



REPORT OF:	CHIEF EXECUTIVE
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TO:	EXECUTIVE
DATE:	12 NOVEMBER 2015
EXECUTIVE MEMBER:	COUNCILLORS V BROAD and G KNIGHT

KEY DECISION REQUIRED:	YES
WARD (S) AFFECTED:	ALL

SUBJECT:	SERVICE & FINANCIAL PLANNING 2016/17
<p>RECOMMENDATIONS:</p> <ul style="list-style-type: none"> (i) that the national and local service context be noted; (ii) that the service proposals set out in this report, which seek to respond to this context and deliver our 5 Year Plan, be endorsed; (iii) that the draft 3 year business plans 2016/17 – 2018/19 be approved, and the Deputy Chief Executive be authorised to finalise these plans, in consultation with the relevant Portfolio Holder; (iv) that the following proposed budget and financial planning changes be approved for consultation under the Council’s budget and policy framework: <ul style="list-style-type: none"> a) Medium Term Financial Plan for 2015-2020 (Annex 1) b) Savings totalling £1.250m (Annex 2) c) Growth totalling £0.625m (Annex 3) d) Updated Capital Programme (Annex 4) e) The creation of a new Income Equalisation revenue reserve. 	
<p>REASONS FOR RECOMMENDATIONS:</p> <p>To ensure that the Council continues to plan and manage its resources well, deliver high standards of service and meet the aims and objectives of our adopted 5 Year Plan.</p>	
<p>EXECUTIVE SUMMARY:</p> <p>The Council has set out an ambitious 5 Year Plan, with priorities focused on ensuring the borough continues to be a great place to live and work. It is essential that the Council has clear service and financial plans in place to support the delivery of our aims and objectives within the 5 Year Plan.</p> <p>The Council manages its resources well. We have established a strong service and</p>	

financial planning process, utilising a range of evidence to inform service decisions and informing the annual budget setting process. This is supported by regular discussion between the Executive and Management Team regarding national and local policy decisions, which impact on our residents and businesses.

This report provides a summary of the national and local context, key issues facing the borough and service change proposals in order to respond to these challenges and continue providing quality services that support our residents, communities and businesses to succeed.

Provisional budget proposals are also set out within the report for consideration, including net savings of £625,000. If Members accept these recommendations, and with further work over the Autumn, it will ensure that the Council delivers the necessary savings to ensure a balanced budget for 2016/17.

Executive has authority to approve the above recommendations.

STATUTORY POWERS

1. All organisations require strong business plans if they are to perform at the highest level. The Council has an adopted 5 Year Plan setting out our priorities, aims and objectives. Three year business plans for each service have been prepared to identify how the Council will manage its services and resources in order to meet our corporate priorities and statutory requirements.
2. The *Local Government Act 1992* places a requirement on Councils to set the following year's Council Tax levels by 11 March each year. The *Local Government Act 1972* requires the Council to set the associated annual budget as part of proper financial management. This report is part of that process.
3. Section 65 of the *Local Government Finance Act 1992* requires the Council to consult representatives of those subject to non-domestic rates in the Borough about its proposals for expenditure for each financial year.

SERVICE CONTEXT

4. It is important that our service plans respond to the local and national context, in order to provide the most effective services that meet the needs of our residents, communities and businesses. The following sections set out the local and national contexts that have informed our service plans.

Our 5 Year Plan

5. The Council has adopted a 5 Year Plan, setting out our priorities, aims and objectives in order to ensure the borough continues to be a great place to live and work.
6. The 5 Year Plan sets out our vision for the future:

A leading Council recognised by our residents, peers and partners. We will:

- *Deliver quality services and support*
- *Provide value for money*
- *Make the borough a great place to live*

- *Be flexible and sustainable, responding to the needs and demands of our borough, residents and businesses; and*
 - *Be an increasingly commercial organisation*
7. Our 5 Year Plan seeks to deliver against this vision, with priorities grouped around three themes:
 - People: supporting residents to enjoy healthy and happy lifestyles
 - Place: a great place to live and work
 - Organisation: a great Council
 8. Each service within the Council has developed a 3 year business plan, setting out how the service will deliver against these priorities. The activities supporting the delivery of the 5 Year Plan are captured in an annual action plan, with progress reported as part of the performance management framework.
 9. The service plans also set out how the national and local context may impact on the services during this time.

National Context

10. Whilst the Council has set very clear priorities based on our local needs, policies and legislation from national government will continue to have a significant effect on our residents, and therefore on the support and services that we provide.

Welfare reform

11. Welfare and benefits account for a significant proportion of public spending and the Government has pursued a significant reform agenda in this area.
12. Universal Credit will be introduced in February 2016, initially for a limited group of claimants who apply for out of work benefits. The Council will be asked to enter into a partnership agreement with the Department for Work and Pensions, which will involve providing and/or co-ordinating the more vulnerable claimants with personal budgeting support and digital support. In 2016/17 further welfare changes are to be introduced to families claiming Housing Benefit, and others who are on low incomes and claiming Tax Credits.
13. Significantly the Benefits Cap is to be reviewed from April 2016 and will see the maximum level of benefits reduced from £26,000 to £20,000 outside of London. This will see a significant increase in the number of families who face reductions in their Housing Benefit, and the Council will need to prepare these households in advance and provide support to them around finding employment (which will exempt them from the Benefits Cap). The government has stated that it will increase Discretionary Housing Payment funding over the next five years, and this will require additional administration by the Council.
14. The extension of the benefits cap (such as the removal of any housing benefit for U21s) will impact on people's ability to pay rent, as affordable rents are linked to the market rate, which is obviously higher in Reigate & Banstead.
15. Further reductions to welfare spending include the reduction of the earnings threshold in Working Tax Credit, the freeze of Local Housing Allowance rates, the removal of the Family Premium and freeze to other working-age benefits.
16. These and other factors will adversely affect the financial situation of many families in the borough, and they are likely to need more support from the Council in order to reduce their risk of homelessness.

Housing

17. The Government is proposing to extend the right to buy scheme. At present, housing association tenants are entitled to a lower discount than those in local authority homes. The Government has pledged to increase the discount, which may see higher numbers of housing association homes purchased under the scheme. There is concern that this may impact on the availability of housing stock.
18. The Government has also pledged to deliver 200,000 new homes on brownfield land through further relaxation in planning controls, especially over the use of employment land.

