Cabinet

12 December 2017

Title	Outline Budget 2018-19 to 2021-22		
Purpose of the report	To make a Key Decision		
Report Author	Chief Finance Officer		
Cabinet Member	Councillor Howard Williams	**Confidential**	No
Corporate Priority	Financial Sustainability		
Recommendations	**1. The net budgeted expenditure (before investment and use of reserves) for 2018-19 be set at a maximum level of £11.3m** **2. That Cabinet support the overall strategy set out in the report for addressing efficiencies and achieving medium term financial sustainability** **3. That the financial health indicators set out in paragraph 3.21 be agreed.**		

1. Key issues

1.1 The key issue facing Council continues to be their ongoing financial sustainability. In January 2016 the Council received confirmation that it would not receive any general Revenue Support Grant (RSG) to support its Revenue Budget from 2017-18 and that in 2019-20 it would in fact have a negative adjustment of £750k, meaning it would be paying that sum to the Treasury, effectively negative RSG. At the time of writing of this report the Council has not received updated figures, expected first week of December, for grant allocations for 2018-19.

1.2 This funding reduction is one of the main drivers in the projected budget gaps summarised in Appendix A which will develop and which would not be sustainable if not addressed.

Projected Budget Gaps if mitigating actions not put in place:

	18-19	19-20	20-21	21-22
Deficit	£1,151.400	£3,067,700	£2,950,500	£3,333,200

1.3 Sections 2 and 3 of the report below summarises the medium term financial strategy in place designed to generate offsetting income, deliver efficiencies and to mitigate the projected budget gaps. Given the funding gaps indicated above, it is particularly important that the Council continues to pursue its strategy of acquiring high quality income generating assets which can deliver ongoing sustainable income streams to offset the impact of reducing central government grant and to enable the Council to continue to provide services to its residents at the levels they expect.

100% Business rates retention and the Fair Funding review

1.4 The Government has proposed a new funding regime for local government to be implemented in the form of "100%" business rates retention. This is expected to come into effect in 2020-21 and would mean that local government *as a whole* will retain all of the business rates collected. However, there will continue to a redistribution mechanism with councils with strong business rates tax bases such as the Surrey districts and boroughs paying "tariffs" to fund "top up" payments to councils in other parts of the country with weaker taxbases. Spelthorne's tariff payment is currently approximately £15m.

1.5 In the interim period Government has asked for potential pilot schemes to be put forward. Surrey County Council and the 11 Districts and Boroughs have jointly applied to be a pilot and expect to hear whether or not the bid has been successful early December. Initial calculations indicate that if successful Surrey as a whole could benefit from retaining an additional £28m between the Councils, the element retained buy Spelthorne would need to be treated as a bonus as it would be ring-fenced for Economic Growth. Spelthorne has identified projects such as the small business incubator as potential areas of use for this money.

1.6 The Government are committed to introducing their Fair Funding Review at the same time as the 100% retention scheme. The review is important as this will be reviewing the underpinning formulae which over the years have sought to achieve an element of resource equalisation by trying to take into account councils "need to spend" relative to the strength of their tax bases. The review will feed into the determination of the baseline positions set by the Government as to how much business rates should be retained initially (before growth) after taking into account tariff payments (for councils, such as the Surrey districts with strong tax bases) or top up receipts (for those councils with weaker tax bases relative to need to spend).

2. Options analysis and proposal

The Outline Budget needs to cover the following areas:

(a) Zero or negative revenue grant support and other funding support from the Government including New Homes Bonus, and address the risks and volatility associated with increasing reliance on business rates retention.

(b) Anticipated external pressures such as statutory changes impacting over the outline budget period, including the Homelessness Reduction Bill which comes into effect in April 2018.

(c) The impact of pressures on Surrey County Council cascading down as a result of reduced funding from the upper tier authority.

(d) How we fund our corporate priorities by generating increased income streams

(e) The level of Council Tax, which the Council wishes to levy

(f) Future assumptions on interest rates and investment types.

(g) The level of services that the Council wishes to provide and the level of revenue expenditure the Council wishes to incur in the provision of those services. This is particularly important in light of the significantly reduced grant the Council will now receive. To support the challenging process of prioritisation of budget spending and saving decisions it is proposed that serious consultation be given to undertaken a statistically robust budget consultation exercise to inform decision making.

(h) The level and range of charges the Council should make for its services.

(i) The use of revenue reserves (if any) the Council wishes to use to support that level of service.

(j) The level of reserves the Council wishes to retain to provide investment income and ensure stability for the future.

(k) The alternative use of reserves to generate future savings.

