Committee: **Cabinet**

Date of meeting: **6 July 2016**

Subject:	Budget Strategy 2017/18
Lead Officer:	Strategic Director & Deputy Chief Executive
Portfolio Holder:	Leader – Councillor S.J. Selleck Portfolio Holder for Resources – Councillor C.R. Sadler
Link to Council Priorities:	All
Exempt information:	None
Delegated status:	For Recommendation to Council on 20 July 2016
Key Decision:	Not Applicable

EXECUTIVE SUMMARY:

This is the first financial strategy report in 2016/17 and reviews work undertaken to develop the 2017/18 to 2019/20 budget strategy. Following the agreement of the Medium Term Financial Strategy (MTFS) by Council in February 2016, this report represents the first stage in the Council's annual budget planning process. It updates on the Budget position for 2017/18 as included in the MTFS and also sets out the forecast savings required to balance the budget over the medium term, in the context of the funding reductions from the national Government.

RECOMMENDED: THAT

(A) CONSIDER THE UPDATED REPORT AND AGREE THE OVERALL APPROACH TO THE PREPARATION OF THE 2017/18 BUDGET;

(B) AGREE THAT OFFICERS BE ASKED TO IDENTIFY ADDITIONAL INCOME STREAMS AND SAVINGS TO ENABLE A BALANCED BUDGET TO BE SET FOR 2017/18;

(C) AGREE THAT OFFICERS IN LIAISON WITH THE RELEVANT PORTFOLIO HOLDERS, WORK UP DETAILED SERVICE PLANS AND BUDGET PROPOSALS IN ACCORDANCE WITH COUNCIL PRIORITIES;

(D) AGREE IN PRINCIPLE TO ACCEPT THE MULTI-YEAR SETTLEMENT FOR YEARS ONE, TWO AND THREE, BUT NOT YEAR FOUR DUE TO SIGNIFICANT NEGATIVE RSG, AS PROPOSED IN THE FINAL SETTLEMENT IN FEBRUARY, SUBJECT TO FURTHER CONSIDERATION OF ANY FURTHER DEVELOPMENT AT PERFORMANCE AND FINANCE PANEL, CABINET AND COUNCIL MEETINGS IN SEPTEMBER; AND

(E) NOTE THE OUTLINE HIGH LEVEL BUDGET TIMETABLE IN SECTION 11.

REPORT:

1. Background

As set out in greater detail in the Council Plan, Elmbridge is an attractive and generally affluent borough. It is located just outside London with easy access to central London, Heathrow and Gatwick Airports. Unemployment is low at

0.5% on the Claimant Count basis compared to 1.8% for Great Britain and the proportion of residents claiming one or more of the main Out of Work Benefits is similarly low at 4.0% compared to 9.0% for Great Britain as a whole. A significantly higher than average proportion of its residents benefit from higher level qualifications. Property prices on many of the main measures are higher than elsewhere outside of London, which has made the Borough an attractive place for residential development in recent years.

Arising from this, we have seen grants from central Government (Revenue Support Grant (RSG) and re-distributed Non-Domestic Rates (NDR) reducing in recent years while grants that are incentive related and not of a permanent nature, most notably the New Homes Bonus have increased in value.

Members will be aware that the provisional and final settlement for 2016/17 for Elmbridge was a 62% reduction compared to 2015/16 and that RSG was being completely eliminated by 2017/18. With a negative RSG expected to be in place in 2019/20, there is little alternative than increasing Council Tax and use reserves in a measured way, bearing in mind that reserves can only be used once.

Despite losing over half of Government grant in the last 5 years, the Council has delivered seven years of no increases in Council Tax over the last 9 years, with little or no reduction of services. In addition, the Council has achieved nearly £10m in budget reductions and additional income over that period. These reductions have come through a combination of efficiency and cost reduction, retendering contracts, rental from our property holdings, how we deliver services so they are cheaper and by reviewing our fees and charges for our services. At the same time, services have had to keep pace with increased demand and expectation, particularly in Housing and Welfare where there are particular challenges.

There is no question that the ability to deliver savings, is getting much tougher. Elsewhere on this agenda, Members will know that whilst we are reporting an under spend for 2015/16, this masks significant variations within different departments including some income which may not be sustainable.

It is acknowledged that there is a need to manage budgets prudently and improve income streams such as those related to the Commercial Investment Property Portfolio that has been built up in recent years. Equally there is a need to maintain standards of service for our residents who, not unreasonably, have high expectations. These trends seem likely to continue given central Government's desire to reduce its net deficit. In addition, financial pressures on other parts of the public sector such as Surrey County Council and the NHS may well adversely impact the support we receive from these organisations.

<u>Delivering the Council's Priorities</u>

1.1 The Council agreed a vision to guide the Authority over the next five years and also identified the top priorities in February 2016.