Gatwick airport

19. In addition to the legislative programme set out in the Queen's speech, the Davies Commission published their report on 1 July regarding additional runway capacity in the south east. Heathrow was recommended as having the greatest growth potential, although with considerable environmental caveats. The Government will need to consider and respond to the report.
20. Recent information suggests that expansion of Heathrow will be legally challenging due to EU air quality standards, with many commentators suggesting that a second runway at Gatwick is therefore more likely. This will have significant implications for Reigate & Banstead.

International recycle market

21. Our recycling service generates significant income for the Council, as materials are sold to processing plants. The price for recyclates is, however, impacted by the international markets. Demand from large economies, especially China, drive higher prices for these materials. When the growth in these markets falters, as now, the price for materials reduces.
22. Demand for plastic materials is also impacted by the international oil market. When the oil price is lower, as now, it reduces demand for plastics and this reduces the price available for these materials.
23. This has resulted in a reduction in the Council's income from recyclates, resulting in an overspend / under recovery within the 2015/16 budget. Whilst this is being managed in order to reduce the impact on the overall budget, it will be necessary to reduce the income budget within this area in 2016/17.

Devolution

24. Between 2010 and 2015 the Government promoted a number of devolution deals based around city regions. These deals involved devolution of powers or funding from central government to city region structures. In return, the deals set out proposals for delivering additional growth, service improvements and financial efficiencies for the public purse.
25. Following the 2015 General Election, the new Government proposed to significantly expand the devolution deals to any economic area and invited local areas to reach agreement and submit proposals for devolution.
26. In late July, HM Treasury invited local areas to submit proposals for the Comprehensive Spending Review by 4 September. This included the submission of devolution deals.

27. We have been working with Surrey County Council to develop a local devolution deal. A draft devolution proposal covering Surrey, East and West Sussex was submitted to Government by 4 September. In summary it set out the following:
- Building on existing strong local partnerships, including County and Borough/District Councils, the Local Enterprise Partnerships, businesses, health sector and emergency services.
 - To complementary work streams
 - Economic growth and enhanced productivity. This includes proposals to support investment in infrastructure, skills and knowledge and promoting economic growth and inward investment.
 - Public service transformation. This includes the establishment of a new transformation fund, transformation dividend where savings to Government departments are shared with the local area, and improved partnership working with Government departments and agencies.
28. The 3SC (3 Southern Counties) proposal does not set out the governance arrangements at this stage, but identifies the need for further work with all partners to develop as simple a governance model as possible, balanced against the requirement for assurance and transparency.

LGA Corporate Peer Challenge

29. In September, the Council invited peers from across the public and private sector to Reigate to hear about our priorities and achievements, and to share best practice and make recommendations for further improvements.
30. The feedback from the Peer Challenge was extremely positive, with significant strengths across all areas of the organisation. Overall messages included:
- The Council is ambitious, confident and achieving, with a business approach to managing the Council which is helping to ensure financial sustainability
 - The Council has shown impressive, proactive community leadership, resulting in an excellent reputation among residents and partners
 - Our focus on supporting people is to be applauded
 - Our high quality staff are engaged, enthusiastic and committed to improving the Borough
31. This Peer Challenge is intended to help Council perform even better, and the following recommendations were made:
- Articulate your innovative approach to financial sustainability at a corporate level
 - Allocate funding to priorities (as some are utilising short term partner funding)
 - Deliver the Development Management Plan and a parallel marketing strategy
 - Create a sustainable approach to a recurring pressure on homelessness
 - Continue the strong future workforce planning
 - Internal and external challenge will ensure you remain a leading council
 - Tell people your story

32. An improvement action plan will be developed to respond fully to these recommendations. This will be reported to a future meeting of the Executive. There are, however, a number of savings and growth proposals that address these recommendations

SERVICE PLANNING

33. Each service has prepared a draft 3 year business plan, covering the period 2016/17 to 2018/19. These plans set out the context for the service, including key changes and customer insight analysis. Expected activities are set out against 5 Year Plan priorities, and key outcomes, risks and resources information are also included. The plans also set out a SWOT and/or PESTLE analysis for the business(es).
34. The draft plans have been developed by the Management Team, in consultation with the relevant portfolio holder. The draft plans are not appended to this report due to their size, but have been placed in the Members Room for review.
35. The business plans include proposals to respond to the service context set out in the previous section above, and deliver against our 5 Year Plan priorities. The following highlights some of these service proposals against each theme within the 5 Year Plan.

People: supporting residents to enjoy healthy and happy lifestyles

36. The Council has seen a sustained increase in the number of people presenting themselves as homeless. The Council has a statutory duty to provide temporary accommodation whilst reviewing their application. We have increased the number of temporary housing units available within the borough, but demand continues to be high. As a result, the proposals include budget growth to support temporary accommodation costs.
37. We propose to increase the Family Support Team budget to support phase two of the programme, which works some of our most vulnerable residents and assists them into employment.
38. We are also planning to undertake preventative activity within Housing, Revenues & Benefits services to support residents that may be impacted by the welfare reforms. This will include employment advice and information regarding the impact of the changes.
39. These actions will in turn, increase the quality of life of some of our more vulnerable residents; reduce their demand on public services and the risk of further increases in homelessness.
40. Within leisure services, proposals include changes to the community centre and community transport budget. These changes have been previously reported to the Executive and will improve the services offered to residents whilst also providing financial benefit to the Council
41. The Executive received a report in July 2015 regarding the success of the Joint Enforcement Team pilot. The Council has agreed to continue the JET service until 2020, in line with the 5 Year Plan, expanding the team to work in new ways and offer improve our ability to respond to issues in the evening or at weekends. Provision has been included within the service and financial plans to support this activity. This will enable us to continue working with partners to improve community safety across the borough and improve resident satisfaction.

