer budget</p>	<p>Prices: Although inflation is close to zero the Council has still experienced an increase in some costs and have managed to offset these by efficiency savings and provision has been made for unavoidable price increases (e.g. business rates on council properties) only.</p> <p>Public sector pay constraint will continue an allowance has been made at 1.5% for 2016/17 and 1% for the next 3 financial years, a further allowance has been made for performance based increments in line with the pay policy agreed in 2012/13.</p>
<b>Interest Rates</b>	<p>The bank base rate remains unchanged again at 0.5%</p>	<p>Interest on Balances was budgeted at 1.25% for 2014/15. The forecast return on investments, based on first quarter performance, is just below 1%. The 2016/17 forecast is based on a 1.25% average return.</p>

**9 Fees and Charges**

- 9.1 Budgeted income for 2015/16 totals £7.578 million compared to £7.302 million received last year. Additional income targets were again set this year for Council run venues along with inflation related increases in other fees and charges.

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- 9.2 The 2016/17 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.
- 9.3 Any shortfall in income will need to be offset by additional cost savings so that a balanced budget can be achieved.

**10 Council Tax**

- 10.1 The forecast assumes an increase of 2% per annum in council tax income. This level of tax increase would keep the council tax in the lower half of the Surrey Districts, consistent with the council tax policy.

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10.2 The current Band D for the Borough is £177.12. The Borough's council tax is benchmarked against the other Surrey District council tax levels below:-

<b>2015-2016 COUNCIL TAX (average per dwelling and Band D for 2 adults)</b>							
<b>SURREY DISTRICT</b>	<b>Surrey County Council</b>	<b>Surrey Police</b>	<b>District Council Charge (Band D)</b>	<b>Average Parish Precept (Band D)</b>	<b>Local Average (Band D)</b>	<b>Average Council Tax (Band D)</b>	
Runnymede	£ 1,219.68	£215.89	£144.59	£0.00	<b>£144.59</b>	£1,580.16	
Mole Valley	£ 1,219.68	£215.89	£160.52	£4.55	<b>£165.07</b>	£1,600.64	
<b>Epsom &amp; Ewell</b>	<b>£ 1,219.68</b>	<b>£215.89</b>	<b>£177.12</b>	<b>£0.00</b>	<b>£177.12</b>	<b>£1,612.69</b>	
Guildford	£ 1,219.68	£215.89	£151.82	£25.65	<b>£177.47</b>	£1,613.04	
Spelthorne	£ 1,219.68	£215.89	£182.44	£0.00	<b>£182.44</b>	£1,618.01	
Elmbridge	£ 1,219.68	£215.89	£203.07	£0.77	<b>£203.84</b>	£1,639.41	
Waverley	£ 1,219.68	£215.89	£161.91	£48.80	<b>£210.71</b>	£1,646.28	
Reigate & Banstead	£ 1,219.68	£215.89	£205.45	£5.80	<b>£211.25</b>	£1,646.82	
Tandridge	£ 1,219.68	£215.89	£193.62	£19.36	<b>£212.98</b>	£1,648.55	
Surrey Heath	£ 1,219.68	£215.89	£196.30	£18.84	<b>£215.14</b>	£1,650.71	
Woking	£ 1,219.68	£215.89	£216.81	£0.00	<b>£216.81</b>	£1,652.38	

source: DCLG Web July 2015

10.3 Although the budget target is based on a 2.0% increase, options can be prepared for higher or lower levels of council tax. For each 1% increase the gain is £56,000 per annum.

## 11 Capital Programme

11.1 The capital programme agreed in February 2015 can be found on page 71 of the Policy Book 2015/16.

11.2 The total of capital schemes approved is £5.3 million; £3.1 million for schemes brought forward and £2.2 million for new schemes in 2015/16.

11.3 The capital programme review for 2016-2017 is under way. The Capital Member Group will meet this month to review draft bids. However, no new capital receipts have been obtained, therefore any additional bids will need to be funded from reprioritising existing approved schemes.

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**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 2016/17.

**13 Financial and Manpower Implications**

- 13.1 Decisions on a pay settlement for April 2016 are not required prior to the budget being agreed however resource constraints will need to be taken into account in any pay award.

**14 Human Rights and Other Legal Implications**

- 14.1 The Council will continue to fulfil its statutory obligations on all services provided.

**15 Risk Assessment and Conclusions**

- 15.1 This report covers budget targets for 2016/17, taking into account the financial forecast for the next four years and the Council's approved Medium Term Financial Strategy.
- 15.2 Based on the assumptions used, the forecast identifies that cost reductions are required in the region of £850,000 in 2016/17 and £2.5. million in total over the next four financial years.
- 15.3 The clear message from central government is that spending reductions will continue for local government.
- 15.4 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.
- 15.5 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.
- 15.6 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.
- 15.7 The budget position for 2016/17 will be reassessed later this year when detailed service estimates have been prepared.

**WARD(S) AFFECTED: N/A**