(l) To review the Council's portfolio of assets to ensure that it is maximising value obtained from use of assets (both in terms of cost of maintaining those assets and income generated from them) and to review opportunities to rationalise the portfolio and generate additional income streams.

(m) To review potential impact on the budget of proposed investment and MRP regulation changes on both existing and future investments.

(n) The level of capital expenditure which the Council wishes to support and how it will seek to borrow, including being prepared to borrow where there are robust business cases in support.

3. OUTLINE BUDGET 2018/2019 – 2021/2022

3.1 Attached as Appendix A is a summary of projected expenditure and possible financing to 31 March 2022. It will be seen that the amount needed to be funded from Council Tax is £7.778m, taking into account use of reserves and investment income. Service expenditure would total some £18.5m in 2018/19.

3.2 Council Tax rate increases for 2018-19 and future years are assumed to be on the basis that the Council will continue to seek to protect Council tax and increase Band D by £5 per annum. However, it remains possible that the council tax referendum limit will be further amended by Government.

3.3 The Outline Budget projections take into account anticipated inflation on significant contracts, such as grounds maintenance which the Council has in place.

3.4 The projections currently assume an annual increase in pay awards of 1.5%. The potential loosening of the national pay cap will impact the pay award as the increase is linked to the national figure. Subject to affordability Spelthorne will match any percentage change.

3.5 The Outline Budget projections assume that the Government will continue to progress the roll out of Universal Credit. Given the measures announced by the Chancellor on 22nd November to soften the impact on individuals moving onto Universal Credit, it appears that the Government is sticking to its current roll out timetable. The projections assume the roll out will be fully completed by 2018-19 which results in the loss of the £0.5m credit the Council receives for its efficiency in recovering overpayments. This is one of the key factors in pushing up the budget gap in 2018-19 (part year) and 2019-20 (full year effect).

3.6 Budget consultation exercise - one option to aid the Cabinet to make difficult budget decisions between competing budget priorities would be to commission a statistically robust budget consultation exercise. The commissioning of the consultation in 2018 (which would allow officers sufficient time to work with the advisers to work up the question matrix) would enable the outputs to feed into budget decision making for 2019-20. The consultation could focus around decisions on flood defence expenditure and other corporate plan priorities.

3.7 In response to the reducing funding levels, Cabinet and Management Team recognised in 2014 that a fundamental transformation programme "*Towards a Sustainable Future*" (TaSF) needed to be put in place to aim at making the Council a self-funding council by the end of the outline budget period.

3.8 The TaSF programme looks at maximising income streams from investments and the Council's assets, this will link with the Council's refresh Housing Strategy which is aiming to use Council assets to generate additional housing supply (easing the pressure on the housing and homelessness budget) and generate income streams for the Council. The programme also considers the future of the Council's offices, and looks at the application of agile working to save money and generate an income stream by enabling the sharing of the Knowle Green site. By rearranging the floor plans it would make it possible to reduce accommodation running costs (including business rates) and potentially develop housing on part of the Knowle Green site.

3.9 Programme management streams have been put in place to manage the delivery of the strands set out above.

3.10 Currently the Council's treasury management investments are performing well with the core investments achieving an average of 5% in 2016-17. It is anticipated this level of performance can be maintained and has been built into the Outline Budget projections.

3.11 The Council has made excellent progress with respect to taking opportunities to maximise income streams from assets. As result of recent acquisitions the Council has secured additional income from assets for a sustained period well beyond the outline budget period of around £5m per annum net of financing and management costs. The Council is also looking to introduce a dedicated property unit which will help strengthen governance and asset strategy framework. The Unit will assist the Council in identifying and acquiring further income generating assets.

3.12 As mentioned above the Council is continuing to look at acquiring properties either directly or through appropriate delivery vehicles to enable it to provide temporary accommodation as an alternative to Bed and Breakfast accommodation which is expensive and has other issues. During 2016-17 the Council set up Knowle Green Estates as its housing delivery company and through the company it seized the opportunity to purchase the Harper Hotel emergency accommodation establishment. The Council will be able to use all of the housing units at the Hotel for its own residents diverting them away from expensive alternative arrangements.

The Level of Revenue Reserves to use in Support of the Council Tax

3.13 Reserves are financial balances set aside within the Council's balance sheet to enable future financing of revenue or capital expenditure. These can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves. The key general reserve is the General Fund.
- Funds to meet known or predicted liabilities and future spending are often referred to as earmarked or specific reserves.

The cash balances held in our reserves are invested to earn interest income which helps support the overall revenue budget and the provision of services.