Place: a great place to live and work

42. Additional funding will be sought from the Corporate Plan Delivery Fund to support our economic development activities and offer more support to local businesses. This will include additional funding for small business grants, which have been very successful at supporting new and growing businesses, and increase staff resources to provide more support to businesses and encourage inward investment and growth.
43. Resident feedback consistently highlights the importance of maintaining our towns, public spaces and parks. A review of our Parks & Countryside service has been undertaken. This has identified opportunities to deliver efficiency savings whilst maintaining a high standard of service across the borough.
44. One of our priorities is to establish a Development Management Plan to deliver affordable and other types of housing, employment space and infrastructure, whilst protecting the borough's pleasant environment. This is a critical plan, setting out the more detailed policies under the adopted Core Strategy and will provide the Council with greater control over the type and location of development. Corporate Plan Delivery Funding will be utilised to support the costs of progressing this plan to adoption.

Organisation: a great Council

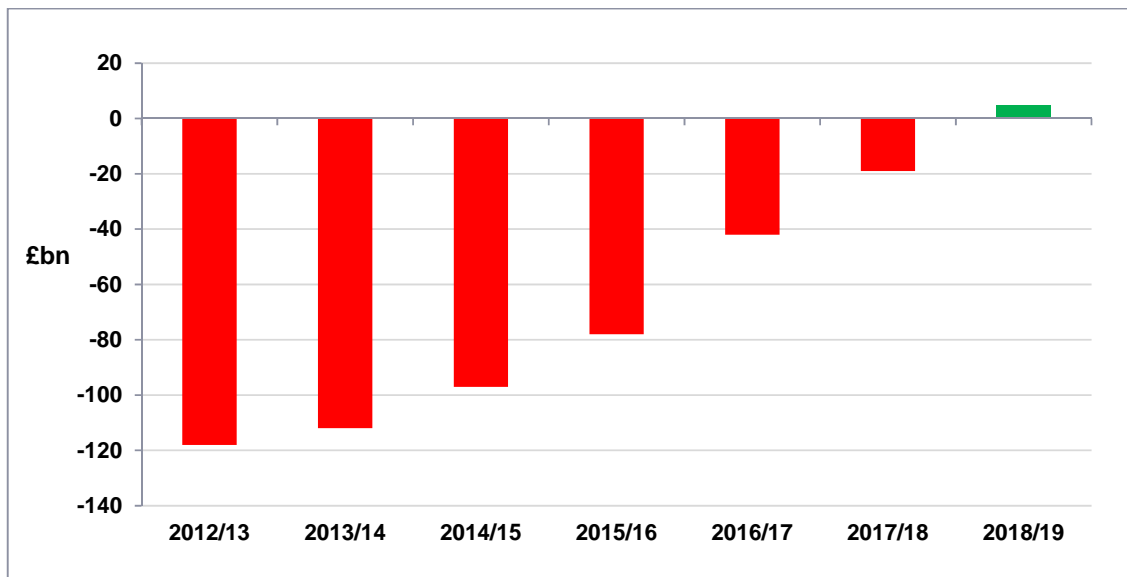
45. The Council has set out a priority to be financially self-sufficient by 2020, without impacting on residents' priorities. In order to achieve this, the 5 Year Plan sets out a range of activities, including efficiency savings and a commercial approach to fees and charges.
46. This report, therefore, contains proposals to increase our fees and charges in a number of service areas including garden waste, parking, development management, and the Harlequin theatre. Income from these sources is critical as reductions to our Government grant continue.
47. We will continue to promote business change projects, particularly focusing on channel shift and self-service opportunities. The re-launched Council website has already seen a significant shift in contact from face to face and phone towards online and self-service. We will seek to provide more self-service opportunities through the website, which will offer opportunities for efficiency savings across the organisation.
48. Our 5 Year Plan sets out to increase the value of, and income derived from, our property and assets. The Executive has approved a number of property schemes in the last year which will deliver against this priority. The budget proposals include an increase in rental income but – given the lead time on major regeneration projects - the most significant benefits will not be achieved until future years.

FINANCIAL CONTEXT

49. The Council continues to manage its finances well. Reigate & Banstead has delivered significant service improvements and Corporate Plan projects whilst managing a 45% reduction in Government grant, from £6.9m in 2010/11 to £3.8m (including £2.2m of retained business rates) in 2015/16. As a result, the Council relies on central government for a little over a quarter of our net revenue budget.
50. These reductions were the result of the Government's programme to eliminate the national deficit. The chart below confirms that the reductions in public spending over the last 5 years have only reduced the deficit. Further reductions in public spending

are required to return the national finances to a surplus, which the Government predicts will be in 2018/19, at the earliest.

Chart 1: Government Deficit Reduction Projections



51. The Government has previously pledged to protect funding for NHS, education and defence. As a result, reductions in public spending will be concentrated in a smaller number of service areas, including local government (which currently accounts for 25% of all public spending). In response, many Borough and District Councils, including Reigate & Banstead, have adopted financial plans that assume government grant will cease entirely by 2020 at the latest.
52. Our 5 Year Plan recognises that the Council needs to achieve a paradigm shift in the way that our services are funded. We will become an increasingly commercial organisation, seeking income from new property investments, fees and charges.
53. This is reflected in the updated Medium Term Financial Plan in Annex 1.
54. Although the Council has strong capital reserves, these cannot be used to directly provide for the revenue costs of service delivery and can only be spent once. The Council will prioritise capital spending on assets and investments that will provide new revenue income streams to support service delivery and move the Council to a sustainable budget. This has most recently been shown in the purchase of a retail site in Reigate High Street and other opportunities will be considered in the future.
55. As part of the budget development for 2016/17, the Leader and Executive have reviewed the capital programme to ensure that our investment aims are being realised.

Savings

56. Annex 2 sets out savings proposals and adjustments totalling £1,250,000 for the 2016/17 financial year. The following table summarise the savings:

Table 1: Savings Summary

Category	£000
Efficiency Measures	526
Income Generation	724
Total	1,250

Growth

57. Annex 3 sets out growth proposals and adjustments totalling £625,000 for the 2016/17 financial year, which can be summarised as follows:

Table 2: Growth Summary

Category	£000
Externally Imposed	214
Loss of Income	367
Service Improvements	44
Total	625

Council Tax

58. As part of the new commercial approach to funding, outlined within our 5 Year Plan, the Medium Term Financial Plan includes Council Tax increases of 2% per year. This is considered vital if the Council is to manage the reductions in government funding whilst maintaining quality public services and delivering an ambitious Corporate Plan.
59. A 2% Council Tax increase would increase a Band D charge from £205.45 to £209.56 - an increase of £4.11 per year (or less than 8 pence per week).
60. Initial discussions with other precepting organisations suggest that they will also increase their element of Council Tax by 2%.

