Cabinet

28 September 2016

Title	Outline Budget 2017-18 to 2020-21		
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 2017-18 be set at a maximum level of £13.9m** **2. That Cabinet support the overall strategy set out in the report for addressing efficiencies and achieving medium term financial sustainability** **3. That officers respond with comments, as appended to the report, to the Government's consultation papers on Fair Funding and 100% business rates retention** **4. That the financial health indicators set out in paragraph 3.25 be agreed** **5. That the Council accepts the Government offer of a 4 year funding settlement in order to protect the Council against risk of further increases in payments it is required to make in future years to the Government, but in so doing makes clear this is on the basis that it does not accept negative grant allocations for 2019-20**		

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 2016-17 would be the last year it would receive general Revenue Support Grant (RSG) to support its Revenue Budget and that in 2017-18 and 2017-18 it would receive nil RSG and that in 2019-20 it would have a negative adjustment of £750k meaning it would be paying that sum to the Treasury, effectively negative RSG. The table below summarises the funding changes:

	15-16	16-17	17-18	18-19
	£	£	£	£
Revenue Support Grant (incl council tax support grant)	1,330,600	580,000	0	0
Transitional Grant	0	100,000	96,000	
New Homes Bonus Grant	1,564,400	1,895,600	1,895,600 ?	1,200,000?
Total	**2,895,000**	**2,575,600**	**1,991,600?**	**1,200,000?**

1.2 The funding reductions summarised below are 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:

17-18	18-19	19-20	20-21
Surplus	£19.400	£1,740,000	£1,825,000

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.

1.4 Since the 2016-17 funding settlement was announced there has been the Brexit decision and changes in personnel with respect to the Prime Minister, Chancellor of the Exchequer and Secretary of State for Communities and Local Government. Currently we are awaiting to see to what extent these movements may result in changes to the approach taken with the national austerity programme and the Government's expectations of local government.

Consultations on Fair Funding and 100% Business rates retention

1.5 By the end of this parliament in effect either in 2019-20 or 2020-21 a new funding regime for local government will be implemented in the form of "100%" business rates retention. This will 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. Furthermore in order for the new regime to be fiscally neutral for the Treasury additional responsibilities to fund services will be passed to local government to ensure its net funding is no better off than is currently the position. The consultation paper makes suggestions as to what those additional responsibilities to be funded by local government from business rates could be. The suggestions include:

- Public Health Grant
- Improved Better Care Grant
- Early Years
- Local Council Tax Support Administration Subsidy and Housing Benefit Pension Administration Subsidy
- Attendance Allowance

1.6 Surrey and southern counties officers in reviewing the list above have noted that the above do not bear much relationship with movements in the business rates taxbase nor is it clear what additional value local authorities could bring purely from administering the funding. If however, additional flexibilities were offered to local government with respect for example council tax support or other council tax discounts the proposals would potentially allow more value to be added. From a Three Southern Counties perspective officers have discussed and the view is that in order to generate more of a link and an incentive to grow the business rates tax base it would be good if the funding responsibilities devolved included skills and training and infrastructure, which are similar areas to those devolved in other devolution deals.

1.7 The Government has issued two consultations papers on “Fair Funding” and “100% Business Rates Retention” with deadlines of 26th September 2016 for responses. Officers have discussed the questions set out in the consultations and set out suggested responses to the questions as per Appendices 1 and 2.

1.8 The Fair Funding 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 how much business rates should retain 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). At this early stage in the review, authorities do not have the benefit of exemplifications of potential formulae options to guide them on what would be the most favourable position for their authority. This therefore makes it difficult at this stage to comment on the likely impact for the Council of any potential changes.

1.9 The Surrey chief finance officers and the finance officers for the Three Southern Councils (3SC) have both discussed responses to the consultations and the draft political response from Leaders is attached (Appendix 3). The responses from Spelthorne take into account common areas of concerns shared with other councils.