1.2 The context in which the Council's Budget is set is influenced by:

- The Council's vision, council plan and its priorities;
- The Council's Medium Term Financial Strategy (MTFS);
- Central government policies, including legislative change, which may require additional expenditure in areas that would otherwise not be Council priorities;
- External drivers – demand for services, inflationary pressures, change in interest rates, etc.; and
- The New Administration's priorities.

1.3 Maintaining the Council's financial resilience ensures the effective delivery of service during a difficult economic period and significantly reduced funding. It also commits the Authority to delivering the Council's vision and priorities for Elmbridge, making clear that the future lies in working effectively across the whole public sector.

1.4 The Council has delivered against very ambitious plans and targets and continues to be a strong council performing well. However, despite the financial challenges, we do not want to diminish our ambitions for the future, but continue to provide quality services that our residents and businesses value.

2. Reason for Decision and Options considered

This report is part of the Council's budget setting and service planning process. The MTFS was recommended by Cabinet and approved by Council in February 2016. The budget report to Council included forecasts for the period 2017/18 to 2019/20. Whilst proposals for the 2016/17 budgets have been through a detailed budget review process, this report seeks to agree the approach for 2017/18 so that detailed proposals can be worked upon by officers for Member consideration and approval later in the year.

3. Balancing the Budget in the Medium Term

3.1 While the Council has set a balanced budget for 2016/17 and is working from a sound financial base, a very challenging period is looming for all of the public sector, including local authorities. It is estimated that the Council will face a funding gap of £5m over the next three years. The Financial Plan include some indicative targets for savings and additional income which officers will be asked to identify. Officers will also look to see what scope there is to use sums from reserves to support the budget on a sustainable basis, without compromising the Council's financial standing.

In addition, the support that the Council can provide through all of its activities to stimulate and promote economic growth, business development and job creation in the Borough remains central to the delivery of the MTFS.

The Council will seek to optimise the use of its reserve balances in delivering priorities, making decisions on a corporate basis and maximising opportunities to maintain an appropriate balance between short-term expenditure and long term investment. Reserves will be used wisely for investments that will contribute towards financial independence and resilience for the Council.

The Council currently generates £1.5 million in rental income to support the revenue base budget. The Financial Strategy for the medium term is focused on reducing the reliance on Government grants by the year 2020 by continuing to invest in Property Assets to secure regular rental income and retaining more Business Rates.

The Strategy is based upon the assumption that the Council will set a balanced budget as it is legally required to do. The extent that reserves are drawn upon in the short term, mean they will need replenishment in the medium term. This will mean ensuring that the basic costs of services are affordable and sustainable within a defined level of Council Tax.

With a net operational budget of £17m, £1.7 million savings will equate to a 10% budget reduction.

3.2 Identifying and Optimising Income Opportunities

The Council's fees and charges are reviewed each year. Some of factors that are taken into account making charging decisions include:

- Whether the service is statutory; any level restrictions on charging the service's contributions to the Council's outcomes;
- Cost of operating the service;
- The level of subsidy/underwriting by the Council;
- The objectives of the service;
- Existing levels of demand and competition;
- Benchmarking;
- Stakeholder and user information;
- Any financial analysis of the impact of changing decisions.

Over the medium term, the Strategy will require that, as a general rule, fees and charges should, as a minimum, increase in line with inflation and should where possible cover the cost of the service.

3.3 The outturn for 2015/16 is reported elsewhere on the agenda. Members will note that the Council has again been able to deliver services within budget and maintained its financial health, providing a level of assurance that the Council's financial management arrangements remain strong within the context of risks from the current wider financial environment. As approved by Council, the savings made in year during 2015/16 has been used to part fund the purchase of the investment property Thomas Hardy House in Weybridge. This property investment in turn will generate rental income which helps fund our services.

4. Outlook for Savings – 2017/18 to 2019/20

Based on this working assumption, the potential budget reductions required over the medium term (2017/18 – 2019/20) are provisionally estimated at around £5m. This includes provisional assumption of a modest 2% annual increase in the Borough element of the Band D Council Tax from 2017/18. For the Council to be completely grant-free, the budget gap is likely to be much higher with the SCC funding reductions and the inevitable clawback of the Business Rates beyond 2019/20, resulting in a potentially higher budget gap of £ 6.5 million over that period.

