EXECUTIVE SUMMARY:

To consider and recommend to the Council the 2016/17 budget and the Borough Council’s element of the overall Band ‘D’ council tax to apply for 2016/17. To update Members on the Provisional Local Government Finance Settlement and other developments affecting the Council’s Medium Term Financial Strategy (MTFS). The information in this report is based on the provisional Finance Settlement with final figures expected in early February 2016. While the Council is able to present a balanced budget for 2016/17, this assumes delivery of savings, achievement of income and increased use of reserves included in the budget.

RECOMMENDED: THAT

(A) THE COUNCIL’S 2016/17 NET GENERAL FUND REVENUE BUDGET, BE AGREED AT £16,678,650 AND COUNCIL TAX FOR BAND D BE AGREED AT £207.00, AN INCREASE OF 1.94%;

(B) APPROVE THE GROWTH ITEMS TOTALLING £853,000 INCLUDING THE ADDITIONAL POSTS AS SET OUT IN PARAGRAPH 4.7;

(C) APPROVE ADDITIONAL INCOME AND SAVINGS AS DETAILED IN PARAGRAPH 7.1 TOTALLING £1,316,000 (INCLUDED IN THE 2016/17 BUDGET);

(D) A PAY AWARD OF 2% BE IMPLEMENTED WITH EFFECT FROM 1 APRIL 2016 FOR ALL EMPLOYEES ON THE ELMBRIDGEBOROUGH COUNCIL LOCAL PAY SCHEME;

(E) THE COUNCIL SETS ASIDE £150,000 FROM THE CAR PARK INCOME EVERY YEAR TO AN EARMARKED RESERVE TO FUND FUTURE MAINTENANCE AND ENHANCEMENTS TO COUNCILS CAR PARKS;

(F) THE USE OF £313,000 FROM THE COUNCIL TAX FREEZE GRANT RESERVE BE INCLUDED IN THE 2016/17 BUDGET;

(G) THE USE OF £250,000 FROM THE 2016/17 NEW HOMES BONUS ALLOCATION TO BE INCLUDED IN THE BUDGET TO MITIGATE THE SIGNIFICANT REDUCTION IN RSG AND THE BALANCE OF NHB TO BE USED AS OUTLINED IN SECTION 5.4;
1. **AUTUMN STATEMENT, SPENDING REVIEW 2015 AND PROVISIONAL FINANCE SETTLEMENT**

1.1 Local authorities account for a quarter of public spending, it was always the case they would have to carry their share of reducing the largest deficit in post-war history. Not only have they done so, public satisfaction with their services has maintained or improved.

In 2010 councils were 80% dependent on central government grants. By 2020, they will be 100% funded by council tax, business rates and other local revenues.

On 25 November 2015, the Chancellor of the Exchequer announced the Autumn Statement and the Spending Review 2015 indicating reductions in central government spending for the next four years from 2016/17 to 2019/20. This included the planned reductions in the Departmental Expenditure Limits (DEL) for Local Government of which a significant component is the Revenue Support
Grant (RSG) funding to local government (£9.5bn in 2015/16). Table 1 shows that by 2019/20, DCLG’s overall funding will have reduced by more than half (£6.1bn) from the funding level in 2015/16 and RSG will reduce substantially. The pattern in previous years had been for DCLG to implement the RSG reductions equally across the next four years. The Government had given no indication that they might distribute the grant differently between authorities. The Council, therefore, had planned for the reduction at a similar level to the previous settlement period.

Table 1: National Departmental Expenditure Limit reductions

<table>
<thead>
<tr>
<th>Year</th>
<th>LG DEL</th>
<th>Annual DEL reduction</th>
<th>Cumulative DEL reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015/16</td>
<td>£11.5bn</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016/17</td>
<td>£9.6bn</td>
<td>16.5%</td>
<td>16.5%</td>
</tr>
<tr>
<td>2017/18</td>
<td>£7.4bn</td>
<td>22.9%</td>
<td>35.6%</td>
</tr>
<tr>
<td>2018/19</td>
<td>£6.1bn</td>
<td>17.6%</td>
<td>47.0%</td>
</tr>
<tr>
<td>2019/20</td>
<td>£5.4bn</td>
<td>11.5%</td>
<td>53.0%</td>
</tr>
</tbody>
</table>

Change in funding distribution methodology & core spending power

Previously DCLG had achieved the overall reduction in Local Government DEL by applying straight line reductions evenly to all councils’ Settlement Funding Assessments (comprising RSG and funding from the business rates retention system). The reason for the significant reduction in RSG for Elmbridge Borough Council is that the DCLG introduced, without prior indication or consultation, a new method for calculating councils’ funding distribution to achieve the overall reduction in Local Government DEL required by the Spending Review. The new distribution alters this straight line reduction by specifically taking account of an authority’s ability to raise funding locally. This means councils that have had to rely on a higher proportion of council tax to fund their services suffer a quicker loss of RSG than could have reasonably been foreseen in any of the Government’s previous indications.

There have been a significant number of winners and losers as illustrated in Table 2. In the past when Government have changed local government funding methodologies, they have given prior indications and usually consulted ahead of funding proposals. Previously the Government have also applied a system of damping through limiting gains for the winners and losses for the losers to give councils time to adjust to new levels of funding. This settlement doesn’t follow this principle in any way. The Council has made every effort to raise these points strongly with the various settlement consultation responses made individually and collectively with other Districts.
Table 3: Impact of the change in funding methodology by local authority type

<table>
<thead>
<tr>
<th>Type of authority</th>
<th>Flat rate allocation £m</th>
<th>2016/17 Provisional Settlement £m</th>
<th>Redistribution effect £m</th>
<th>Flat rate allocation £m</th>
<th>2017/18 Provisional Settlement £m</th>
<th>Redistribution effect £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shire counties</td>
<td>4,302.6</td>
<td>4,085.3</td>
<td>-217.2</td>
<td>3,844.6</td>
<td>3,469.0</td>
<td>-375.6</td>
</tr>
<tr>
<td>Shire districts</td>
<td>832.5</td>
<td>789.8</td>
<td>-42.8</td>
<td>743.9</td>
<td>668.2</td>
<td>-75.8</td>
</tr>
<tr>
<td>Unitaries</td>
<td>3,824.6</td>
<td>3,784.2</td>
<td>-40.4</td>
<td>3,417.6</td>
<td>3,351.5</td>
<td>-66.1</td>
</tr>
<tr>
<td>Metropolitan districts</td>
<td>4,670.3</td>
<td>4,751.6</td>
<td>81.3</td>
<td>4,173.2</td>
<td>4,321.2</td>
<td>148.0</td>
</tr>
<tr>
<td>London (inc GLA &amp; City)</td>
<td>4,374.1</td>
<td>4,555.1</td>
<td>181.0</td>
<td>3,908.6</td>
<td>4,233.2</td>
<td>324.7</td>
</tr>
<tr>
<td>Combined fire</td>
<td>367.6</td>
<td>387.7</td>
<td>20.2</td>
<td>328.4</td>
<td>348.6</td>
<td>20.2</td>
</tr>
<tr>
<td>Metropolitan fire</td>
<td>229.7</td>
<td>247.7</td>
<td>18.0</td>
<td>205.3</td>
<td>229.9</td>
<td>24.6</td>
</tr>
<tr>
<td>England</td>
<td>18,601.5</td>
<td>18,601.5</td>
<td>0.0</td>
<td>16,621.6</td>
<td>16,621.6</td>
<td>0.0</td>
</tr>
</tbody>
</table>

However, the Government has made an offer of a guaranteed budget to every council which desires one and which can demonstrate efficiency savings a 4-year budget to give certainty and confidence.