3.14 The Council currently uses specific revenue reserves to finance expenditure in the following ways:

a) Interest equalisation – is built up in years when investment returns are better than expected and used to support investment income in years when returns are lower.

b) New Schemes Fund – the fund is now exhausted and it is not proposed to continue to provide a stream of funding toward specific revenue costs but instead we intend to put monies back into the fund to offset future years expenditure from those areas.

c) The key focus is generating additional revenue income streams. It is recognised that whilst the projects to deliver a number of such streams are well under way they will take time to reach the point of delivering income. There is therefore the case that on the basis there is a clear strategy and plan for delivering income streams that in the interim, in order to avoid making short term cuts which ultimately in the longer term may not have been necessary that some use of reserves to help close the revenue gap would be sensible.

d) The Housing Initiatives Reserve with a balance of £3m has been identified as being a source of funding for supporting Housing Strategy initiatives.

e) Sinking funds for commercial assets to be built up to cover potential end of lease refurbishment and possible future void and rent free periods.

3.15 The Council will be looking to implement arrangements to make repair and renewal annual contributions for addressing maintenance of service assets – addressing issues early in a planned way is usually cheaper in the long run. As part of addressing this it is proposed to have additional stepped increases in planned maintenance of £250k per annum ie rising to £1m by 2020-21.

3.16 Given that there may be timing differences between additional asset income streams and the need to invest to make schemes happen there may be a need for the Council to incur some borrowing. Given the relatively low rates the Council can obtain from the likes of the Public Works Loan Board (PWLB); Homes and Community Agency or the European Investment Bank it is more cost effective to borrow rather than draw down medium term investment funds. The Council's treasury management advisers Arlingclose have assisted in developing the Council's borrowing strategy and have been working closely with the Council to identify alternative commercial borrowing opportunities. It should be noted however that Council's cannot borrow to cover deficits in their Revenue Budgets.

3.17 At 1 April 2017 Revenue Reserves were as follows:

	2017 £000
General Fund Revenue Account*	951
Revenue Grants Unapplied	801
Capital Fund*	443
Carry Forward Reserve	239
Housing Initiatives Fund	2,973
Bronzefield Maintenance Fund	273
New Schemes Fund (NSF)	1,221
Interest Equalisation	493
Insurance Reserve	50
New Homes Bonus	50
Youth Council Reserve	20
Bridge Street Car Park Reserve	69
Business rates equalisation Reserve	1,145

Risk Management Fund	190
Asset Acquisition Reserves	2,647
	11,565

* indicates an uncommitted reserve available to support Council Tax.

The capital element of the NSF is now exhausted but there is still the revenue element of £1.2m in the table above.

The Level of Capital Expenditure to be supported

3.18 Each year the Council approves a four-year Capital Programme, which is split between Housing and "Other Services."

The 'other services' programme consists mainly of capital expenditure on leisure, assets, replacement vehicles and information technology.

The 'other services' capital programme has generally been financed from our capital receipts, i.e. money received in past years from the sale of assets such as the sale of the housing stock under the Local Stock Voluntary Transfer (LSVT) reserved right to buy receipts (RTB) and other 'one off' sales.

Commercial income generating assets acquisitions are funded through borrowing, however these are designed to ensure that they generate a net surplus in excess of borrowing costs in order to provide funds which can be used to support the revenue budget.

3.19 The Housing Capital Programme will be financed by a mixture of Right To Buy (RTB) receipts, the Social Housing Fund and borrowing where required.

3.20 The Prudential Code, which came into effect on 1st April 2004, gave Council's the scope to borrow to fund capital investment. The Council has used these powers to undertake borrowing to acquire assets for housing or economic wellbeing purposes where there has been a robust business case and where the loan costs are more than offset by revenue savings or additional income streams. The Council is actively looking at further opportunities for sustainable income streams. DCLG have recently published a consultation on 'Proposed Changes to the Prudential Framework of Capital Finance' with a response deadline of 22nd December. The outcome of this consultation won't be known until the new year but it is likely that stronger rules around the use of borrowing and the Minimum Revenue Provision (MRP) will come into effect.

Financial Health Indicators

3.21 Spelthorne maintain a selected number of indicators useful for monitoring purposes. Targets are set for capital and revenue outturn, and for debtors and creditors. The current set of indicators is set out below:

a) Revenue outturn against original budget target: +/- 1.5%.

b) Capital outturn against original budget target: +/- 20%.

c) Council Tax collection target: 98.5%.

d) Business rates collection target: 98.5%.

e) Sundry debts aged more than 90 days overdue no more than 13% of total debts.

f) Payment of creditors within 30 days target: 96.5%.

3.22 Clearly we need to take account of the challenging economic climate on the achievability of the above indicators particularly the collection rate (which through business rates and council tax support will feed through directly into the Council's financial position and debt indicators and we will keep these indicators under regular review.