Reserves

61. **General Fund** - Historically the Council has set a minimum level of unallocated General Fund reserves of 15% of the net revenue budget, which equates to £2.4m in 2015/16.
62. Currently the unallocated balance on the General Fund is £6.3m – the result of previous decisions to build-up reserves to guard against the economic downturn and the impact of funding reductions.
63. Given the uncertainty over future economic conditions, and the ongoing reductions in grant support from Government over the coming years, it is prudent to maintain our capacity to protect Council services from unplanned budget changes.
64. There is, however, no requirement within these proposals to draw upon reserves from the General Fund in order to balance the 2016/17 budget. Any underspend at

the end of the current financial year will be transferred to the General Fund or the Corporate Plan Delivery Fund.

- 65. **Corporate Plan Delivery Fund (CPDF)** - The CPDF is projected to have a balance of £1.4m at the end of the current financial year. Projected expenditure for 2016/16 is £0.6m.
- 66. This fund was established to support the delivery of the Council's 5 Year Plan. This includes support for people, place and organisational change, as well as funding for staff resources to support projects, such as regeneration schemes. Funding is short term and not included in the revenue base budget.

Capital Programme 2016/17 to 2020/21

- 67. Capital reserves have been boosted in recent years by the return of investments in Iceland. Our projected capital reserves (at year end) are currently:

Table 3: Projected Capital Reserves

2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
12,812	11,141	9,483	8,528	6,699

- 68. The Capital Programme has been updated to allow for the reprofiling of existing budgets based on progress to date. Key changes include the reprofiling of budgets for the Banstead Leisure Centre and regeneration projects in Merstham, Preston and Redhill.
- 69. Whilst major capital projects, such as those mentioned above, will be completed over the next few years, the Capital Programme will also need to ensure that other significant projects - such as leisure centre refurbishments - are provided for in the longer term.
- 70. The updated Programme is attached as Annex 4.

Comprehensive Spending Review

- 71. The Government is due to announce the Local Government funding settlement for 2016/17 – 2018/19 as part of the Comprehensive Spending Review in November. Whilst this is expected to confirm further reductions in the Revenue Support Grant for Councils, the impact on Reigate & Banstead is unlikely to be known before mid-December at the earliest.
- 72. The Government has proposed legislation to guarantee no increases in income tax, VAT or National Insurance before 2020. Whilst there is no specific mention of Council Tax, the Government can already set referendum limits under existing legislation. Information on additional Council Tax Freeze Grant and referendum limits for Council Tax increases for 2016/17 has yet to be released by the Government.
- 73. Recent announcements about the reform of the business rates systems lack detail at present but any changes in funding seems likely to be linked to new responsibilities and changes to/the cessation of New Homes Bonus. The announcement does however confirm that grant support to local government will end by 2020 at the latest.

Areas of uncertainty

74. In addition to the future service considerations set out above, there are a number of areas which may have a significant financial impact on the Council in the near future but which cannot be reflected in the budget at the current time. These include ongoing welfare and benefits changes (including Universal Credit), access to the single local growth fund, proposals to centralise the land charges service, changes arising from responsibility for public health moving to local government and the likelihood of increasing use of joint/community budgets.
75. Whilst it is not possible to quantify these uncertainties in the budget it is possible to better to protect our finances from the potential volatility that comes with an increasing reliance on income.
76. With this in mind it is proposed to establish a specific reserve – the Income Equalisation Reserve – which will be used as a buffer against income shortfalls and which will be replenished when income received exceeds the budget. £1m will be transferred from the General Fund into this reserve and this will be the maximum balance held (ie the level to which it will be replenished by any future income surpluses). Use of this reserve would be recommended in future budget setting or budget monitoring reports.
77. Taking £1m from the General Fund would still leave a balance in excess of historic levels and would have no impact on the overall balance of reserves held.

OPTIONS

78. The following options are available to the Executive:
 - Approve the proposed budget and financial planning changes set out within the report, for consultation under the Constitution. This option is recommended for approval, to ensure that our service and financial plans are agreed in good time to adopt a balanced budget for 2016/17;
 - Only approve some of the proposed budget and financial planning changes set out within the report, for consultation under the Constitution. This option is not recommended, as it would undermine the service plans and present a budget gap for 2016/17;
 - Reject the proposed budget and financial planning changes set out within the report, and request that further work be undertaken to develop new proposals for consultation under the Constitution. This option is not recommended as it would delay the budget consultation process, undermine service planning and leave the Council and risk of failing to adopt a balanced budget for 2016/17.

LEGAL IMPLICATIONS

79. There are no direct legal implications arising from this report.

FINANCIAL IMPLICATIONS

80. These are addressed throughout the report.

HUMAN RESOURCE IMPLICATIONS

81. The Council has delivered significant savings in recent years. The nature of our services means that this has also resulted in staffing reductions and a substantial reduction to the salary budget.
82. However, salary costs remain a large component of the revenue budget. As the management team continue to move resources to respond to corporate priorities and identify further savings and efficiencies, some further reductions in the salary budget are possible, although much less than in previous years.
83. The proposed savings for 2016/17 will result in a net reduction of 6.7 full time equivalent (FTE) posts, some of which are currently vacant. Wherever possible, staff will be redeployed in order to minimise the level of compulsory redundancy.
84. The number of FTE is anticipated to reduce to 435 in 2016/17 from 518 in 2010/11. There will only be limited opportunities to reduce this any further without impacting on the quality of services delivered by the Council.
85. The Medium Term Financial Plan includes an assumption for an annual cost of living pay award for staff. This award is subject to negotiations with staff representatives and will depend on a variety of factors including economic conditions, inflation levels and staff retention.
86. The recent LGA Peer Challenge highlighted the challenges facing Reigate & Banstead due to our location within easy commuting distance to London and the buoyant local economy – both of which make the job market extremely competitive. It is therefore important that the Council continues to offer competitive employment packages to attract and retain high quality staff.

EQUALITIES IMPLICATIONS

87. This report provides a summary of the service and financial planning activities of the Council. Where individual changes, projects or policies are being developed, equalities impact assessments will be carried out by the responsible officer(s).