**Provisional Settlement and Local Context**

The provisional finance settlement for Elmbridge has significant impact on the Council’s finances. Although the Council’s aspiration was to become financially independent by 2020, the front loading of the RSG reductions means significant savings will have to be found in the first couple of years of the Medium Term Financial strategy.

Key highlights for Elmbridge:

- RSG reduction for 16/17 is 62% (£1.1 million) compared to 15/16 and a £0.8 million reduction compared to the MTFS, the most significant ever.
- The Settlement Funding Assessment (SFA) reduces by 79% over the period of the four year settlement.
- RSG is completely eliminated in 2017/18.
- There are further funding adjustments from 2017/18, onwards which takes away more funding from Elmbridge. This results in a “negative RSG” i.e. Elmbridge is paying tax /contributing to other local authorities via DCLG.
- Elmbridge has suffered significant reductions compared to other Shire Districts or even the England average as can be seen in the graphs shown overleaf:
Despite losing over half the 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 impact on services. In reality a Band D household in Elmbridge paid £182.21 p.a. for services in 2005/06 and now pays £203.07, only an 11% increase over a nine year period. With the complete elimination of RSG in 2017/18 combined with a negative RSG where the Council is expected to contribute to other local authorities via DCLG, 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.
1.2 Financial constraints facing local authorities are very challenging and, in order to contain expenditure within available resources, it is expected that some difficult decisions will have to be made. However, within the tight overall constraints, there are real opportunities for the Council to direct its resources towards local priorities and to transform services. This is reflected in the Council Plan and medium term financial strategy as set out in the report and on this agenda.

1.3 The purpose of this report is to draw Members' attention to the factors that need to be considered before recommending the Council's budget requirement for 2016/17.

1.4 This report refers to various Appendices which have been prepared to provide further background and detail to various components of the budget. All of these are available on the Council's website and hard copies have been placed in the Members' Room. Those Appendices which are considered to be of greatest significance are attached to this report, for ease of reference.

The National Economic Climate

1.5 The November 2015 Inflation Report indicated that inflation was currently expected to struggle to get barely over 2% at the end of the 2 to 3 year time horizon assuming that Bank Base Rate did not go up until Q2 2017. However, once the fall in oil, gas and food prices over recent months fall out of the 12 month calculation of CPI, there will be an increase from the current rate and it is expected to get to around 1 per cent by the end of 2016. With the price of oil having recently fallen further, there could well be some further falls still to come in 2016. The price of other commodities
exported by emerging countries could also have downside risk and several have seen their currencies already fall by 20-30%, (or more), over the last year. These developments could well lead the Bank of England to lower the pace of increases in inflation in its next Inflation Report. On the other hand, the start of the national living wage in April 2016 (and further staged increases until 2020), will raise wage inflation; however, it could also result in a decrease in employment so the overall inflationary impact may be mitigated.

Bank of England Governor Carney definitively ruled out an increase in Bank Rate in the very near future. He has previously laid out three criteria that need to be met before he would look to make a start on increasing Bank Rate. These criteria are not being realised at the current time.

1. Quarter-on-quarter GDP growth is above 0.6% ie using up spare capacity. This condition was met in Q2 2015, but Q3 came up short and Q4 looks likely to also fall short.

2. Core inflation (stripping out most of the effect of decreases in oil prices), registers a concerted increase towards the MPC’s 2% target. This measure was on a steadily decreasing trend since mid-2014 until November 2015 at 1.2%. December 2015 saw a slight increase to 1.4%.

3. Unit wage costs are on a significant increasing trend. This would imply that spare capacity for increases in employment and productivity gains are being exhausted, and that further economic growth will fuel inflationary pressures.

Confidence is another big issue to factor into forecasting. Recent volatility in financial markets could dampen investment decision making as corporates take a more cautious view of prospects in the coming years due to international risks. This could also impact in a slowdown in increases in employment. However, consumers will be enjoying the increase in disposable incomes as a result of falling prices of fuel, food and other imports from emerging countries, so this could well feed through into an increase in consumer expenditure and demand in the UK economy, (a silver lining!). Another silver lining is that the UK will not be affected as much as some other western countries by a slowdown in demand from emerging countries, as the EU and US are our major trading partners.
1.6 December 2015 RPI - 1.2% CPI - 0.2%

An important element of forecasting and budget setting is estimating the impact of inflation. The following table shows inflation indices over past years.

<table>
<thead>
<tr>
<th>Year to:</th>
<th>Retail Price Index %</th>
<th>Consumer Price Index %</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2007</td>
<td>4.8</td>
<td>3.1</td>
</tr>
<tr>
<td>March 2008</td>
<td>3.8</td>
<td>2.5</td>
</tr>
<tr>
<td>March 2009</td>
<td>(0.4)</td>
<td>2.9</td>
</tr>
<tr>
<td>March 2010</td>
<td>4.4</td>
<td>3.4</td>
</tr>
<tr>
<td>March 2011</td>
<td>5.3</td>
<td>4.0</td>
</tr>
<tr>
<td>March 2012</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td>March 2013</td>
<td>3.3</td>
<td>2.8</td>
</tr>
<tr>
<td>March 2014</td>
<td>2.5</td>
<td>1.6</td>
</tr>
<tr>
<td>March 2015</td>
<td>1.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Dec 2015</td>
<td>1.2</td>
<td>0.2</td>
</tr>
</tbody>
</table>

CPI and RPI from January 2013 to December 2015

1.7 Economic forecasting remains difficult with so many external influences weighing on the UK. Bank Rate forecasts, (and also MPC decisions), will be liable to further amendment depending on how economic data and developments in financial markets transpire over the next year. Forecasts for average earnings beyond the three year time horizon will be heavily dependent on economic and political developments. Major volatility in bond yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets/equities, or the safe haven of bonds.

1.8 The overall balance of risks to economic recovery in the UK is currently on the downside. Only time will tell just how long this current period of reasonably strong economic growth will last; it also remains exposed to vulnerabilities in a number of key areas.
Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- Emerging country economics, currencies and corporates destabilised by falling commodity prices and/or Fed. Rate increases, causing a flight to safe havens (bonds).

- Geo-political risks in Eastern Europe, the Middle East and Asia, increasing safe haven flows.

- UK economic growth and increases in inflation are weaker than we currently anticipate.

- Weak growth or recession in the UK’s main trading partners – the EU and US.

- A resurgence of the Eurozone sovereign debt crisis.

- Recapitalisation of European banks requiring more government financial support.

- Monetary policy action failing to stimulate sustainable growth and combat the threat of deflation in western economies, especially the Eurozone and Japan.

The potential for upside risks to current forecasts for UK gilt yields and PWLB rates, especially for longer term PWLB rates include:-

- Uncertainty around the risk of a UK exit from the EU.

- The pace and timing of increases in the Fed. Funds rate causing a fundamental reassessment by investors of the relative risks of holding bonds as opposed to equities and leading to a major flight from bonds to equities.

- UK inflation returning to significantly higher levels than in the wider EU and US, causing an increase in the inflation premium inherent to gilt yields.

