Report to:	Strategy and Resources Committee	**Date:**	8 February 2016
Report title:	Commissioning and Financial Planning 2016/17 to 2018/19		
Report from:	Gerald Almeroth, Strategic Director - Resources and Jessica Crowe, Executive Head of Customers, Commissioning and Governance		
Ward/Areas affected:	Borough wide		
Chair of Committee/Lead Member:	Cllr Ruth Dombey, Leader of the Council and Cllr Simon Wales, Deputy Leader of the Council		
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Corporate Plan Priorities:	• An Open Council • A Green Council • A Fair Council • A Smart Council		
Open/Exempt:	Open		
Signed:	G. Almeroth	**Date:**	28 January 2016

1. Summary

1.1 This report seeks approval for the Council's annual Commissioning and Financial Plan for 2016/17 to 2018/19.

1.2 The revenue budget for 2016/17 is presented for agreement and for recommendation to Full Council on 7 March 2016. This will meet the requirement in the Local Government Finance Act 1992 for the Council to set a budget for 2016/17 by 11 March in the preceding financial year. The report also recommends the level of council tax for 2016/17 including the Greater London Authority precept.

1.3 Strategy and Resources Committee is asked to consider and recommend to Council for adoption the proposed forward financial plans, both revenue and capital, to form the updated Medium Term Financial Strategy and Capital Programme to supporting the delivery of the Corporate Plan.

1.4 The report also presents a proposed Treasury Management Strategy for 2016/17.

1.5 The recommended revenue budget for 2016/17, in broad terms, includes a 29% government revenue grant reduction (RSG) of £10.0m, inflation and other costs of £3.5m and growth cost pressures (including children's safeguarding and adult social care) of £4.0m, which are proposed to be balanced by savings of £9.6m, a general increase in council tax of 1.99% that will raise £1.6m of funding, use of central government's additional council tax precept for adult social care of 2% raising a further £1.6m, use of reserves of £1.4m and other changes of £3.3m.

1.6 The report recommends to Full Council a 2% council tax increase for the adult social care 'precept' allowed by the government (£23.27 on a Band D property or 44.8p a week) and a further 1.99% increase (£23.16 on a Band D property or 44.5p a week). This will make the total Sutton element of council tax £1,210.03 for 2016/17.

1.7 The medium term financial strategy over the next three years still shows that after a balanced budget in 2016/17 savings of £7.2m in 2017/18 and a further £6.9m in 2018/19 will be required to be identified. This is after a planned use of reserves of £5.4m over the period.

2. Recommendations

2.1 Strategy and Resources Committee to agree the following recommendations to Full Council for consideration at its next meeting on 7 March 2016.

Commissioning intentions

1. Agree the Strategic Commissioning Plan at appendix A;

Revenue Budget 2016/17

2. agree the proposed General Fund net budget requirement of £144.916m summarised at appendix B and by Directorate at appendix J;

3. agree the base budget changes set out in paragraphs 8.1 to 8.9 and summarised in appendix C including a phased use of reserves;

4. agree the savings proposed in appendix D;

5. note the rent reduction of 1% as mandated by the government and agree the Housing Revenue Account (HRA) budget 2016/17 (appendix E), including changes to service charges and heating charges;

Capital Programme

6. approve the revised capital programme for 2016/17 to 2019/20 with a total spend of £184.945m, including the proposed funding arrangements and policies, as set out in section 9 and appendix F;

7. authorise expenditure to be incurred of £12.380m for the detailed 2016/17 Housing Capital Programme (appendix F3) and £852k for Expenditure on Corporate Operational Buildings (appendix F4);

Reserves

8. agree the policy on reserves set out in paragraphs 8.33 to 8.36 and note the reserve movements proposed in paragraph 8.35;

Treasury Management

9. approve the Treasury Management Strategy 2016/17 which includes the annual investment strategy, prudential indicators and borrowing limits as set out in appendix G;

Council Tax

10. agree the council tax for 2016/17 at £1,210.03 for a Band D property, an increase of £23.27 (2%) for the adult social care 'precept' and £23.16 (1.99%) for general purposes;

11. approve the formal resolution at appendix H, including the council tax requirement of £85.391m;

12. note the proposed Greater London Authority precept of £276, reduced from £295 in 2015/16;

Other

13. approve the Council's pay policy statement for 2016/17 (appendix I);

14. approve the Members' Allowances Scheme 2016/17 (appendix K); and

15. note that Councillors Basic Allowance and Special Responsibility Allowance will be increased or decreased by the amount of the local government pay settlement each year and that the Monitoring Officer be delegated authority to update the scheme to reflect any such increase or decrease.