RISK MANAGEMENT CONSIDERATIONS

88. The service and financial plans contained within this report are aimed at minimising risks and ensuring that the Council continues to deliver great services whilst managing budgets and other resources well.
89. The Council has strong risk management arrangements in place to ensure that any risks are identified and managed.

CONSULTATION

90. Consultation will be carried out in line with the Council's budget and policy framework. This includes consideration by the Overview & Scrutiny Committee.
91. The Overview & Scrutiny Committee has established a Budget Scrutiny Panel to support this work. The Panel is scheduled to meet on 26 November 2015. It is anticipated that the Panel's report will be considered by the Overview & Scrutiny Committee on 10 December. Any comments or recommendations will be reported to the Executive meeting on 7 January 2016.

POLICY FRAMEWORK

92. The budget proposals within this report form part of the Council's budget and policy framework. The annual budget is developed to ensure that the Council can deliver the Corporate Plan and services to residents and businesses.

Background Papers:

1. Our 5 Year Plan
http://www.reigate-banstead.gov.uk/info/20205/plans_and_policies/280/our_5_year_plan

Medium Term Financial Plan 2016/17 to 2020/21

1. Purpose of the Medium Term Financial Plan

- 1.1 The Medium Term Financial Plan (MTFP) is part of the Council's Policy Framework as set out in Article 4 of the Constitution. Its key purpose is to ensure that resources are directed towards delivery of the Corporate Plan 2015/20.
- 1.2 It describes the financial direction of the Council for planning purposes and outlines the financial pressures over a 5 year period, but is reviewed annually to reflect the changes to local requirements, economic conditions and government funding.
- 1.3 It also supports our ambition to be recognised as a leading authority that delivers quality services, that provides value for money and that makes the borough a great place to live.

2. Benefits of the MTFP

2.1 The MTFP assists in:

- Meeting the priorities of the Five Year Plan 2015/20.
- Improving financial planning and the financial management of the Council's revenue and capital resources.
- Maximising the use of resources available to the Council, both internal and external.
- Ensuring that the Council provides value for money and delivers budget savings.
- Allowing the development of longer-term budgets and strategic thinking.
- Aligning financial resources to the Council's spending priorities.
- Reviewing the Council's reserves policy to ensure there is protection against unforeseen events.
- Developing financial sustainability over the medium-term.
- Highlighting financial risks and developing mitigating controls.

3. Principles of the MTFP

3.1 The principles underlying the MTFP are as follows:

- The overall financial strategy will be to ensure that the Council's resources are directed to achieving the priorities set out in the Corporate Plan.

- The Council recognises that it will not be able to continue to resource current levels of service without budget savings, changes to service, new sources of income or some combination of the three.
- The Council will maintain its General Fund reserve at a minimum of 15% of the annual net revenue budget to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFP without the use of the General Fund.
- Earmarked reserves will be maintained for specific purposes which are consistent with achieving key priorities. The use of earmarked reserves will be in line with the principles set out in the MTFP and reviewed annually.
- The Council will continue to improve its approach to commissioning and procurement to ensure value for money and minimise the impact of budget savings.
- The Council recognises the impact of increases in Council Tax levels on our residents and will balance the need for Council Tax increases against the delivery of services and the Corporate Plan.
- We will ensure that fees and charges are set at an appropriate level and that they take into account comparative levels of charge and ability to pay. Where appropriate a more commercial approach to charging will be adopted.
- The Council will consider ways in which it can ensure financial sustainability and maximise income to deliver its priorities. This will include the development of property - based projects to capture both revenue and capital income opportunities.
- The Council will – when appropriate - consider the use of prudential borrowing to support capital investment and will ensure that an agreed revenue income stream is identified to meet the borrowing costs when investment decisions are taken.
- Opportunities for securing external funding to support the objectives of the Corporate Plan will be sought. The implications of a reduction or withdrawal of funding will also continue to be reviewed so that options can be considered around the future of such externally funded schemes. It is essential that a short-term benefit to the Council does not become a long-term, unfunded cost.
- Opportunities for working in collaboration will be identified and developed where this will support the Council's priorities and improve service efficiency and delivery.
- The Service & Financial Planning process will inform a review of the MTFP on an annual basis. This review will include an update of the five-year forecasts, expected developments in services, and changes to legislation.

4. Current Financial Context

- 4.1 In the Spending Review announcement in June 2013 the Chancellor confirmed that spending plans would continue on the same trajectory as the 2010 Spending Review and that austerity measures are likely to remain in place until at least 2018. This was reiterated in the Budget Statement in July 2015.
- 4.2 In addition the Office for Budget Responsibility (OBR) forecasts that the Government's current account will remain in deficit until 2018/19 at the earliest.
- 4.3 In line with these statements it is anticipated that Revenue Support Grant will fall from the £1.6m allocated for 2015/16 to zero in 2018/19.

5. Economic Trends

Interest Rates

- 5.1 The base rate has remained at 0.50% since March 2009 and it is not expected to rise until 2016.

Table 1	2016/17	2017/18	2018/19	2019/20	2020/21
Forecast Interest Rates	%	%	%	%	%
Forecast Bank Rate	1.0 %	1.5%	2.0%	2.5%	2.5%

Source: *Forecasts for the UK Economy: A Comparison of Independent Forecasts*
[compiled and published by HM Treasury]

Inflation

- 5.2 It is anticipated that the rate of inflation (as measured by the Consumer Price Index or CPI) will be close to the Bank of England target of 2% in the medium term.

Table 2	2016/17	2017/18	2018/19	2019/20	2020/21
Forecast Inflation (CPI)	%	%	%	%	%
Forecast CPI	1.5%	1.9%	2.0%	2.0%	2.0%

Source: *Forecasts for the UK Economy: A Comparison of Independent Forecasts*
[compiled and published by HM Treasury]

Economic Growth

- 5.3 Economic growth – as measured by Gross Domestic Product (GDP) - is forecast to rise over the next five years.

Table 3	2016/17	2017/18	2018/19	2019/20	2020/21
Forecast Growth	%	%	%	%	%
Forecast GDP Change	2.5%	2.4%	2.4%	2.3%	2.3%

Source: *Forecasts for the UK Economy: A Comparison of Independent Forecasts*
[compiled and published by HM Treasury]

6. Revenue Budgets

- 6.1 The net revenue budget for 2015/16 was set at £15.670m in February 2015. To achieve a balanced budget for each year of the forecast period it is anticipated that the following savings will be required.