The Financial Plan, as reported in February 2016 is shown below:

FINANCIAL PLAN 2016/17 TO 2019/20

MEDIUM TERM FINANCIAL STRATEGY

(Revised following Final Settlement Feb 2016)

	2016/17 Budget £'000	2017/18 Forecast £'000	2018/19 Forecast £'000	2019/20 Forecast £'000
Net Budget Requirement	**18,349**	**17,911**	**17,041**	**17,042**
Expenditure				
Growth/Spending Pressures	422	250	250	250
Contributions to the Pension Fund	231	240	240	240
Employers NI increase on Pension changes	200			
Inflation on Contracts and Pay	439	500	500	500
Other Changes:	97	100	100	100
(Housing Benefit Admin Grant)				
Apprenticeship Levy		35		
Interest on balances	89			
Approved Savings/Fees & Charges	(1,916)	(250)	(250)	
Total Budget Requirement	**17,911**	**18,786**	**17,881**	**18,132**
MTFS - Available Funding	**17,911**	**17,041**	**17,042**	**15,762**
Budget Gap		**1,745**	**839**	**2,370**
Savings yet to be identified				
Contract Savings		**(500)**	**(300)**	**(200)**
Other Income (e.g Planning , Property etc)		**(200)**	**(200)**	**(200)**
Admin and Efficiency Savings		**(200)**	**(100)**	**(100)**
Savings to be realised from an Efficiency Programme(to be formulated)		**(845)**	**(239)**	**(1,870)**
Funding				
Business Rates retained	2,131	2,173	2,237	2,308
Business Rates Tariff Adjustment (Negative RSG)		0	0	(1,480)
Revenue Support Grant	667	0	0	0
Transition Grant (New)	256	190		
Business Rates Collection fund surplus	250	250	250	250
Council Tax Collection fund surplus	226	200	200	200
Business Rates - excess over baseline	450	350	250	100
Use of Reserves	977	565	425	325
Council Tax income	12,954	13,313	13,680	14,059
Total Funding available	**17,911**	**17,041**	**17,042**	**15,762**
Council Tax Base (assumes 0.75% growth)	**62,582**	**63,051**	**63,523**	**64,000**
Band D Council tax (indicative)	**207.00**	**211.14**	**215.36**	**219.67**
Increase (indicative from 17/18 onwards)	**1.94%**	**2.00%**	**2.00%**	**2.00%**

The approach to identifying savings will continue as in previous years, with the main focus on:

- Significant work has already been undertaken by managers across the organisation to ensure services are efficient and delivered within budget and all expenditure is scrutinised to deliver value for money. This activity has yielded efficiencies to date and we will look to identify further savings in this way;

- Continue with the review of Customer Service functions with a view to consolidating frontline customer facing processes, improving processes and releasing staffing savings;

- Invest and save – explore opportunities for creating a regular revenue stream;

- Review our Fees & Charges to ensure costs are fully recovered;

- Explore Asset Investment/Development opportunities to secure income;

- Consider a phased use of Revenue Reserves to help with the savings requirement over the medium term if required.

Whilst we may be able to identify sufficient budget reductions or savings for next year, careful consideration needs to be given to the financial position in the medium to longer term. It is essential that the Council takes every possible opportunity to increase its income. This must include increasing fees & charges and sponsorship wherever reasonable and practical to safeguard the Council's financial position and make it more resilient to external funding reductions.

Budget Growth Proposals

There will be further pressures in 2017/18 and future years arising from a combination of an increase in need on many of our front line services, and a requirement to refocus resources on the key Council priorities, which must be funded from finite financial resources. Any growth proposals arising from services will need to have corresponding savings or additional income to fund the proposals and any unfunded growth will be reported as part of the Budget Proposals. Wherever possible each service area must first seek concomitant savings to cover any budget growth.

In considering its budget each year, the Council is required to look further ahead than the next financial year under detailed consideration to ensure that the impact and affordability of proposals is assessed for future years. The Medium Term Financial Strategy approved by Council in February 2016 considered the impact of pressures such as low interest rates on investment income and the increased contribution to the Pension Fund as well as service pressures such as the need for temporary accommodation and continuing pressure from homelessness.

5. Medium Term Financial Strategy - Approach

Whilst all the above initiatives will help generate savings or additional income, a more radical approach is required for the Council to meet its aspiration of becoming financially self-sufficient by 2020. To achieve this, it is no longer acceptable to look at savings for a year at a time, but to have a strategy that identifies projects that will deliver savings in the medium to long term. One example of this is the Joint Waste Contract initiative which it is hoped will generate savings from 2017/18.

Despite the reduction in expenditure, going forward, the Council will still need to be in a position to provide services, and it needs to ensure that every pound is invested where it can have the most impact for the people of Elmbridge. It will need to develop a multi-year strategy with a clear outcomes framework, underpinned by annual financial plans and spending targets.

Our priorities place the people of Elmbridge at the forefront of our plans and investments and we must ensure that everything the Council does improve opportunities and well-being for residents. Obvious perhaps, but with the severe spending reductions, the risk is to become pre-occupied with our own internal organisation.

Given the seismic change needed in local government, the Council has to find ways of working which supports communities and individuals to become more self-sufficient.

Many of our services were designed in a different era and policy framework. During times when government transferred far more grant to fund local services; in the recent past, linking revenue support grant to standard spending assessments and previously, net spending levels determined by local authorities, through to grant-related expenditure assessments. Current funding no longer reflects demographic or socio-economic changes, as local government is expected to become self-sufficient and rely on locally raised revenues such as Council Tax income, Fees & Charges income and a share of Business Rates to fund local services.