**Business Rates**

1.9 The new system introduced in 2013/14 means that the authority will retain a proportion of any additional Business Rate income (after allowing for inflationary increases) collected in the Borough. The Business Rate itself is normally set by the Government by increasing the rate by the Retail Price Index. However, the Government capped the increase to 2% for a second year in 2016/17. The increase for 2016/17 is 0.8%. The proportion retained by Elmbridge Borough Council is initially 40% (50% is payable to the government and 10% Surrey County Council). This 40% is then further reduced by the Authority’s required Spending Need (a figure calculated by Central Government known as the Baseline) and a further 50% levy applied by Central Government to any income above the Baseline. The result of this complex allocation is that EBC only retains 20% of any surplus over the baseline. For 2016/17, the EBC element of the Business Rates retained income, confirmed as part of the provisional settlement, is £2.130 million (the Baseline) out of a total Business Rate income of £53 million.
Business Rates Retention

The government has confirmed that they will be moving towards 100% retention of business rates by local government by 2020. Although there are some early indications about the likely changes/transfer of powers that will go with this delegation, the government are yet to outline the details of how this will work, although it is anticipated the consultation will be during 2016. The Council will seek to influence/contribute to the proposals as appropriate.

At the end of 2014/15 a significant number of appeals were submitted as a result of the government announcement that an appeal would not be backdated if it was received after 31 March 2015.

When the accounts were closed at 31 March 2015 a provision of over £7 million (£3 million attributable to Elmbridge, the balance split between central government and Surrey County Council) was made to cover these appeals and an application by Virgin to move their liability from individual councils ratings to a government “central list”.

The provision was reviewed in September 2015 and seemed materially correct. However, when the Business Rates forecast for 2016/17 (NDDR1 – which includes a forecast outturn for 2015/16) was prepared, it now appears, based on the appeals settled to date, that a number of appeals have been withdrawn or settled at values significantly below the national average. An adjustment to the forecast outturn position has been made releasing approximately £3 million of the provision. The Virgin claim is still outstanding.

DCLG permits geographically linked authorities to apply to pool their business rates. By combining tariffs and top-ups among pooled authorities this can reduce the composite levy rate paid by the pool. This further incentivises business rates growth through collaborative effort and smooths the impact of volatility in business rates income across a wider economic area.

Elmbridge Borough Council has operated a business rates pool in 2015/16 in partnership with: Surrey County Council, Mole Valley District Council, Spelthorne Borough Council and Woking Borough Council. Following a review, the optimum pool to maximise projected business rates income in the Surrey area for 2016/17 involves joining Surrey County Council with the London Borough of Croydon, Guildford Borough Council, Runnymede Borough Council, Spelthorne Borough Council, Waverley Borough Council and Woking Borough Council. These six authorities submitted a bid to form a business rates pool for the financial year 2016/17 and succeeded in receiving the relevant designation by DCLG.

As a result of being part of a Business Rates Pool in 2015/16, the Council will be able to retain more than its usual share of Business Rates. This position may change when the accounts are closed at 31 March 2016 but this is likely to result in a fortuitous one-off gain to the Council as a consequence of being in a Pool in 2015/16. The final position for 2015/16 will be confirmed in June 2016.

A copy of the relevant section of the formal 2016/17 NDNR1 return is attached at Appendix F.
1.10 **Four Year Settlement Offer**

The Provisional Settlement included indicative figures about funding for the next four years, an offering for Councils to accept the four year funding figures in their Core Spending Power. If the Council takes up this offer, DCLG have indicated they will provide future funding on this basis, with some caveats as set out below.

It is not yet clear when the Council will have the opportunity to accept the offer, nor the implications. Although acceptance would provide some certainty about funding included in the Settlement Funding Assessment figures, these would nonetheless remain subject to changes to allow for future events:

- Transfers of new functions to local government,
- transfers of responsibility between local authorities,
- mergers,
- any other unforeseen event,
- the impact of the Retail Price Index on business rates,
- the National Living Wage implications, plus
- current relief to businesses provided by Government.

The Government’s figures in the table below gives indicative allocations for the three years beyond the Provisional Settlement for 2016/17.

From 2017/18, the Council will effectively have a negative RSG. The Government proposes to achieve this by deducting the negative RSG from the Council’s Business Rate retained amount. Negative RSG starts with £0.3 million in 2017/18 and increases to £1.5 million by 2019/20.

**Provisional Finance Settlement for Elmbridge Borough Council**

<table>
<thead>
<tr>
<th></th>
<th>2016-17 £000</th>
<th>2017-18 £000</th>
<th>2018-19 £000</th>
<th>2019-20 £000</th>
</tr>
</thead>
<tbody>
<tr>
<td>NDR Baseline</td>
<td>21,052</td>
<td>21,466</td>
<td>22,099</td>
<td>22,805</td>
</tr>
<tr>
<td>Minus Tariff</td>
<td>(18,921)</td>
<td>(19,293)</td>
<td>(19,862)</td>
<td>(20,497)</td>
</tr>
<tr>
<td>NDR for levy/safety net purposes *</td>
<td>2,131</td>
<td>2,173</td>
<td>2,237</td>
<td>2,308</td>
</tr>
<tr>
<td>Less Tariff Adj (negative RSG)</td>
<td>0</td>
<td>(297)</td>
<td>(856)</td>
<td>(1,480)</td>
</tr>
<tr>
<td>Plus RSG</td>
<td>667</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Resources Retained</td>
<td>2,798</td>
<td>1,876</td>
<td>1,381</td>
<td>828</td>
</tr>
</tbody>
</table>

* Business Rates retained amount.

The graph below illustrates the significant and rapid reduction in Government grant funding for Elmbridge Borough Council.
1.11 Capital Receipts Flexibility

As part of the Provisional Finance Settlement, the government is introducing flexibility in the use of capital receipts. This will enable Council to use asset sales to help pay for upfront investment in service transformation. The settlement sets out the requirement a Council must comply with to use this flexibility. Local Authorities will need to prepare an efficiency strategy which has to be approved by Full Council. It further indicates that Councils can use Capital Receipts which are received after 1 April 2016 to be invested in transformation projects, which would normally be treated as revenue costs, to deliver future revenue savings. This flexibility is offered for three years, 2016/17 to 2018/19.

2. DEVELOPING THE GENERAL FUND REVENUE BUDGET

2.1 Medium Term Financial Strategy

The Council’s Financial Strategy (Appendix G) sets out the Council’s approach to financial management and provides the basis for the delivery of the Council’s vision and priorities.

The key objectives of the Financial Strategy are to:

- Help ensure that the Council’s financial resources are directed to support delivery of the Council’s priorities and achievement of value for money.
- Illustrate the financial effects of existing financial commitments over the medium term, both revenue and capital, and to set the parameters for the Efficiency and Savings Strategy necessary to achieve a balanced budget.
- Look ahead to the longer term to help plan sustainable services within an uncertain external economic and funding environment.
- Strengthen the Council’s financial resilience and manage volatility and risk, including maintaining an adequate level of Reserves.
- Secure, maintain and develop the Council’s capital assets consistent with the Asset Management Plan.
Maximise the Council’s rental income from Property Acquisitions and Asset Development in line with the Property Acquisition Strategy so that the Council becomes less reliant on government grants to provide its vital services.

2.2 The General Fund Budget Strategy

Fundamental to the development of the budget and Medium Term Financial Strategy is an overarching Budget Strategy, the objective of which is a safe and sustainable budget which will deliver the policies and aspirations of the Council over the medium term. The strategy, which underpins the General Fund Financial Plan, is to:

- Adequately resource the Council’s Statutory Services and the Corporate Policies as set out in the Council Plan.
- Maintain a balanced General Fund such that the income from fees and charges, council tax, Government and other grants is sufficient to meet all expenditure.
- Maintain council tax increases as low as possible to avoid a local referendum, subject to a satisfactory level of Government Grant/Business Rate redistribution.
- Maintain the General Fund Reserve at a level that is sufficient to cover its financial risks and provide adequate working capital.
- Maximise the Council’s income by promptly raising all monies due and minimise the level of arrears and debt write offs, so as to optimise its treasury management potential.
- Use reserves wisely for investments that will improve the financial independence and resilience for the Council.
- Actively engage local residents in the financial choices facing the Council.