New Homes Bonus Grant

1.10 New Homes Bonus (NHB) grant is paid by the Government to encourage greater numbers of dwellings in areas. The grant match funds the income generated from the additional council tax income from additional dwellings (either new or long term empty brought back into use) with currently an 80:20 split between districts and counties, and is currently paid for six years. With the grant accumulating over a six year period the amounts of grant have begun to become significant, in 2016-17 we are receiving £1.9m NHB grant which is more than three times the amount we receive for Revenue Support Grant in 2016-17. With a reasonably significant increase in dwellings and council tax base projected over the next two to three years NHB, if left unaltered, would become even more important as a funding source for us.

1.11 In the Autumn 2016 Spending Review announcements the Chancellor signalled an intention to undertake a review of NHB arrangements. A consultation was issued looking at reducing the period the grant is paid from six years to potentially four years and reducing grant for councils who do not have an adopted plan. Spelthorne and the Surrey councils responded to the consultation. At the same time the Government is looking to reduce the size of the national funding pot by approximately a third to £1,200 million. We expect to hear the outcome of the consultation deliberations as part of the funding settlement announcements in December 2016.

Efficiency Plans and “Four Year funding settlement”

1.12 In the Local Government Funding Settlement for 2016-17 the Secretary of State indicated “The Government will offer any council that wishes to take it up a four-year funding settlement to 2019-20” and that the offer will “a clear commitment to provide minimum allocations for each year of the Spending Review period, should councils choose to accept the offer and if they have published an efficiency plan.” The offer would cover :

- Revenue Support Grant;
- Transitional Grant; and;

But does not cover New Homes Bonus nor Business Rates

1.13 In effect this means we would have a floor under which we cannot suffer more withdrawal of funding. For Spelthorne the above means confirmation that the nil RSG allocations for 2017-18 and 2018-19 would not be reduced i.e. made negative and that our £96k transitional grant allocation for 2017-18 would be protected. However there is uncertainty as to whether the four year settlement includes the negative RSG allocations for 2019-20. The advice therefore is that the Council should respond accepting the four year settlement but make clear it does not accept negative RSG allocations for 2019-20. This is the approach most of the other 15 most adversely affected by negative grant councils are adopting.

1.14 For councils to take up the offer they are required to respond by 14th October 2016 submitting a link to published documents setting out the Council’s “efficiency plans”. There is no detailed guidance on the format of efficiency plans and it is made clear that medium term strategies, such as this report would meet the requirement. Hence why this report has been brought forward slightly earlier than normal in the committee cycle. The medium term financial strategy and the supporting *Towards a Sustainable Future (TaSF)*summarised in the report below set out the steps the Council already has well under way to ensure the ongoing financial sustainability of the Council. The TASF is underpinned by robust programme and project management methodology and reporting.

1.15 The four year settlement offer does give the Council more certainty as to future levels of funding which will aid medium term financial planning. Whilst the Council will use reserves to pump prime and resource initiatives in ther earlier years such as commercial acquisition or relocating offices to fund upfront costs this will be done on a short term basis and based upon robust business cases demonstrating that sustainable income generation or cost savings will be produced. The aim is to ensure that the Council becomes financially self sustainable and does not need to rely on reserves on an ongoing basis (which would not be sustainable) to support the revenue budget. Sections 2 and 3 of this report will serve as the Council’s efficiency plan.

1.16 Given the context of reducing central government funding the Council needs to remain very focused on growing local ongoing sources of income such as:

- Using economic development to encourage growth in the business rates taxbase, this will be underpinned by the updating in winter 2016-

17 of our Economic Strategy and supporting initiatives such as Inward Investment Strategy

- Growing the council tax base- anticipated to rise by an average of approximately 1% per annum for next two to three years
- Maximising income streams from the Council's assets. Very significant progress has been made on this front which has helped reduce the projected funding gap and which is anticipated in the near future will significantly reduce that gap further.
- Developing income from alternative delivery models- discussion currently are focused on the proposal for Legal Services; the Applied Resilience emergency planning mutual has made a good start and is growing its customer base.
- Whilst undertaking appropriate engagement with stakeholders, and taking into account of affordability impact on local residents and businesses seeking to maximise income from fees and charges
- Maximising investment returns from a diversified portfolio- last financial year the Council achieved an average rate of return of 5% on its core of pooled investment funds
- Exploring ability to generate returns from property investments, being prepared to borrow when there is a robust business case and rate of return whilst supporting borough economic development and housing objectives
- Maximising Council Tax within the bounds permitted which indeed is consistent with the Government's assumptions underpinning the Four Year Funding Settlement.