Table 4	2016/17	2017/18	2018/19	2019/20	2020/21
Forecast Savings	£000	£000	£000	£000	£000
Savings Required	600	450	450	400	0

- 6.2 Savings opportunities (and growth pressures) will be highlighted through the rolling Service & Financial Planning process.
- 6.3 The forecast savings above are based on projected levels of government grant, likely economic conditions and other “local” factors set out in the following sections.
- i. **Council Tax**
It is assumed that this will increase by 2% per year over the forecast period.
 - ii. **Retained Business Rates (NDR) Income**
It is assumed that this will increase in line with the inflation assumptions in section 5.2.
 - iii. **Fees & Charges**
It is assumed that – where possible – these will increase in line with inflation forecasts in section 5.2.
 - iv. **Investment Income**
The security of cash deposits will remain paramount. As a result investment income has been assumed to be at a level consistent with the forecast base rates in section 5.1.

v. **Borrowing**

When new projects are brought forward the most appropriate way of financing them will form part of the appraisal of financial viability. For example, it is proposed that the Marketfield Way project in Redhill is financed by borrowing with the costs of the debt being met from the rental income created by the development.

vi. **Staff**

An allowance for a pay award approximately in line with the inflation projections in section 5.2 has been included in each year. This provides the option for pay rises but will be considered on a year-by-year basis and be subject to the normal consultation process.

7. Capital Programme

7.1 The Council's capital investment plans over the next 5 years are set out in the Capital Programme. The efficient and effective use of capital resources, including sound asset management, is fundamental to the Council achieving its long- and medium-term aims and objectives. It is also critical to achieving the delivery of the required savings across the Council and providing optimum services.

7.2 Any capital investment decision will have implications for the revenue budget. The revenue costs over the lifetime of each proposed capital project are considered when the project is being developed to ensure that the impact can be incorporated within our financial plans and to demonstrate that the capital investment is affordable.

7.3 The Prudential System of Local Government Capital Finance has operated since 2004 and allows local authorities to borrow as long as their capital spending plans are affordable, prudent and sustainable.

7.4 In order for borrowing to be considered prudent, affordable and sustainable there must be a long-term source of revenue funding to meet the costs of borrowing. Ideally this will come from revenue savings or from additional income generated directly from the capital project.

7.5 The Capital Programme to 2020/21 is summarised below (detail to follow).

Table 5	2016/17	2017/18	2018/19	2019/20	2020/21
Capital Summary	£000	£000	£000	£000	£000
Capital Reserves at 1 April	14,956	12,812	11,141	9,483	8,528
Add Receipts & Grants	8,645	1,018	972	972	972
Less Expenditure	10,789	2,689	2,630	1,927	2,801
Capital Reserves at 31 March	12,812	11,141	9,483	8,528	6,699

- 7.6 Capital receipts from the sale of assets are held in reserves and treated corporately to allow the Council to target resources toward the highest priority projects.

8. Revenue Reserves

- 8.1 The Local Government Finance Act 1992 requires local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. The Chief Finance Officer is required, as part of the budget-setting process, to provide a statement on the adequacy of reserves.

Reserves Policy

- 8.2 The Council will maintain its general reserve (the General Fund) at a minimum of 15% of the net revenue budget to cover any major unforeseen expenditure. The Council will aim to balance its revenue budget over the period of the MTFP without reliance on the use of the general reserve.
- 8.3 Other “earmarked” reserves will be maintained for specific purposes which are consistent with achieving key priorities and/or are required to separately account for Government funding streams. The Service & Financial Planning 2016/17 report proposes the creation of a new Income Equalisation reserve to help protect against income volatility (paragraphs 75 – 77).
- 8.4 The Council’s current revenue reserves are set out in the following sections.

i. **General Fund**

This acts as a buffer against unpredicted budget pressures. The current (unallocated) level of around £6.3m is greater than the minimum level required but is regarded as prudent given uncertainty around the timing of grant reductions and the impact of welfare reform.

ii. **Corporate Plan delivery Fund (CPDF)**

This provides time-limited funding to deliver key priorities and invest-to-save initiatives. The current balance is £1.4m and the expected usage in 2016/17 is £0.6m.

iii. **Business Rates Equalisation Reserve**

This was established to mitigate the impact of any fluctuations in retained business rates income resulting from, for instance, a back-dated rating appeal or a major employer leaving the area. The balance is £1.0m.

iv. **Insurance Reserve**

This provides cover against uninsured losses and has a balance of £550,000.

v. **New Homes Bonus (NHB) Reserve**

This was established to separately account for NHB income prior to it being used. The balance is £5.2m.

vi. **Superannuation Reserve**

This was established to “smooth” any sudden increases in pension cost. If the recent changes to the pension scheme prove successful in reducing/eliminating the deficit it may be possible to reduce this in the future but it is recommended that this reserve be retained at present. The balance is £1.5m.

vii. **Growth Points Reserve**

This was established to separately account for Growth Points funding prior to it being used. The balance is £286,000.

viii. **Families Support Programme Reserve**

This was established to separately account for the funding of this initiative prior to it being used. The balance is £59,000.

ix. **High Street Innovation Reserve**

This was established to separately account for the funding of this initiative prior to it being used. The balance is £70,000.

x. **Business Support Scheme**

This was established to separately account for the allocation of funding to help flood affected business. The balance is £148,000.

9. Risk Management

9.1 The Council's Strategic Risk Register contains the following:

If we don't reduce our reliance on government grant funding over the medium term, future decreases in grant levels and the impact of welfare reform could lead to unplanned reductions in services / service delivery standards and/or failure to deliver on all our corporate objectives.

9.2 The principles and assumptions contained within this Plan are aimed at ensuring that the Council is financially sustainable and continues to deliver high quality services.

9.3 Individual revenue and capital budget proposals will be subject to detailed risk assessment as part of the Service & Financial Planning process.