These principles will enable the development of a budget that is sufficient to meet the Council’s ongoing day to day business activities as well as progress its priorities contained in the Council Plan. Such clear linkages between financial and business planning are the cornerstone of robust management practices.

The budget for 2016/17 and the years that follow is developed by building onto the existing budget provision the anticipated increases for inflation and budgetary growth that is needed for service developments, legislative changes or statutory requirements; after which planned savings, growth in income and the use of reserves are reflected.

2.3 The Council has to deliver its services within its approved revenue and capital budgets and must take on board the current and emerging issues and risks. This report is to enable Cabinet to consider and make recommendations to Council who approves the budget and sets the Council Tax level on 24 February.

3. APPROACH TO BUDGET SETTING AND REVIEW PROCESS

3.1 The overarching priority is to maintain existing services. This requires managers to continue to give careful consideration to operational practices and running costs and to deliver efficiency savings whilst minimising any adverse impact on services to residents. This requires everyone to work differently in the interest of efficiency.
3.2 Finance officers and heads of service have reviewed actual expenditure in previous years against budget and identified areas of potential reductions in the current budget. This was then further discussed with Corporate Management Board during October to December. Again, the main focus this year has been on doing a “root and branch” review of the budget with emphasis on areas of underspend in previous years. These savings will have minimal impact on service delivery. In addition, officers have also reviewed the income levels for the organisation and proposed increases resulting from changes in volume and/or demand. The Council’s concentrated focus on improving the rental income by investing in property has meant that a significant part of the revenue stream is from property rentals.

3.3 Budget proposals arising from this review have been reported to members through Cabinet, Performance and Finance Panel and Council in November and December 2015. The additional budget proposals included in this report will be considered by the Performance and Finance Panel in February.

3.4 The Council’s approach to setting the budget involves detailed consideration of financial risks, so that they can be factored into the budget decisions. Risks arising in the current year have also been considered in the budget setting process enabling the Council to move forward with increased confidence.

3.5 The proposals within this report will set out a balanced budget for 2016/17. Nevertheless, there remain a number of risks that must be managed over the coming months and into 2016/17.

4. GENERAL FUND BUDGET AND COUNCIL TAX

General Fund Summary Budget and Budget Pressures

4.1 The draft 2016/17 General Fund summary budget is shown at Appendix A. A summary of the 2015/16 original estimate and the proposed budget for 2016/17, for each portfolio including Planning and Licensing, is detailed at Appendix B. A revised forecast for 2015/16 is attached at Appendix C. Appendices D1 to D11 show the portfolio breakdown of the 2016/17 proposed budgets.

Forecast Revenue Budget Outturn 2015/16

4.2 The Council’s overall revenue forecast outturn for 2015/16 based on actuals as at the end of December 2015 projects an underspend of £2.3 million. This has resulted from careful management of expenditure within budgets in 2015/16 and continues with Council’s good record of achieving efficiencies and savings. In addition, Council’s concerted effort in Investing in Property assets combined with increase income due to Planning Applications has contributed to this under spend. As already approved by council this underspend will be released to the Property Acquisition Reserve to fund Property Purchases.

4.3 As a result of the discovery of significant contamination of land at a Council owned site, and after discussions, and confirmation, from the Council’s External Auditor (Grant Thornton), the Council made a provision to remediate the land from the Council’s revenue account in 2014/15 of £900,000. This provision was the minimum required to make the land safe for use. As a result of the decision to proceed with the re-development of the site this provision will be used to fund the cost of the works.
4.4 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.

Significant factors in the movement between the original estimate for 2015/16 and the 2016/17 estimate are summarised at Appendix E.

4.5 Recognising the pressures on the 2016/17 base budget and the restricted level of funding made available by the Government announced in December 2015, draft revenue budget proposals have been reviewed with a view to identifying opportunities for reducing the year on year increase in the base budget. The budget reductions identified do not adversely impact on service provision. As a result, budget savings and additional income totalling £1,916,000 have been incorporated within the Council’s 2016/17 draft revenue budget.

4.6 As the budget setting process has evolved, several issues have emerged which have impacted, both positively and negatively, on our 2016/17 budget projections. Additional budget pressures have been identified, as have factors which contribute to our savings. Provisional budget pressures were reported to the November Cabinet, and final details are set out below:

4.7 **Budget Spending Pressures 2016/17**

<table>
<thead>
<tr>
<th></th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensions Actuarial Valuation</td>
<td>231</td>
</tr>
<tr>
<td>National Insurance Contributions due to changes in Pension Regulations</td>
<td>200</td>
</tr>
<tr>
<td>Customer Services – Staffing</td>
<td>128</td>
</tr>
<tr>
<td>Planning – Staffing</td>
<td>89</td>
</tr>
<tr>
<td>IT Software – Licence Costs</td>
<td>63</td>
</tr>
<tr>
<td>Graduate Trainee – Staffing</td>
<td>29</td>
</tr>
<tr>
<td>Bed and Breakfast Expenses</td>
<td>22</td>
</tr>
<tr>
<td>Enforcement Officer – Staffing</td>
<td>20</td>
</tr>
<tr>
<td>Increase in Training Budget</td>
<td>20</td>
</tr>
<tr>
<td>Council’s Contribution to the Local Enterprise Partnership (LEP)</td>
<td>10</td>
</tr>
<tr>
<td>Increase in Small &amp; Medium Voluntary Sector Grants Budget</td>
<td>10</td>
</tr>
<tr>
<td>Various other expenditure</td>
<td>31</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>853</strong></td>
</tr>
</tbody>
</table>
Pensions Actuarial Valuation

In line with the findings of the 2013 Actuarial Valuation and as approved by Council in February 2014, an additional £231,000 has been included in the 2016/17 Budget to fund the Elmbridge element of the pension deficit (backfunding).

Increase in National Insurance Contributions

With effect from 1 April 2016 the government removed the national insurance concession for employers on pension contributions.

Customer Services & Process Re-Engineering

The customer services programme is facilitating savings in working practice across the organisation. The growth regularises the establishment.

Planning Restructure

A range of measures to ensure that the Council is able to compete in the Surrey jobs market to retain and recruit planning professionals and the introduction of an additional Registration Officer post to support workloads. Planning services income has been increasing as a result of the consistently high numbers of applications received over the past few years and due to the additional income from the enhanced pre-application advice service introduced in the current year.

IT Software Costs

This is due to an increase in licensing and support relating to Microsoft Licences and for other applications within Finance, Legal and Customer Services.

Graduate Trainee

In 2014 the Council agreed to join the graduate recruitment scheme as a one year trial. As a result of the successful trial it was agreed in July 2015 to include the scheme in the Council’s budget.

Bed & Breakfast Expenses

During the current year, the average number of households in Bed & Breakfast has nearly doubled over the previous year. It is expected that this level of usage of Bed & Breakfast Accommodation will continue in 2016/17 and the net cost has been increased to meet the demand.

Enforcement Officer

An additional part-time uniformed Enforcement officer post within the Environment Enforcement Unit to cover unauthorised gypsy/traveller camps, investigation and complaints about dangerous dogs and enforcement of community protection notices as approved by Members.
Training

In order to ensure the Council is equipped to meet the challenges (financial and other) it is proposed to include additional funding for training.

LEP Contribution

The Council’s ongoing membership contribution to the Local Enterprise Partnership.