At the same time as funding has been reduced, the population continues to grow and family life has changed. Medical advances are greater, resulting in people living longer. People move around more for jobs than in previous generations, so families cannot always be near to older relatives to help and care. Families are under increasing pressure, and society's concern for Adult's and Children's safety has placed additional responsibilities on local authorities for ensuring their protection.

Over the last few years, the Council has continued to review staffing capacity with a view to reducing the overall size and cost of the organisation whilst increasing capacity where required to deliver Council priorities.

The Council will need to be a very different organisation to make the changes required for the next decade. It will be agile and smaller, with fewer staff, different skills and a commercial approach have the ability to change pace whilst reducing costs, yet improving outcomes. For the Council to continue its journey of improving efficiency and modernisation, radically re-shaping its services while reducing its costs needs to be a priority.

The Annual Governance Statement reported recently to the Audit & Standards Committee indicates that the Council has Good Governance and controls already in place. The future outlook for local government will require some difficult choices for Members, and there will be a continued need for constructive dialogue about options between Members and officers. Officers will continue to be held accountable for performance and ensure that accurate, good quality evidence and information is provided to Members to inform good governance and decision-making.

6. Funding from Surrey County Council (SCC)

Elmbridge Borough Council has received notification that SCC will be reducing the funding made available to EBC by 25 % in year one and 50% year 2, totalling £ 200,000. These reductions relate to Service Level Agreements for :

- High need customers accessing Centres for the Community
- High need Meals on wheels customers
- Dementia services

Whilst there are proposals for meeting this reduction in the short term elsewhere on the agenda, members will need to be mindful that the reduction in funding from SCC is likely to follow in line with the Government funding reductions. Therefore, it is prudent to expect SCC funding to significantly diminish over the medium term of our strategy. EBC currently receives £800,000 of funding from SCC, the majority of it being spent on providing services to older people as part of Community Support Services.

There are important issues and principles in these changes and we can expect SCC and other partners to review and withdraw their funding as they struggle with their budget pressures. EBC cannot afford to fill all these gaps as they emerge nor can the Council take on the service responsibilities and liabilities that normally sit with others.

7. The move to 100% Business Rates Retention and 4-year Local Government Finance Settlement

7.1 Introduction

The Government have announced that Councils are to retain all locally raised business rates by 2020 under radical local government finance reforms. The changes are to end the distribution of core grant from central to local government. Ahead of the move to 100% business rates retention, the Secretary of State announced, “there would be a review of what the needs assessment formula should be in a world in which all local government spending is funded by local resources not central grant, and use it to determine the transition to 100% business rates retention”. Government have provided no other details, including when this review would begin. The government has stated that the current business rates retention system (BRRS) which includes a redistributive system of top up and tariffs for individual authorities would be extended to protect authorities with lower levels of business rate income from the proposed changes. The current safety net, which protects local Council’s against big drops in revenue, will also remain in place, but the current levy on disproportionate gains will end.

As part of the reforms, the government will abolish the Uniform Business Rate and give local authorities the power to cut business rates to boost economic activity in their areas. Local authorities that form a combined authority under a devolution deal and have a directly elected mayor will be able to add a premium to business rates to pay for new infrastructure, once they have support of local business leaders through a majority vote of the business members of the Local Enterprise Partnership. The principles behind the reforms are that areas, which successfully promote growth and attract businesses, will keep all of the benefit from increased business rate revenues. However, as part of the reforms, local government will take on new responsibilities, most likely as part of devolution deals.

As part of the reforms to local government finance, core grant (i.e. Revenue Support Grant) from central government will be phased out by 2020. The 2016/17 Local government finance settlement announced on 8 February 2016, included indicative figures for 2017/18, 2018/19 and 2019/20. The indicative settlement shows that eight of the Surrey Authorities will receive no RSG in 2017/18, in 2018/19 ten Surrey Authorities will receive no RSG and all Surrey Authorities will have no RSG in 2019/20. In addition, in 2019/20 all Surrey Authorities will be paying an ‘additional tariff’ or ‘negative RSG’ to central government.

As part of the settlement, the government stated that it would offer any council that wishes to take it up, a four-year funding settlement to 2019/20. However, Councils would need to produce and submit an efficiency plan as part of the request. Councils have until 14th October 2016 to make this request. However, there has been no indication of the format of the efficiency plan.