Annex 2

Budget 2016/17: Savings Proposals

Service/Description	2016/17 Total £000	Efficiency Measures £000	Income Generation £000
<u>Car parking</u>			
Increase in Pay and Display Fees (standard increase, wider range of tariff)	85		85
Increase in Season Ticket Fees (standard increase)	41		41
Increase in Contract Parking Fees (standard increase)	9		9
Expand Sunday charges in high demand car parks	10		10
Introduce premium season tickets	2		2
Additional income from Season ticket commuters promotion in Redhill and Horley	10		10
Additional income from business parking	5		5
Withdrawal of Mobile Phones as radios are sufficient	3	3	
Remove back office correspondence module (Response Master- Barbour Logic)	10	10	
Delete Appeals Officer post (vacant)	15	15	
<u>Communications, Customers & Information</u>			
Reduction of staffing needs in line with channel shift to web agenda and relocation of remote face-to-face service to Town Hall.	52	52	
<u>Corporate Support</u>			
Switch Member Courier to Royal Mail	5	5	
Reduction in stationery budget	8	8	
<u>Environmental & Community Regulation</u>			
Generate additional income (e.g. licensing pre application advice)	10		10
<u>Revenues & Benefits</u>			
Right-size expense and grant budgets	40	40	
Income from services to other Councils	38		38

Budget 2016/17: Savings Proposals

Service/Description	2016/17 Total £000	Efficiency Measures £000	Income Generation £000
<u>Leisure & wellbeing</u>			
Voluntary sector funding reductions	50	50	
Introduction of taxi voucher scheme	28	28	
Increased income from Leisure Centre contract	30		30
Harlequin Theatre ticket levy (£1 per ticket)	10		10
Increased income and efficiency at Harlequin Theatre	30		30
Leisure staff saving	20	20	
<u>Parks & Countryside</u>			
P&C Restructure (Green Spaces section - not replace operations manager)	40	40	
P&C Restructure (Green Spaces team) - regrading	13	13	
Delete Service Development Officer post	23	23	
Fuel savings resulting from depot location and route optimisation	5	5	
Reduction in overtime expenditure	16	16	
Allotment in house work	4	4	
Sport hire optimising, improving availability on website	3		3
Increase banner sponsorship locations	2		2
Increase park events	2		2
Highways income or staff saving	57	57	
Increase cemetery fees	8		8
Alignment of allotment charging structure	10		10
<u>Development Management</u>			
DM Restructure	17	17	
Reduction in application publicity costs	2	2	
Increase Pre-application fees	5		5
Cease direct mail neighbour notifications	15	15	

Budget 2016/17: Savings Proposals

Service/Description	2016/17 Total £000	Efficiency Measures £000	Income Generation £000
<u>Refuse, Recycling & Streetscene</u>			
Increase in garden waste membership	38		38
Trade waste income	5		5
Reduction in cleansing overtime	6	6	
Reduction in clinical waste costs	10	10	
Fuel efficiencies	35	35	
<u>Property</u>			
Income from units at former Newman House site	70		70
Income from letting of SA2	83		83
Closure of Parkfarm depot	32		32
Income from Reading Arch Road	22		22
Income from Marketfield Way	120		120
Saving on security and caretaking contract	20	20	
Letting of Redstone cemetery lodge	18		18
Income from letting cottage	5		5
Banstead Day Centre Help Shop rental	21		21
Saving from Banstead DC contract	11	11	
Saving from Horley community centre contract	13	13	
Woodhatch community centre	7	7	
Total savings	1,250	526	724

Annex 3

Budget 2016/17: Growth Proposals

Service/Description	2016/17 Total £000	Externally Imposed £000	Loss of income £000	Service Improvements £000
<u>Family Support Programme</u>				
Additional revenue to supplement budget reduction from SCC	30		30	
<u>Housing</u>				
Additional bed & breakfast budget	214	214		
<u>Leisure & wellbeing</u>				
Community Centre outsourcing contract year 1/2 growth	25			25
Reigate Half Marathon	10			10
<u>Economic Prosperity</u>				
Increase existing staff resource in Economic Prosperity	9			9
<u>Refuse, Recycling & Streetscene</u>				
Costs/income shortfall relating to dry mixed recycling	300		300	
Food Waste subsidy reduction SCC	37		37	
Total Growth	625	214	367	44

Annex 4

Projected Capital Programme 2016/17 to 2020/21

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
CAPITAL RESOURCES: SUMMARY						
Capital Reserves as at 1st April	20,924.7	14,956.6	12,812.0	11,141.0	9,483.0	8,528.0
Planned Capital Receipts	7,868.0	7,068.0	0.0	0.0	0.0	0.0
CIL / s106 Funding	2,418.0	195.0	46.0	0.0	0.0	0.0
New Homes Bonus	104.0	0.0	0.0	0.0	0.0	0.0
Other Capital Grants & Contributions:						
Disabled Facilities Grant	472.0	472.0	472.0	472.0	472.0	472.0
Surrey County Council*	2,498.0	374.0	0.0	0.0	0.0	0.0
Raven Housing Trust	1,217.0	27.0	0.0	0.0	0.0	0.0
Sports Lottery	15.0	0.0	0.0	0.0	0.0	0.0
Other Grants	210.0	9.0	0.0	0.0	0.0	0.0
Contributions from Revenue	500.0	500.0	500.0	500.0	500.0	500.0
Total Receipts During Year	15,302.0	8,645.0	1,018.0	972.0	972.0	972.0
Less: Capital Expenditure	21,270.1	10,789.6	2,689.0	2,630.0	1,927.0	2,801.0
Capital Reserves as at 31st March	14,956.6	12,812.0	11,141.0	9,483.0	8,528.0	6,699.0

* Surrey County Council amounts include contributions from their s106 receipts

EXPENDITURE: SUMMARY						
Waste Management & Recycling Improvements	570.0	20.0	20.0	10.0	10.0	10.0
Environment	80.5	104.0	104.0	84.0	84.0	84.0
Capital Grants	660.9	630.0	630.0	630.0	630.0	630.0
Regeneration	10,732.6	3,413.6	145.0	0.0	0.0	0.0
Leisure & Culture	5,257.8	522.0	356.0	520.0	397.0	331.0
Strategic Property	2,762.0	5,038.0	563.0	563.0	0.0	0.0
Organisational Change	53.3	70.0	0.0	0.0	0.0	0.0
Rolling Programmes	1,153.0	992.0	871.0	823.0	806.0	1,746.0
Total Expenditure	21,270.1	10,789.6	2,689.0	2,630.0	1,927.0	2,801.0