Grants to Voluntary Sector Organisations

Included in the proposed budget for 2016/17 are the grants given to various voluntary sector organisations by Elmbridge. A 1.1% inflation increase has been applied where an asterisk(*) is shown in the table below. In addition to providing core funding of over £440,000 every year, the Council also provides, in kind, support such as free or heavily subsidised rental accommodation, maintenance of buildings, discretionary rate relief, car parking, use of Council’s facilities, and officer support for finance and audit.

<table>
<thead>
<tr>
<th>2016/17 Grants to Voluntary Sector Organisations</th>
<th>Grant</th>
<th>Car Parking &amp; Accommodation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary Organisations - Small &amp; Medium Grant</td>
<td>50,000</td>
<td></td>
<td>50,000</td>
</tr>
<tr>
<td>Mediation North Surrey *</td>
<td>3,190</td>
<td></td>
<td>3,190</td>
</tr>
<tr>
<td>Elmbridge Gardening Scheme *</td>
<td>3,090</td>
<td></td>
<td>3,090</td>
</tr>
<tr>
<td>Weybridge Area Grant *</td>
<td>8,660</td>
<td></td>
<td>8,660</td>
</tr>
<tr>
<td>Esher CAB *</td>
<td>80,970</td>
<td>12,480</td>
<td>93,450</td>
</tr>
<tr>
<td>Walton &amp; Weybridge CAB *</td>
<td>111,210</td>
<td>9800</td>
<td>121,010</td>
</tr>
<tr>
<td>Voluntary Action Elmbridge *</td>
<td>23,840</td>
<td>2,490</td>
<td>26,330</td>
</tr>
<tr>
<td>RentStart *</td>
<td>21,140</td>
<td>1,660</td>
<td>22,800</td>
</tr>
<tr>
<td>Elmbridge Community Link *</td>
<td>4,120</td>
<td></td>
<td>4,120</td>
</tr>
<tr>
<td>CHEER *</td>
<td>23,390</td>
<td></td>
<td>23,390</td>
</tr>
<tr>
<td>Relate *</td>
<td>6,970</td>
<td></td>
<td>6,970</td>
</tr>
<tr>
<td>Elmbridge Sports Council</td>
<td>10,000</td>
<td></td>
<td>10,000</td>
</tr>
<tr>
<td>King George’s Hall Trust - funding deficit</td>
<td>20,000</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Riverhouse Barn</td>
<td>20,000</td>
<td></td>
<td>20,000</td>
</tr>
<tr>
<td>Claygate Recreation Ground</td>
<td>33,230</td>
<td></td>
<td>33,230</td>
</tr>
<tr>
<td>Oxshott Heath Conservators *</td>
<td>6,780</td>
<td></td>
<td>6,780</td>
</tr>
<tr>
<td>Lower Mole (Paid to SCC)</td>
<td>13,720</td>
<td></td>
<td>13,720</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>440,310</strong></td>
<td><strong>26,430</strong></td>
<td><strong>466,740</strong></td>
</tr>
</tbody>
</table>

Small and Medium Voluntary Sector Grants

The budget will be increased by £10,000.

The Small and Medium Grants (£40,000 – 2015/16) is always oversubscribed and the requests for grants from the voluntary sector organisations are often reduced so that the majority of applicants will receive some contribution to their project.
Sports Hub

In addition to the growth included in the 2016/17 budget, Members will be aware of the delay in the re-development of the Sports Hub as a result of the requirement for the Environmental Impact Assessment. As a result the Council will have to provide funding for alternative accommodation, loss of income etc. The estimated cost may be up to £125,000 and will be funded from the New Homes Bonus.

Apprentice Levy

Members may be aware that the government announced an apprentice levy from April 2017 on all organisations with a salary bill over £3,000,000. The estimated cost to Elmbridge (£35,000) will be included in the 2017/18 budget.

Maintenance of Council Car Parking

The Council are currently carrying out a condition survey of the Council car parks. Initial indications are that considerable work is required to reinstate them to a reasonable standard. In the past these costs have been met by using capital resources (mainly capital receipts), however, it would seem prudent to set aside a proportion of the income received from fees and charges to meet the obligation. An amount of £150,000 (approximately 5% of the fees and charges) has been included in the 2016/17 budget to be transferred to a new earmarked reserve established specifically for Car Park Maintenance.

4.8 Council Tax Freeze Grant, The Level of Council Tax and Referendum

Although the Chancellor of the Exchequer announced in November 2013 that the Government made funding available to help councils freeze their council tax, these Council Tax Freeze Grants were rolled into the general government support. The effect of the announcement in December 2015 regarding central government support, reducing the level of support to zero by 2019/20 effectively means this funding has been removed. When the government transferred the responsibility for Council Tax benefit payments to the Council, an additional £630,000 was included in the general formula grant, again effectively this has been lost.

As a result of the Localisation of Council Tax the Council benefits included a grant of £2,470 payable to Claygate Parish to recompense them for the loss of ‘D’ band equivalents. It is proposed that this grant continues for 2016/17 given the relative impact this may have on the finances of the Parish. However, with the changes made to the 2016-20 government grant Elmbridge will be receiving little or no funding from central government in relation to LCTB.

The Localism Act introduced a new chapter into the 1992 Act, making provision for council tax referendums to be held if an authority increases its council tax by an amount exceeding principles determined by the Secretary of State and agreed by the House of Commons. All these provisions are effective with respect to the setting of council tax for 2016/17 and the referendum limit has been set at 2%.
5. **THE MAIN FINANCIAL RISKS FACING THE COUNCIL**

The successful identification and management of risks is a key element in business and financial planning and in the delivery of those plans. This is done at an operational level through the risk management strategy and through detailed risk registers that are reviewed regularly and feature in the review of business plans. The consideration of key risks through the financial planning process and the level of reserves are an important part of determining how well placed the Council is in being able to deal with those risks.

5.1 **Investment Income and Interest Rate Forecasts**

Investment income arising from the interest the authority earns on investing surplus funds makes a significant contribution to reducing the Council Tax. The actual interest earned has been reducing over the years from £2.3m in 2008/09 to £0.73 million in 2015/16, as a direct result of the decrease in deposit rates and a consequence of the reduction in approved counterparties. For 2016/17 the forecast income generated has been decreased to £0.63 million. This reflects a reduction in the rate of interest earned on new investments to 0.65%.

As a result of the level of general underspend in 2014/15; there was only a £276,000 contribution from the Interest Equalisation Reserve. Maintaining the reserve for its use in future years.

The Council, when setting the budget in February 2015, planned to use £0.6m from the Interest Equalisation Reserve. However, as a result of the favourable variances against the 2015/16 budget, it has been assumed that this contribution from the Interest Equalisation Reserve will be reduced for the 2015/16 outturn, depending on other factors, provisions, etc. when the accounts are closed.

The rate achievable in the present climate is less than 2% on 3-year deposits. £10m has been placed for 3/5 years on yearly escalating interest rates in order to protect the Council’s interest position, with relatively low risk UK clearing banks. These factors need to be taken into consideration when reviewing the level of the Interest Equalisation Reserve.

The Bank of England base rate remains at 0.5%, which is the rate it has been since March 2009. The current view from our Treasury Advisors is that the rate is unlikely to increase until Q4 2016. The Governor of the Bank of England has indicated that the base rate will not rise in the near future and may not increase until Q2 2017.

The Bank of England’s inflation forecasts are always based on market expectations about the future movement of interest rates. This approach is circular in that the bank bases its forecasts on markets’ expectations of interest rates, which in turn are based on a judgement about what the bank is forecasting for inflation.