2. Options analysis and proposal

The Outline Budget needs to cover the following areas:

(a) Anticipated declining levels of 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

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

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

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

(f) 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.

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

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

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

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

(k) 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.

(l) 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 2016/2017 – 2020/2021

3.1 Attached as Appendix A is a summary of projected expenditure and possible financing to 31 March 2021. It will be seen that the amount needed to be funded from Council Tax is £7.445m, taking into account use of reserves and investment income. service expenditure would total some £14.5m in 2017/18. Currently the commercial and economic development asset acquisitions anticipated to be in place by the end of 2016-17 are anticipated to generate sufficient rental income streams to ensure that the Council has a balanced budget for 2017-18 with funds available to invest in pump priming initiatives which will deliver further income/savings by 2019-20.

3.1 Council Tax rate increases for 2017-17 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.

3.2 Pensions- the Council will learn in November the actuaries' triennial valuation figures for the Surrey Pension Fund as at 31 March 2016 and their assessment as to how the employer contributions should rise over the next three financial years. On basis of early indications we are anticipating a slower rate of increase than the last three years with employers' contributions possibly rising incrementally by £50k per annum. The budget has now absorbed in 2016-17 the impact of increased national insurance contributions with the ending of the opting out arrangements.

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%.

3.5 The Outline Budget projections assume that the Government will continue to progress the roll out of Universal Credit. 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.

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. If the current commercial income initiatives bear fruit we would not be under so much pressure timewise and could consider commissioning during 2017-18 (which would allow officers sufficient time to work with the advisers to work up the question matrix) to enable the outputs to feed into budget decision making for 2018-19 and 2019-20.

3.7 In response to the reducing funding levels, Cabinet and Management Team have recognised in 2014 that a fundamental transformation programme "Towards a Sustainable Future" (TaSF) needs to be put in place to aim at making the Council a self-funding council by the end of the outline budget period. Appendix 4 summarises the TaSF programme.

3.8 The TaSF programme includes three strands

a) 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

b) Relocation of the Council's offices to smaller more flexible and efficient location(s) and application of agile working to save money and to enable development of housing on Knowle Green site to generate an income stream

c) Structural review including; service redesign and different delivery models to reduce expenditure. Several services have come forward with proposals to "spin out" as either Local Authority Trading Companies or Public Service mutual. The Council may consider setting up an overarching trading company arm which may be more cost efficient.

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

3.10 Currently the Council's treasury management investments are performing well with the core investments achieving an average of 5% in 2015-16. It is anticipated this level of performance can be maintained and has been built into the Outline Budget projections. The investment income projection for 2016-17 took into account the ability to reinvest the anticipated receipt of £21m from the Bridge Street car park development during 2016-17.

3.11 The Council has made excellent progress with respect to grasping opportunities to maximise income streams from assets. As result of recent acquisitions the Council is close to securing by 2017-18 generating additional income from assets for a sustained period well beyond the outline budget period of at least £2.8m per annum net of financing and management costs.

3.12 As mentioned above the Council is looking 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 aware from expensive alternative arrangements.

3.13 With respect to structure the restructure of senior management arrangements has largely been completed with the appointment in April 2016 to 5 Group Head posts and the deletion of previous head of service posts. For most of the groups, deputy head arrangements have now been put in place. The new structure will enable a greater focus on aligning services with synergies and aligning resources with the corporate priorities. This re-alignment process is anticipated to deliver ongoing savings and has already assisted with some of our commercial/economic development acquisitions.