Annex 4

EXPENDITURE: DETAILED PROGRAMME

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
WASTE MANAGEMENT & RECYCLING						
Earlswood Depot/Park Farm Depot	20.0	20.0	20.0	10.0	10.0	10.0
Waste Blueprint / Kerbside Collection Project	550.0	0.0	0.0	0.0	0.0	0.0
	570.0	20.0	20.0	10.0	10.0	10.0
ENVIRONMENT						
Air Quality Monitoring Equipment	40.0	68.0	68.0	48.0	48.0	48.0
Contaminated Land - Investigation work	30.0	30.0	30.0	30.0	30.0	30.0
Land Flood Prevention Programme	10.5	6.0	6.0	6.0	6.0	6.0
	80.5	104.0	104.0	84.0	84.0	84.0
CAPITAL GRANTS						
Large Scale & Small Scale Works Grants	50.0	50.0	50.0	50.0	50.0	50.0
Home Improvement Agency Grant	30.9	0.0	0.0	0.0	0.0	0.0
Disabled Facilities Grant	560.0	560.0	560.0	560.0	560.0	560.0
Capital Grants	20.0	20.0	20.0	20.0	20.0	20.0
	660.9	630.0	630.0	630.0	630.0	630.0

Annex 4

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
REGENERATION						
Memorial Park Improvements	112.0	0.0	0.0	0.0	0.0	0.0
Merstham Regeneration	4,851.1	878.0	0.0	0.0	0.0	0.0
Redhill Public Realm Improvements	25.0	53.0	0.0	0.0	0.0	0.0
Marketfield Way Redevelopment	200.0	1,200.0	0.0	0.0	0.0	0.0
Marketfield Way : Acquisition of leasehold interest	4,000.0	0.0	0.0	0.0	0.0	0.0
Redhill Balanced Network	1,036.0	0.0	0.0	0.0	0.0	0.0
Horley Public Realm Improvements - Phase 2	5.5	0.0	0.0	0.0	0.0	0.0
Horley Public Realm Improvements - Phase 3	0.0	385.0	145.0	0.0	0.0	0.0
Preston - Parking Improvements	400.0	812.3	0.0	0.0	0.0	0.0
Preston - Landscaping	40.0	28.3	0.0	0.0	0.0	0.0
Burgh Heath Path Improvement	63.0	57.0	0.0	0.0	0.0	0.0
	10,732.6	3,413.6	145.0	0.0	0.0	0.0
LEISURE & CULTURE						
Pavilions Programme	30.0	30.0	30.0	30.0	30.0	30.0
Leisure Centres	59.0	30.0	30.0	30.0	30.0	30.0
Leisure Centre - New Build Banstead	4,933.8	195.0	0.0	0.0	0.0	0.0
Harlequin Property Maintenance 2014-15	49.0	0.0	25.0	150.0	40.0	0.0
Harlequin Maintenance	19.0	7.0	7.0	7.0	25.0	0.0
Play Area's Improvement Programme	110.0	210.0	214.0	218.0	222.0	226.0
Tadworth Station Brick Planter	7.0	0.0	0.0	0.0	0.0	0.0
Park & Countryside - Infrastructure & Fencing	45.0	45.0	45.0	45.0	45.0	45.0
Priory Park Maintenance	5.0	5.0	5.0	40.0	5.0	0.0
	5,257.8	522.0	356.0	520.0	397.0	331.0
STRATEGIC PROPERTY						
Warwick Quadrant - Hotel Development	770.0	3,610.0	0.0	0.0	0.0	0.0
Thames Water Residential Development	120.0	0.0	0.0	0.0	0.0	0.0
Court Lodge Development	700.0	563.0	563.0	563.0	0.0	0.0
Lee Street Bungalows	100.0	280.0	0.0	0.0	0.0	0.0
Lavender Sandpit Residential Development & Nature Reserve	0.0	40.0	0.0	0.0	0.0	0.0
Development of Land South of Horley	0.0	545.0	0.0	0.0	0.0	0.0
Wilton Court	155.0	0.0	0.0	0.0	0.0	0.0
Hildenley Close	206.0	0.0	0.0	0.0	0.0	0.0
Tulip House	213.0	0.0	0.0	0.0	0.0	0.0
Thornton Place	230.0	0.0	0.0	0.0	0.0	0.0
Wandle House	180.0	0.0	0.0	0.0	0.0	0.0
New Pond Farm Flat	8.0	0.0	0.0	0.0	0.0	0.0
Merland Rise Housing Disposal Costs	80.0	0.0	0.0	0.0	0.0	0.0
	2,762.0	5,038.0	563.0	563.0	0.0	0.0

Annex 4

	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
ORGANISATIONAL CHANGE						
Citrix Implementation	19.0	0.0	0.0	0.0	0.0	0.0
Information/Document Management	24.3	0.0	0.0	0.0	0.0	0.0
Replacement Photocopiers/Printers	0.0	70.0	0.0	0.0	0.0	0.0
New Council Chamber ICT Upgrade	5.0	0.0	0.0	0.0	0.0	0.0
Carpet New Council Chamber due to cabling for ICT upgrade & health & safety works	5.0	0.0	0.0	0.0	0.0	0.0
	53.3	70.0	0.0	0.0	0.0	0.0
ROLLING PROGRAMMES						
Vehicles & Plant Programme	846.0	654.0	529.0	542.0	582.0	1,542.0
ICT Replacement Programme	50.0	50.0	50.0	50.0	50.0	50.0
Council Offices Programme	20.0	100.0	100.0	30.0	30.0	30.0
Day Centres Programme	50.0	50.0	50.0	50.0	20.0	0.0
Commercial Investment Properties	76.0	50.0	50.0	50.0	50.0	50.0
Car Parks Capital Works Programme	30.0	30.0	30.0	30.0	30.0	30.0
Public Conveniences	4.0	4.0	10.0	1.0	5.0	5.0
Cemeteries & Chapel	10.0	10.0	10.0	10.0	0.0	0.0
Allotments	2.0	4.0	2.0	20.0	4.0	4.0
CCTV Rolling Programme	55.0	30.0	30.0	30.0	30.0	30.0
Infrastructure (Walls etc)	10.0	10.0	10.0	10.0	5.0	5.0
	1,153.0	992.0	871.0	823.0	806.0	1,746.0