The Council is currently looking to develop a Sports Hub in the Borough at Waterside Drive which will be funded from the sale of a site at Stompond Lane. In order to fund the redevelopment, the Council may need to borrow funds until the receipts from Stompond Lane are realised. An allowance has been made within the Council’s revenue budget for 2016/17 for a reduction in interest
earned on the Council's surplus funds. But at this stage no allowance for short-term borrowing. For every £5m borrowed with the PWLB, the annual interest would be in the region of £100,000 (the actual interest rate will depend on the length of borrowing type of loan and prevailing market conditions).

At this stage, the working assumption is that any interest payable on the loan will be funded from the Interest Equalisation Reserve until the loan is repaid from the receipts from Stompond Lane.

However, based on the current prevailing interest rates on investments and allowing for the interest equalisation reserve funding the PWLB borrowing, the forecast estimates that the Interest Equalisation reserve will be fully depleted in a couple of years.

5.2 Fees and Charges

Income from fees and charges is based on estimated demand and fees charged for various services. A limited review of current fees and charges was carried out which resulted in an increase in fees and charges for some services. It is good practice to regularly review the costs of providing services and any further proposals to review the fees and charges will be considered during the year.

The reviews will be carried out using the following principles:

- A comparison made with other Surrey and neighbouring authorities.
- Where possible, the Council seeks to make small regular increases to help with the increase in costs whilst reducing the impact on the user.
- The fee charged should adequately cover the cost of providing the service.

5.3 External Funding

In addition to the Central Government Grant and Housing Benefit Grant, Elmbridge currently receives funding of around £1 million from Surrey County Council and other organisations. Appendix L lists the budgeted grant and external funding income for 2016/17. Any reduction in external funding will have an impact on the future sustainability of these services. With the continued pressure on Surrey County Council's budgets, the grant funding source may be subject to a review by the County Council in the future. If Surrey County Council decides to reduce the funding the Council will need to re-consider the provision of services which are currently funded by Surrey County Council grant.

5.4 New Homes Bonus

The New Homes Bonus provisional allocation for 2016/17 was made on 17 December. Elmbridge Borough Council will receive £2,967,242 as the year 6 allocation. The New Homes Bonus 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 and is paid for 6 years. The last of the 6 year rolling allocations will take place in 2016/17.
In February 2013, Council approved that the New Homes Bonus received should be used for Capital Expenditure benefiting communities, one-off initiatives and for Property Purchases.

Uncertainty over the duration of the New Homes Bonus continues to remain a concern. The recommendation is to continue to use the New Homes Bonus to meet the needs of the Council priorities, using the first £250,000 of the New Homes Bonus in the 2016/17 Budget, and then:

- The affordable homes element of New Homes Bonus be earmarked for the Housing Enabling Fund.
- Up to 25% of the fund is used to fund Capital Expenditure (as part of the Council’s capital programme).
- 25% is transferred to a Corporate Project Reserve for one-off non-recurring items of revenue or capital expenditure or future corporate priority/invest to save initiatives.
- The balance used for Property Acquisitions.

On 17 December 2015 the Government published a consultation setting out a series of proposed changes to the New Homes Bonus. These changes are proposed in order to “Sharpening the Incentive” provided by the New Homes Bonus in encouraging the delivery of more housing as well as to free funds to be reinvested directly into adult social care functions across the Country.

The consultation is seeking the views on the following changes:

- Proposals to reduce the number of years for which the Bonus is paid from the current 6 years to 4 years.
- Withholding the Bonus from areas where an authority does not have a Local Plan in place.
- Abating the Bonus in circumstances where planning permission has only been granted on appeal.
- Adjusting the Bonus to reflect estimates of deadweight.

The New Homes Bonus was introduced in order to provide a clear incentive to local authorities to encourage housing growth in their areas. The Government now thinks that it is appropriate to consider how the incentive element of the Bonus could be further tightened alongside possible changes to respond to the move towards full retention of business rates and the potential for further devolution of powers and responsibilities to local authorities.

The Bonus reflects the crucial role local authorities play in supporting housing and wider economic growth by rewarding additional homes built in their areas. The Bonus rewards local authorities for each additional new build and conversion using the national average council tax in each band. Long-term empty properties brought back into use are also included and there is a premium for affordable homes. Each year’s grant is paid for 6 years. The Bonus is not ring-fenced. In two-tier areas payments are split between both county (20%) and district (80%) authorities.

Proposed changes to the distribution of the Bonus should be seen in the context of the outcome of the 2015 Spending Review. This confirmed the intention to move to full retention of business rates by the Local Government sector by 2020 and a preferred option for savings of at least £800 million, which can be used for
Social care. Savings in the overall cost of the Bonus will be redistributed with the local government settlement, in particular to support authorities with specific pressures, such as in adult social care budget.

Although the Government is not proposing changes for 2016-17 allocation, reductions in payments will be necessary in order to stay within this new funding envelope from 2017-18 onwards. This can be combined with reforms to both sharpen its incentive effect and free up resources for authorities with particular pressures, such as adult social care.

Should the Government introduce all its proposed preferred options in regards to the NHB, the potential allocation awarded to the Council would be significantly reduced in the immediate and longer terms. Whilst it is impossible to predict the exact amount an indicator of the potential changes, taking into account Local Plan preparation, applications allowed on appeal, and removing deadweight, there would be a significant reduction in the Council’s New Homes Bonus.

The headlines figures to note are:

- The total estimated bonus awarded would be reduced by around 58% in the first year of implementation.

- Between the four year period (2017/18 – 2020/21) the Council would see the estimated total bonus awarded be reduced by around 55% from just over £12 million to just under £5.5 million.

The intention is to submit a report to ICMDM including any proposed amendments on the responses agreed by members of the Planning Committee. Following ICMDM the responses will be submitted via the online survey form provided by Government.

Depending on the outcome of the consultation, Members will need to take a view on the use of the New Homes Bonus from 2017/18 onwards.

5.5 Discretionary Housing Payment (DHP)

Members will remember that the DHP allocation for 2015/16 was £137,381 a 50% reduction on previous years. Given that the announcement was made near the final stages of the budget setting, £70,000 was allocated from the Housing Reform Reserve so that the DHP fund available was £205,000 for 2015/16. Based on current commitments and expected demand we expect to spend approximately £155,000 out of the total available allocation of £205,000. At the time of writing this report, we do not have information about the DHP allocation for 2016/17. This is likely to be made available in early February.

The main pressures next year will be for an increase in the number of cases of rent shortfalls in the private rented sector, as the private rents element of the benefit continues to be frozen. It is not expected that the lower benefit cap of £20,000 to have an impact until much later next year, so overall the demand pressures for DHP is likely to be similar to the current year. As such, any underspend in the current year (£50,000) will be carried forward and added to any 2016/17 allocation.
However, the DHP allocation for 2017/18 could reduce further and the main impact of the lower benefit cap will kick in combined with the third year of LHA freeze could result in a much higher top-up being required in 2017/18. The level of spend during the year will be monitored and will inform any projections for 2017/18.

6. **Cost of Living Pay Award Proposal**

6.1 A 2% pay award to all staff on the local pay scheme to take effect from April 2016 has been included in the draft budget.

Members are reminded that a guarantee was made that, should the national pay award exceed that of the local pay award, the local cost of living increase will at least match the national pay award.

6.2 The national pay award which covers the period 1 January 2015 to 31 March 2016 (15 months), awarded an average pay increase of 2.2% (approximately 1.8% p.a.). Those on salaries of £14,013 and under would have had slightly bigger pay rises. This pay increase covers just over one million local government employees in England, Wales and Northern Ireland.

Elmbridge currently has 3 members of staff on the national pay structure.