Background and Issues

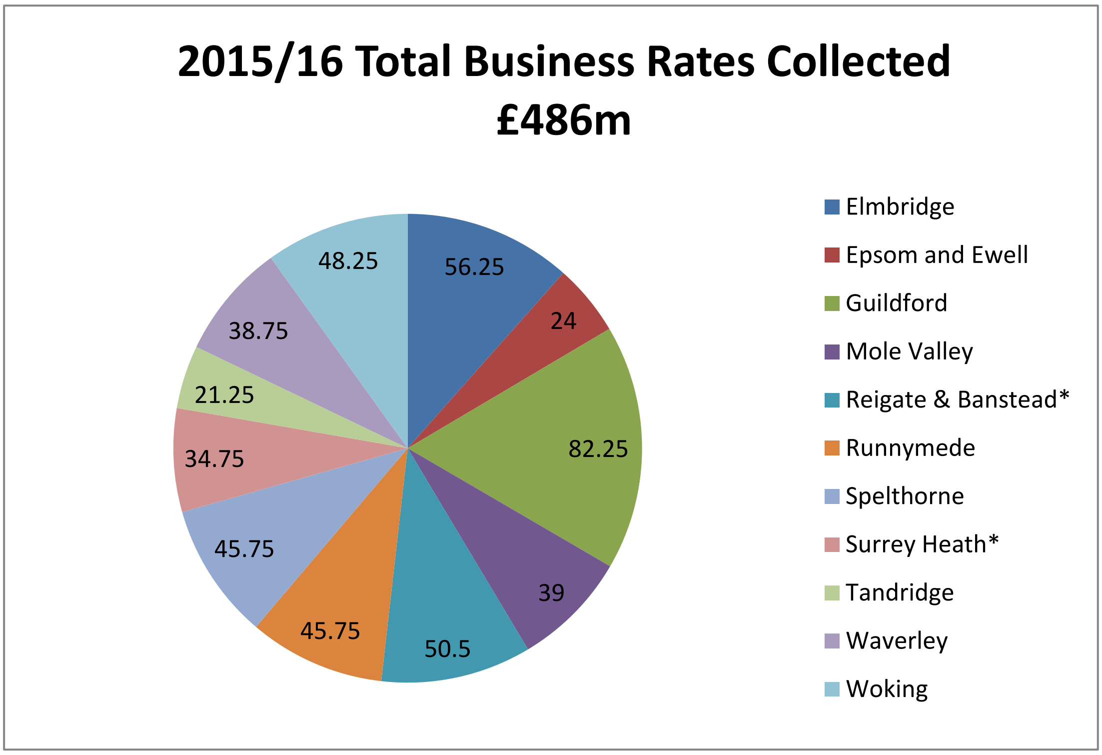
Since 1990, Councils have been restricted in their ability to introduce local business rates discounts with government setting the charge and taking the income, then redistributing the income to Councils in the form of grants. The system involved little accountability of local Councils to their business community and few incentives for regeneration and business growth, as Council’s did not see the benefit of such schemes.

Since 2013, Councils have been allowed to keep half of business rates income under the business rates retention system (BRRS). However, in practice due to a national redistribution mechanism between Councils, the retained income at each individual authority in Surrey is substantially less than half.

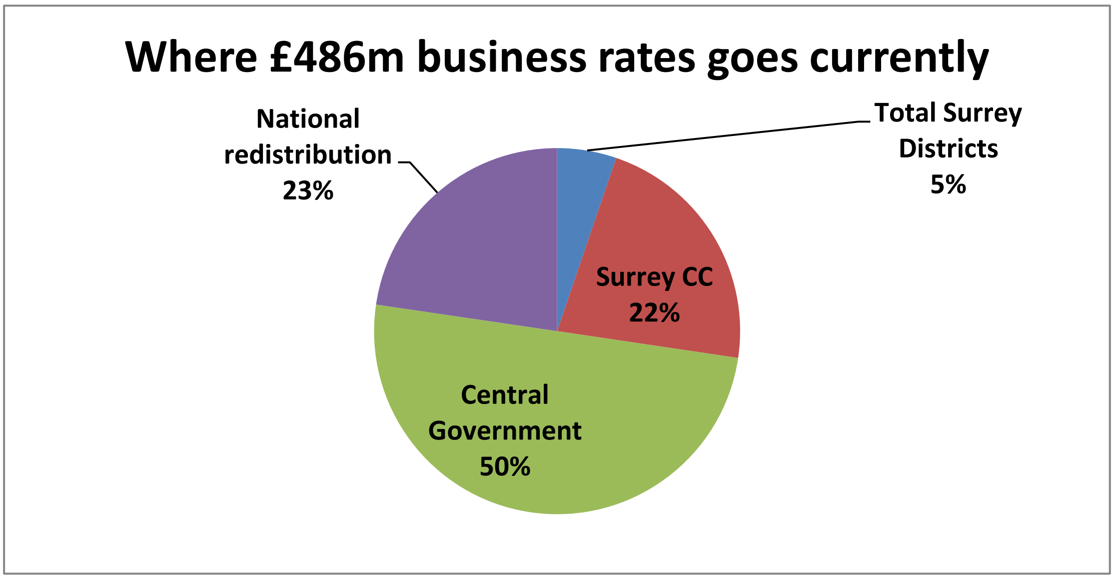
Local Government, through the LGA, has long argued that with greater local control, councils will have flexibility to reduce business rates for the types of shops and businesses that residents want in their high streets and neighbourhoods. The LGA believe that full retention of business rates will give authorities the opportunity to boost local growth, help attract business to their area and create jobs. They also believe that accountability of local Council’s to their local business community for the services provided will improve.