In addition to the above there are the existing Prudential and Treasury Management indicators, these are being reviewed in light of the draft consultation on new guidance issued in November which will be confirmed in early 2018.

Financial implications

3.23 As set out in the report above

Other considerations

3.24 Where service efficiency proposals are put forward to assist in balancing the Budget the Council will need to undertake appropriate equality impact assessments.

Timetable for implementation

3.25 A detailed Budget timetable is being issued to ensure that we are able to set a balanced budget for 2018-19 at the meeting of Council on 22nd February 2018.

Background papers:

Appendices: Appendix A – Outline Budget Details

Outline Budget **Appendix A**

As at 01/11/17

	17-18	18-19	19-20	20-21	21-22
	original				
	£	£	£	£	£
Gross Expenditure					
Less: Fees and Charges and Specific Grants (excl Housing Benefits)					
Less: Housing Benefits Grant					
Net Service Expenditure:					
Broken down over Portfolios					
Leader of the Council	1,131,000	1,151,000	1,262,000	1,151,000	1,151,000
Deputy Leader	550,600	555,600	555,600	555,600	555,600
Corporate Management	2,103,300	2,173,500	2,172,600	2,172,600	2,172,600
Housing	1,821,900	2,492,400	2,886,900	2,386,900	2,386,900
Finance and Customer Service	3,761,100	3,769,100	3,769,100	3,769,100	3,769,100
Planning and Economic Development	2,468,800	2,355,800	3,527,800	4,728,800	5,932,800
Environment and Compliance	5,166,800	5,509,500	5,646,500	5,782,500	5,832,500
Community Wellbeing	231,200	410,200	412,200	413,700	415,500
	17,234,700	**18,417,100**	**20,232,700**	**20,960,200**	**22,216,000**
Salary expenditure - vacancy monitoring	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)
Pay award		150,000	300,000	450,000	600,000
Efficiencies		(100,000)	(200,000)	(300,000)	(400,000)
Pensions		50,000	100,000	150,000	200,000
As yet unidentified annual growth anticipated to come		400,000	800,000	1,200,000	1,600,000
Partnership Savings			(80,000)	(120,000)	(160,000)
Fees and charges		(100,000)	(200,000)	(300,000)	(400,000)
Revised Service Expenditure	**16,934,700**	**18,517,100**	**20,652,700**	**21,740,200**	**23,356,000**
NET EXPENDITURE	**16,934,700**	**18,517,100**	**20,652,700**	**21,740,200**	**23,356,000**
Interest earnings	(900,000)	(900,000)	(900,000)	(900,000)	(900,000)
Asset Acquisition Income	(17,082,800)	(18,004,800)	(19,136,800)	(20,259,800)	(21,374,800)
Debt Interest payable	8,307,000	8,276,900	8,236,800	8,211,800	8,211,800
Minimum Revenue Provision	4,482,100	4,584,800	4,690,800	4,799,000	4,799,000
NET EXPENDITURE AFTER INTEREST EARNINGS	**11,741,000**	**12,474,000**	**13,543,500**	**13,591,200**	**14,092,000**
Appropriation from Reserves:					
Pump prime invest to save/efficiency initiaitves		0	0	0	0
Set aside for Independent Living		(55,962)	0	0	0
Interest Equalisation reserve	0	0	0	0	0
Refurbishments Reserve Contributions	700,000	700,000	700,000	700,000	700,000
BUDGET REQUIREMENT	**12,441,000**	**13,118,038**	**14,243,500**	**14,291,200**	**14,792,000**
Retained Business Rates	(3,009,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Revenue Support Grant (incl council tax support grant)		0	750,000	750,000	750,000
Transition Grant	(96,000)	0	0	0	0
New Homes Bonus Grant	(1,530,900)	(1,021,000)	(851,000)	(713,000)	(522,000)
NET BUDGET REQUIREMENT	**7,805,100**	**9,097,038**	**11,142,500**	**11,328,200**	**12,020,000**
Collection Fund (Surplus)/Deficit	(167,493)	(167,493)	0	0	0
CHARGE TO COLLECTION FUND	**7,637,607**	**8,929,545**	**11,142,500**	**11,328,200**	**12,020,000**
Tax base	**38,908.60**	**39,395**	39,887	40,386	40,891
Council Tax rate	192.44	197.44	202.44	207.44	212.44
Council Tax yield	**7,487,571**	**7,778,140**	**8,074,804**	**8,377,669**	**8,686,844**
Deficit/(surplus)		**1,151,405**	**3,067,696**	**2,950,531**	**3,333,156**
Year on year movement		1,151,405	1,916,291	(117,165)	382,625