7. **Additional Savings and Income Proposals**

7.1 In addition to the savings reported to the November 2015 Cabinet (approved by Council in December 2015) and following a review of the Council’s income streams carried out based on the position at the end of December, additional income for Planning, Green Waste and CIL administration is achievable. The investment made in properties in recent years has increased the property related rental income. These have been identified and included in the draft 2016/17 Budget (Appendix A) and are set out below:
Additional Budget Savings and Income Included in the 2016/17 Budget

<table>
<thead>
<tr>
<th>Description</th>
<th>£'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational Restructures</td>
<td>(151)</td>
</tr>
<tr>
<td>Planning Development Control Income</td>
<td>(186)</td>
</tr>
<tr>
<td>Members Allowances (Reduction in Number of Councillors)</td>
<td>(53)</td>
</tr>
<tr>
<td>Clinical Waste (Change in Legislative Requirement)</td>
<td>(18)</td>
</tr>
<tr>
<td>Internal Audit Partnership</td>
<td>(35)</td>
</tr>
<tr>
<td>Hardship Payments (Lower Demand)</td>
<td>(15)</td>
</tr>
<tr>
<td>Grants (Recreation Grounds – no longer required)</td>
<td>(26)</td>
</tr>
<tr>
<td>Property Rental Income (Net of Empty Rates)</td>
<td>(532)</td>
</tr>
<tr>
<td>Green Waste Income (Net)</td>
<td>(67)</td>
</tr>
<tr>
<td>CIL – Administration Income</td>
<td>(120)</td>
</tr>
<tr>
<td>Various Fees and Charges</td>
<td>(82)</td>
</tr>
<tr>
<td>Other</td>
<td>(31)</td>
</tr>
<tr>
<td><strong>Total Savings</strong></td>
<td>(1,316)</td>
</tr>
</tbody>
</table>

In July 2015 the Council approved £250,000 in increased charges for 2016/17 for car parking. As a result of a review of the current activity levels the amount of additional income has been reduced to £130,000. The reduction is mainly due to a reduction in the number of 2 hour stays in town centre parking, which also appears to reflect a national trend for a decrease in numbers for this length of stay.

Staffing and efficiency savings, underspends, increased income from Property Acquisitions, fees and charges and other budget savings identified during the budget review process have amounted to £1.9 million in total. These savings have been included within the Council’s proposed budget.

It is recognised that any organisation, whether private or public sector, can only achieve a finite level of efficiency savings, or use up its finite cash reserves, before it has to consider reductions of service standards or service volumes. The provisional finance settlement has presented a financial landscape for Local Authorities where more reliance will need to be placed on locally raised revenues.
The following table shows a breakdown of the make-up of savings and additional income reported above including those approved by Council in December for the 2016/17 budget by type.

<table>
<thead>
<tr>
<th>By Type</th>
<th>2016/17 £’000</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Efficiency Savings/Underspends</td>
<td>456</td>
<td>24</td>
</tr>
<tr>
<td>Contract Savings</td>
<td>36</td>
<td>2</td>
</tr>
<tr>
<td>Additional Income</td>
<td>1,424</td>
<td>74</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,916</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

7.2 Details of the movements between the 2015/16 Original Estimate and the 2016/17 Estimate is shown at Appendix E. In addition to the savings approved by Council in December 2015, it now includes the £1.3 million of budget savings as detailed in paragraph 7.1.

The budget savings proposals in this report are about making sure that the Council is best able to meet its medium term policy commitments, as well as addressing all of the key financial issues in respect of reserves and balances, revenue and capital expenditure, funding and income, governance and efficiency within the financial constraints imposed by finite funding sources.

7.3 The revenue budget should be set in the context of the Council's overall vision and its priorities and have specific regard to resources, which may be required to progress key priorities identified for 2016/17. The proposed 2016/17 Council Plan is detailed elsewhere on this agenda.

Consultation

7.4 Consultation on service priorities has occurred across all the services as part of the service planning and budget setting process.

8. SETTLEMENT GRANT

8.1 The Council’s formula grant funding from Central Government continues to decrease in cash terms. The Government and the public expect to keep Council Tax increases to an affordable level whilst the demand and expectations on the Council to provide effective services have never been higher.

8.2 Elmbridge will now receive in total £21.04 per head of population in 2016/17, (£29.24 – 2015/16) a reduction on a comparable basis of £8.20 per head. Whilst the net spend is around £125 per head of population, the level of our Government grant means that our residents have to pay for nearly three quarters of the cost of the services they receive through Council Tax.

8.3 The grant has two major components; the business rates element, where the Council collects over £50 million but it receives only £2.1 million as its baseline settlement (£16.02 per head) back from central government. The balance of £0.7 million (£5.02 per head) is general grant support from government and includes the funding for Council Tax Support and Homelessness. These grants will be diminishing quite rapidly over the next couple of years.
9. COLLECTION FUND

9.1 A Council Tax Collection Fund surplus of £1,818,000 (Elmbridge share £226,045) for 2015/16 has been declared, which will be used in setting the council tax level for 2016/17. Only an element of this surplus can be retained, which is calculated in proportion to the precept set by each major precepting body. The element of the council tax surplus, which is attributable to Elmbridge, is equivalent to £3.61 for a Band D Property. This can only be used to reduce Elmbridge's council tax level, and is shown at Appendix K.

10. RESERVES

10.1 The Council has previously agreed that one of its key objectives should be to develop and maintain a medium term financial strategy based on the achievement of a balanced revenue budget covering the period of the strategy. The Council holds reserves which need to be considered in the context of the need to protect the Council's good financial standing and in the context of the overall risks that the Council continues to face during a continued period of economic uncertainty.

10.2 Councils are required to agree a budget that allows for a level of balances that provide a prudent reserve against possible eventualities and assurance that the future finances of the Council remain on a sound footing. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report on the adequacy of the proposed reserves which is included in the Medium Term Financial Strategy in Appendix G.

10.3 The Council’s existing policy is that an adequate level of general reserve is necessary to provide a sound level of prudence. This will play an important part in enabling the Council to respond positively to the fast changing strategic agendas whilst being able to meet the financial challenges that are being faced. It also plays a vital role in being able to manage key financial risks effectively without immediate disruption to key frontline services. The proposed budget 2016/17 meets this requirement with adequate levels of reserves.

10.4 The Revenue Reserves will be used to mitigate revenue budget risks the Authority faces during the year such as shortfall in income or increase in expenditure.

10.5 The 2016/17 budget includes a contribution from reserves of £1.4 million (2015/16 - £1.2 million) from reserves specifically earmarked for Interest Equalisation, Revenue Contingency, Council Tax Freeze and Planning Delivery Grant. In addition, a £250,000 from New Homes Bonus to be received in 2016/17 will be used.

11. RISK MANAGEMENT

11.1 Given the uncertainties of the economic environment and the scale of the expenditure reductions required, there are inevitably significant risks involved in delivering balanced budgets over the medium term. Key strategic risks are regularly reported to CMB and Cabinet and the Annual Budget setting report contains a detailed review of the risks to the MTFS.
The areas of highest risks are represented by the continuing need to deliver significant reductions and efficiencies over the medium term. Robust and detailed plans will be required at an operational level to ensure that this is mitigated and savings are delivered. The risks in delivery and savings will be mitigated by robust monitoring and financial control through the budget monitoring process, with action plans required to find compensatory savings should budgeted savings become undeliverable.

The Council manages risk by maintaining adequate reserves to help ensure that the medium term policy programme is sustainable. The Strategic Director & Deputy Chief Executive, as the Council’s Chief Finance Officer, is required to state whether the reserves are adequate as part of the annual budget strategy process.

The successful identification and management of risks is a key element in business and financial planning and in the delivery of those plans. This is done at an operational level through the risk management strategy and through detailed risk registers that are reviewed regularly and feature in the review of business plans. The consideration of key risks through the financial planning process and the level of reserves are an important part of determining how well placed the Council is in being able to deal with those risks.