The government launched a structural review of the business rates system as part of the March 2015 Budget. The review informed the announcements made in the 2016 Budget on 16th March 2016 although the results of the review have not yet been published.

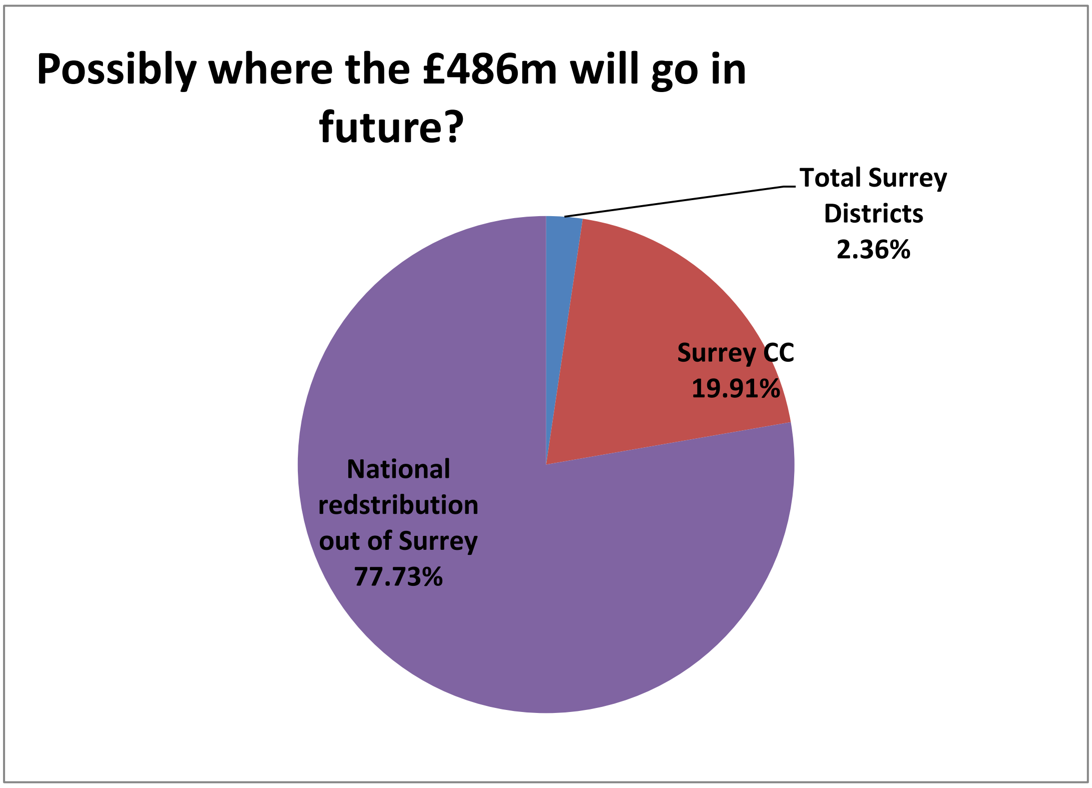
Analysis of the Business Rates changes for Surrey



Currently the distribution of this income is as follows:



The indicative 4-year figures for 2019/20 announced in the final local government finance settlement on 8 February 2016 provided the business rates baseline for each surrey authority and an adjustment to the top-up and tariffs paid under the business rates retention system. At this stage, we cannot assess what 'additional responsibilities' will transfer to Local Government, or whether they will fall at County or District level, or for any impact of the 3SC devolution proposals on business rates retention. However, the figures provided in the 4-year settlement suggest the percentage of retained business rates in Surrey will most likely decrease by 2020.



The four-year indicative local government finance settlement assumed business rates would grow in line with RPI. On 16th March 2016, as part of the budget speech George Osborne announced that from April 2020 taxes for all businesses paying rates would be reduced through the business rates multiplier being linked to the rate of CPI instead of RPI. This should lower the increase to the business rates multiplier from 2020/21 onwards (and therefore lower business rates income to local government). As authorities move to 100% business rates this change could mean a reduction in the benefit of 100% business rates to local government. The impact of the move to CPI as the business rates multiplier is estimated to cause a reduction in business rates revenue of £370m nationally per annum from 2020/21 and increasing each year.