3.14 In parallel Cabinet and Management team asked all services to look at delivery models to identify how by the end of the outline budget period they could deliver savings of approximately 30%. Service managers responded very positively and have generated a significant list of savings/additional income which when combined with the strands above gives Cabinet and Management Team confidence that the budget gaps in each of the outline budget period can be closed.

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

3.15 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.

3.16 The Council currently uses specific revenue reserves to finance expenditure in two main 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 £7.6m has been identified as being a source of funding for supporting Housing Strategy initiatives.

3.17 The Council will be implementing arrangements to make repair and renewal annual contributions for both

a) 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

b) Setting aside provision for economic development assets to ensure funds are available for refurbishment when leases come up for renewal

3.18 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, the new Municipal Bonds Agency or the European Investment Bank it will potentially be more cost effective to borrow rather than draw down medium term investment funds. The Council's treasury management advisers Arlingclose are assisting in developing a borrowing strategy for the Council. It should be noted however we cannot borrow to cover deficits in the Revenue Budget

3.19 At 1 April 2016 Revenue Reserves were as follows:

	2016
	£'000
General Fund Revenue Account*	1,896
Capital Fund*	443
Carry Forward Reserve	240
Housing Initiatives Fund	5,794
Bronzefield Maintenance Fund	277
New Schemes Fund (NSF)	1,221
Interest Equalisation	493
Insurance Reserve	50
Planning Delivery Reserve	50

Youth Council Reserve	20
Bridge Street Car Park Reserve	69
Business rates equalisation Reserve	1,145
	11,698

Revenue / Projected Reserves – 1 April

* 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

3.20 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 is 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.

Reserved right to buy receipts from A2Dominion have fallen significantly from £600k in 2005-06 to approximately £616k in 2015/16. Taking account of the impact of Stanwell new start and the general housing market, it is assumed that the ongoing level of RTB receipts will be £300k per annum.

In addition to our "mainstream" capital programmes we also set aside in 1996 part of the proceeds from the sale of our housing stock to spend on worthwhile projects within the Borough, (the New Schemes Fund (NSF). Approximately £15m was set aside initially and this has been supplemented by interest earnings on the balance of the fund since 1996. This fund is now fully exhausted.

Level of Capital Reserves

3.21 Projected capital reserves at 1 April 2016 were as follows:

	2016
Usable Capital Receipts	£1,448k

3.23 The Capital Programme will continue to be financed in the short term by the Right To Buy (RTB) receipts, the capital reserves and the Social

Housing Fund. By the end of the year 2016-17 (not taking into account the potential Bridge Street receipt), there are anticipated to be £20m capital reserves remaining.

3.24 The Prudential Code, which came into effect on 1st April 2004, gave us the scope to borrow to fund capital investment. The Council initially took the view that it would use capital receipts to finance the capital programme. However prudential borrowing may be appropriate where the capital investment will generate additional income which more than offsets the interest payments incurred, for example some authorities have undertaken prudential borrowing to fund expanded car parking facilities which will generate additional income which would more than offset borrowing costs. The Council is now prepared to undertake borrowing to acquire assets for housing or economic wellbeing purposes where there is 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 some opportunities which are close to bearing fruit with respect to sustainable income streams.

Financial Health Indicators

3.25 Spelthorne has monitoring agreed indicators useful for monitoring purposes monitoring agreed indicators useful for monitoring purposes. Indicators should cover revenue, capital expenditure and also aspects of the balance sheet. It is therefore recommended that targets be set for capital and revenue outturn, and for debtors and creditors. Linked with the issue of maintaining sufficient reserves to generate a reasonable interest income it is suggested that a target minimum level of reserves is set. 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%

3.26 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. Maximising collection of business rates will be particularly important in 2016-17 when we are a member of the Surrey Business Rates Pool and do not have to pay a levy on additional business rates income generated.

In addition to the above there are the existing Prudential and Treasury Management indicators.

Financial implications

3.27 As set out in the report above

Other considerations

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

3.28 A detailed Budget timetable is being issued to ensure that we are able to set a balanced budget for 2017-18 at the meeting of Council on 23rd February 2017.

Background papers:

Appendices: A and 1-4