12. CAPITAL PROGRAMME

12.1 The 2016/17 budget process was based on a review of Capital Bids for new or ongoing Capital schemes that have been selected with care focused on affordability and the Council’s priorities. The Council will only undertake Capital investment that is prudent, affordable and sustainable. The main test of affordability is that the revenue implications can be contained within revenue budgets.

12.2 As part of the 2016/17 budget review process, services submitted capital bids for consideration by Council Management Board. These bids have been ranked and submitted to Cabinet for approval. The capital bids are being funded from a combination of sources including capital receipts, S106 contributions, New Homes Bonus and other Earmarked Reserves.

Any emerging schemes that can be funded as part of the Community Infrastructure Levy (CIL) will be considered as part of the Strategic and Local Spending Boards.

The proposed capital programme reflects the Council’s priorities, as follows:

- Invest to Save proposals;
- Improvement to the Environment;
- Improvement to the Borough’s parks and open spaces;
- Improvement to our Community Centres;
- Investment in Health and Safety such as condition of buildings and electrical and mechanical works;
- Investment in ICT Infrastructure and improvement in customer services;
- Provisional allocation of a CCTV monitoring hub.
The Council’s Capital Programme consists of a number of projects to enhance or replace assets alongside programmes to deal with maintenance of our buildings. The funding for the 2016/17 Programme comes from a variety of sources but remains heavily dependent on CIL and S106 receipts (56%), with the balance coming from Capital Receipts (22%) and the remainder from other capital sources (22%).

12.3 Cabinet is asked to recommend to Council the additional Capital Bids for 2016/17 and provisional allocations for 2017/18 and 2018/19 (attached at Appendix H) for inclusion in the Capital Programme. The Capital Programme recommended to Council will cover a three-year period which will be reviewed annually as part of the budget setting process.

12.4 The Capital Programme includes a provisional allocation for PWLB borrowing, should the Council have a need to borrow funds for Asset Developments or Property Investments in the Borough. Having a provisional allocation will allow the Council to borrow at a discounted rate, for projects such as the Sports Hub in Walton, which can then be repaid when capital receipts from Stompond Lane are received.

12.5 Items which have been included in the fully funded capital programme covering 2014-2019 are attached at Appendix I to this report.

13. TREASURY MANAGEMENT STRATEGY

13.1 The Treasury Management Strategy covers the operation of the treasury function and its likely activities for the forthcoming year. The Treasury Management Strategy Report 2016/17, which is attached at Appendix J, has regard to the statutory regulations and, the Prudential Code for Capital Finance in Local Authorities, and the Code of Practice on Treasury Management.

14. GENERAL FUND – MEDIUM TERM FINANCIAL PLAN

14.1 An updated General Fund Budget Profile, for the subsequent four years of the current financial strategy period, is included in the MTFS in Appendix G. The figures shown for each year are based on forward projections derived from undertaking the detailed work in compiling estimates for 2016/17 and the outlook for local government finance.

14.2 In order to make forward projections beyond 2016/17, it is necessary to establish a baseline for the purpose of setting out budget projections for future years. It has therefore been assumed that the 2016/17 base budget will be set at £17.9 million before taking into account the use of any reserves.

14.3 Based on this working assumption, the potential budget reductions required over the medium term (2017/18 – 2019/20) are provisionally estimated at around £5 million. This includes a provisional assumption of a modest 2% annual increase in the Borough element of the Band D Council Tax during that period.

15. STAFFING BUDGET

15.1 It is a requirement that the staffing budget of the Council is considered prior to the Council Tax being set for the forthcoming year. The estimated staffing budget for 2016/17, as reflected within the budget is 358 full-time equivalent staff.
15.2 The Budget for 2016/17 includes a pay award of 2%.

15.3 The total cost of salaries for the year, excluding employer’s national insurance and superannuation payments, is estimated to be £11.8 million.

16. **COUNCIL TAX**

16.1 The overall Council Tax requirement is not only based on the level of Elmbridge’s own budget but also that of Surrey County Council, Surrey Police and, to the appropriate taxpayers, Claygate Parish Council.


16.2 As a result of the government changes to Council Tax Benefits, the Council will receive funding for the effect of the reduction to Claygate Parish’s tax base as an element of the Council’s overall Formula Grant. In order to pass this funding to Claygate Parish, the Council will provide a grant of £2,470 (£2,470 for 2015/16) to Claygate Parish to compensate them for the overall decrease in funding levels. The grant has been included in the budget summary at Appendix A.

16.3 At the time of publishing this report, it is not possible to formulate a combined recommendation in respect of Elmbridge’s budget and the precepts to be levied by the major precepting authorities in order to compile total provisional council tax levels within the Borough. These figures, if available, would normally be presented to the meeting of the Council to be held on 24 February, when precepts will have been issued by all of the precepting authorities.

**Financial implications:**
These are considered in the report.

**Environmental/Sustainability Implications:**
None for the purpose of the report.

**Legal implications:**
The Council has a legal obligation to set a balanced budget each year. The Council Tax, however, must be set by 11 March.

**Equality Implications:**
Decisions on changes to the Council’s overall budget and the funding of services, clearly have the potential for quite complex and differential impacts on equalities and diversity. Where expenditure reductions are necessary, the Council seeks to maximise these impacts through protecting frontline services as much as possible and maximising the use of admin efficiencies and reductions to find required savings. The Council has also consulted on its budget proposals to draw the proposed changes to the attention of stakeholders.

The Council is conscious that it delivers services to the most vulnerable and disadvantaged residents and for all relevant proposals Equality Impact Assessments are carried out to analyse the potential impact and to incorporate mitigation in their delivery.
Risk Implications:
Failure to set the 2016/17 budget in accordance with legislative requirements would expose the Council to significant reputational, financial and legal risks. Setting the council tax above the referendum limit would expose the Council to additional costs and significant reputational risk.

Community Safety Implications:
None for the purpose of the report.

Background papers:
Budget reports to Cabinet and Council
Autumn Statement
Provisional Finance Settlement
New Homes Bonus Consultation

Enclosures/Appendices:
Appendix A General Fund Budget Summary 2016/17
Appendix B General Fund Budget Summary – 2015/16 Budget to 2016/17 Estimate
Appendix C 2015/16 Forecast Outturn – Major Variances
Appendices D1 - D11 Portfolio Budgets – 2016/17 Original Estimate
Appendix E Major Variances – Original Budget 2015/16 to Proposed Budget 2016/17
Appendix F 2016/17 NNDR1 Return
Appendix G Medium Term Financial Strategy (MTFS) 2016/17 – 2020/21
Appendix G1 Schedule of Revenue Reserves
Appendix H Capital Bids 2016/17 – 2018/19 (Detailed Bid information in Members’ Room)
Appendix I Capital Programme 2015/16 – 2018/19
Appendix J Treasury Management Strategy Report 2016/17
Appendix J1 The Capital Prudential Indicators 2016/17 – 2017/18
Appendix J2 Treasury Management Strategy 2016/17 – 2018/19
Appendix J3 Counterparty List – Approved Institutions for Lending Surplus Cash 2016/17
Appendix K Elmbridge Element of the Council Tax Requirement 2016/17
Appendix L Elmbridge Borough Council External Grant Funding Analysis 2016/17
Appendix M Pay Policy Statement 2016/17
Appendix N Glossary of Terms

Contact details:
Strategic Director & Deputy Chief Executive 01372 474100 sselvanathan@elmbridge.gov.uk
Head of Finance – 01372 474123 acooper@elmbridge.gov.uk