The government has also announced changes to the administration of business rates and this includes an aim to introduce more frequent business rate revaluations (at least every 3 years). The government plans to publish a discussion paper in 2016 outlining options on how to achieve this. Given revaluation is a trigger for business rates appeals and appeals can have a significant impact on authorities' business rates income, this change could create even further uncertainty / risks for local authorities unless sufficient safeguards are put in place regarding the appeals system;

Other risks associated with the move to 100% business rates retention include:

- Recalculation of 'relative need' or 'baseline need to spend' ahead of 2020.
- How individual business rate baselines are set.

- How long before ‘resets’ of the baseline within the new system and the frequency of the resets.
- Impact and timing of Major Redevelopments.
- Impact of the 2017 business rates re-valuation and level of appeals afterwards.
- Volatility of business economy = full exposure.

Implications of signing up to the four-year settlement

At the final local government finance settlement, it was confirmed that the deadline for requesting this offer was 14th October 2016. Further details on how this would work were issued in a letter to authorities on 10th March 2016. The letter confirmed the following:

- The deadline for applying for the offer is 5pm on Friday 14 October 2016;
- To apply, an email or letter, together with a link to an efficiency plan, should be sent to MultiYearSettlements@communities.gov.uk
- It is expected to be the only time over the course of the current Parliament that a multi-year settlement will be offered;
- The offer covers the figures provided in the final local government finance settlement for Revenue Support Grant; Transitional Grant; and Rural Services Delivery Grant;
- In addition, protection will be provided that ensures tariffs and top ups for 2017/18 and 2018/19 will not be altered for reasons related to any changes in the relative needs of local authorities;
- There will not be protection from:

    - The extra responsibilities and functions that might need to be accepted by local government as part of the move to 100% business rates retention;
    - Futures transfer of functions to, or between, local authorities, or the impact of mergers; and
    - Any other unforeseen events.

Efficiency plans do not need to be their own stand-alone document. They can be combined with the medium term financial strategy /plan or linked with the efficiency strategy developed for the use of capital receipts flexibility. Within the efficiency strategy, the authority will be expected to show how a four-year settlement will bring about opportunities for further savings. Where appropriate, the plans should be worked up in conjunction with public sector partners and linked to devolution plans.

Whilst the speed of RSG decrease was faster than initially anticipated, the first 3-years of the settlement offer can be accommodated within our medium term financial plans as individual authorities had been planning for RSG removal. Members should note however, that this means the challenge and pace of change required to find and deliver savings and efficiencies has increased.

There is significant risk and uncertainty surrounding year 4 in the multi-year settlement. The principle of the additional business rates tariff (or negative RSG) in year 4 is felt to be unfair and accepting the settlement will mean accepting that we need to put the additional business rates tariff into our baseline budgets. The business rates changes outlined above and the stated aim of the government to review the baseline need to spend for each individual authority as part of the transition to 100% retention adds further risk in accepting the year 4 settlement. In accepting the settlement, are authorities prejudicing the outcome of the local government finance review? The principle of the additional tariff (negative RSG) is concerning as once established, it is likely government will continue to increase the tariff and thus remove further resources from Surrey Authorities for redistribution around the Country under the 100% retention scheme, particularly if the national economic outlook worsens and further public sector spending reductions are required. This situation is not logical, fair or sustainable for Surrey Authorities and could lead to a situation where Surrey District and Borough Council's would not retain any business rates at a point in the future. This undermines one of the Government's principle objectives for introducing the reforms, that areas which successfully promote growth and attract businesses will keep all of the benefit from increased business rate revenues.

The 4-year settlement does pose us a challenge; only a few weeks after announcing the settlement the Chancellor announced major changes to business rate relief with no guarantee of full cash reimbursement – this could cost Surrey Authorities millions particularly once 100% business rates retention is implemented.

In addition, it is not clear:

- Whether an authority who has asked for and been given a four-year settlement can subsequently withdraw from the arrangement; in particular, as a result of a change of political control.
- There is still uncertainty regarding the level of detail required for efficiency plans given the lack of guidance from Government as to what they should contain – there is therefore a risk of rejection.
- How the 4-year settlement links to the 3SC devolution proposals and the devolution agenda in general.
- What 'unforeseen events' might be, including whether public sector funding reductions in excess of those announced at the settlement would be categorised as 'unforeseen'.
- What extra functions and responsibilities are likely to be transferred to local government and whether these will be linked to a devolution deal? There are however, thoughts that the following may transfer:
    - Responsibility for paying housing benefit for older people.
    - Some public health functions.

Summary

The government have given local authorities the option of a multi-year finance settlement, however, government propose significant changes to the system during the course of the settlement, including major reform of business rates.

Analysis of the announcements leads us to conclude that:

- 100% retention of business rates will reduce resources in Surrey.
- The introduction of an additional business rates tariff (commonly called 'negative RSG') will further reduce resources from 2019/20 onwards.
- Announcements in the March 2016 Budget regarding linking business rates to CPI and permanently offering relief to small businesses will reduce resources still further.
- Devolution may provide an opportunity to increase resources.
- The multi-year settlement provides some certainty for the first 3 years however there are significant risks around accepting the settlement for year 4.
- There is risk in producing an efficiency plan which would show we accept and can deal with 'negative RSG'.

In conclusion, whilst we welcome the certainty a multi-year settlement brings for the first 3 years of the settlement, there is significant risk attached to accepting the multi-year settlement for year 4. The decision to accept the settlement, or not, will rest with each individual authority and one that Members are asked to consider.

8. New Homes Bonus

The New Homes Bonus (NHB) is a reward for delivering additional homes. The allocation is based on the Council Tax of additional homes and those brought back into use with a premium for affordable homes, paid for 6 years. The last of the 6-year rolling allocations will be received in 2016/17.

In February 2013, Council approved that the New Homes Bonus received should be used for Capital Expenditure benefitting communities, affordable housing, one-off Council initiatives and property investments.

The NHB received in 2016/17 (£2.9 million) will be spent as already approved as above, including part funding the purchase of Thomas Hardy House in Weybridge. Following the consultation that took place earlier in the year, we await the outcome which will outline the details for NHB in future years.

9. Capital Spending Programme

9.1 The Council reviews its capital spending plans each year and sets a Capital Programme. Revenue expenditure is concerned with the day-to-day running of services and capital expenditure is a key element in the development of the Council's services concerned with investment in the assets required to deliver services. Decisions on the capital programme have an impact on the revenue budget, for example, in relation to:

- The revenue costs of financing capital, including prudential borrowing;
- The on-going running costs and upkeep of new assets such as buildings.

The Council’s revenue and capital budgets are integrated in that the financial impact of the proposed capital programme is reflected in the revenue estimates. The separate capital strategy identifies the Council’s strategic capital aims in detail. The aim of the detailed capital strategy is to provide a clear framework for funding and investment decisions in respect of capital assets, in the context of the Council’s vision and priorities and its financial resources. All new projects are assessed in terms of their contribution to the Council Plan objectives. The introduction to austerity measures by the Coalition Government and more limited opportunities for generating funding such as capital receipts mean capital resources are more constrained than in recent years. A key consideration when setting the capital programme is the level of available capital resources and affordability, which is assessed through the use of prudential indicators in the budget setting process.

The Council will only invest as long as its capital spending plans are **affordable, prudent and sustainable**. The key constraint on capital investment by the Council is the scope to afford the financial implications in terms of acceptable council tax levels.

9.2 Council approved the Capital Programme for 2016/17 and the provisional allocations for the next two years. It is recommended that spending of the Council’s own resources is minimised by seeking to maximise the generation and spending of external funding, such as external grants, Community Infrastructure Levy and New Homes Bonus.

9.3 The strategy recommends that the Council will continue as in previous years to consider capital spending requirements along the following objectives:

1) Maintain the usefulness of operational assets;
2) Meet statutory requirements, including Health & Safety
3) Invest to save, through the generation of associated revenue benefits

10. Value for Money (VFM)

Delivery of VFM remains a Council priority. The Council assesses and challenges the value for money provided by each service through the annual budget setting process. The Council’s Budget Review Process for 2017/18 requires that in seeking to deliver a balanced budget Cabinet Members would seek to identify options that would improve value for money through improving performance and/or reduce service costs.

11. Timetable for Budget Activity

Date	Activity
July 2016	• Budget Strategy Report to Cabinet and Council • Budget guidance to departments
July to October	• Internal Budget review meetings • Acceptance of Multi-year settlement
November	• Revenue Budget proposals to Cabinet & Performance and Finance Panel
December	• Revenue Budget proposals to Council
Jan/Feb	• Local Government Finance Settlement
February	• Revenue & Capital Budget proposals to Cabinet & Performance and Finance Panel • Cabinet recommends budget and Council Tax level to Council
24 February 17	• Council approves Budget and Council Tax for 2017/18

Financial implications:
The general fund balance (the sum held centrally for unavoidable cost increases above inflation, other unforeseen items and spending pressures) currently stands at £4m. The level of the balance will be reviewed annually in relation to the overall financial position of the Council, taking account of the advice of the Section 151 Officer and the operating financial environment in place at the time.

Environmental/Sustainability Implications:
None for the purposes of this report.

Legal implications:
The Council has a legal obligation to set a balanced budget each year.

Equality Implications:
Where required, detailed Equalities Impact assessments will be undertaken for individual budget savings proposals at each stage of the budget process and the information revealed by these assessments will be taken into account in the decision making process.

Risk Implications:
The two biggest risks to the budget process are non-delivery of the approved budget reductions and income levels which is mitigated by the Contingency budget and close monitoring by finance officers and Council Management Board.

Community Safety Implications:
There are no direct Community Safety implications as part of this report.

Principal Consultees:
Council Management Board
Cabinet Members

Background papers:
None for the purposes of this report.

Enclosures/Appendices:
None for the purposes of this report.

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