3. Background

3.1 The Council uses the annual financial planning process to review and update the strategic commissioning activities that will be delivered over the forthcoming financial year to deliver the Corporate Plan priorities in the wider economic and policy context that the Council is currently operating within.

3.2 The Council's approach to commissioning and financial planning has been developing over the past few years, moving from business planning to commissioning and financial planning. This has led to a focus on how commissioning activity will meet Council priorities, with performance evidenced through robust measures of success and targets. For the second year the Council has a single strategic commissioning plan to:

- increase the focus on a one Council joined up approach reflected in one plan rather than Directorate specific plans;
- demonstrate, with more clarity, how commissioning activity will meet the Council's priorities; and
- take the next steps towards aligning resources to these priorities by estimating the cost of their delivery to help ensure Council spend is aimed at delivering our priorities.

3.3 The Strategic Commissioning Plan sets out the continuing requirement for service review and change in the light of the financial forecast and need to find further savings to address the budget gap to 2018/19. The Council is very conscious of the need to monitor closely the cumulative impact of these service changes on the communities of the borough and the Integrated Impact Assessments provide the methodology and framework by which this can be done for all commissioning decisions and service changes. In particular this will ensure that commissioners and decision-makers are fully aware of the equalities impacts of any planned service changes as they consider the options available.

3.4 The 'Analyse' phase of the Council's commissioning cycle is the point at which all needs and issues will be identified and assessed, including whether an Integrated Impact Assessment is required for the commissioning activity under consideration. The new Commissioning Framework will clearly set out the requirement to consider the impacts of commissioning decisions on different groups within Sutton.

3.5 The Commissioning Board will provide challenge at identified Gateway points to ensure impacts have been properly assessed and where appropriate, mitigating actions taken. It is anticipated that the cumulative impact of the activity in 2016/17 will continue to place pressure on services and further challenge the Council’s ability to match and respond as efficiently to the increasing demand from residents. As a result, on a regular basis the board will consider the cumulative impact of commissioning activity across the Council, this will seek to identify if any particular groups are more likely to be affected by commissioning activity and what actions can be put in place to mitigate this.

3.6 The 2016/17 Commissioning Plan will be published on the Council’s website and forms an integral part of the Council’s performance management framework. The plan will be monitored by the Council’s Commissioning Board and progress will be reported throughout the year to the Strategy and Resources Committee on a quarterly basis through the Performance and Finance report.

4. National and Regional Policy Developments

4.1 Central Government continues to focus on the elimination of the deficit as confirmed in both the Budget in July 2015 and the subsequent Spending Review announcement in November 2015. Local Government is a part of the public sector particularly impacted by significant reductions.

4.2 The Government has committed itself to working with local authorities to promote local and sub-regional growth and greater devolution, building upon the City Deal agenda promoted by the previous Coalition Government between 2010 and 2015. The Council is fully supportive of the growth and devolution agenda and committed to working with partners on both a pan-London and sub-regional basis.

4.3 As part of the Treasury’s consultation in the run-up to the 2015 Spending Review (SR), London Councils and the Mayor of London collaborated on the production of The London Proposition - a series of detailed policy proposals focused on the pan-London devolution of the following:

- Enterprise support;
- Crime and justice;
- Employment and complex dependency;

- Health and care;
- Housing; and
- Skills.

4.4 The SR saw the announcement of the following initiatives in response to the Proposition:

- on employment and complex dependency, the London boroughs and the Mayor will jointly commission employment support (outside of the Jobcentre Plus regime) to assist the long-term unemployed and those with health conditions and disabilities to (re) enter work;

- skills reform was announced in February 2015 and confirmed in the SR - Further Education (FE) colleges will undergo an Area Based Review, undertaken on a sub-regional basis, leading to the rationalisation of provision; and,

- agreement to a measure of health and social devolution in London, with the announcement of five pilots (looking at health and care integration; health inequalities; strategic use of land and premises; prevention; and integration of physical and mental health services).

5. Sub Regional Policy Developments: The South London Partnership

5.1 Sutton is part of the South London Partnership (SLP) along with the neighbouring boroughs of Croydon, Kingston, Merton and Richmond - a sub-regional grouping committed to promoting growth and greater well being across South London. In July 2015 the five boroughs formed a new South London Joint Committee. Through this committee the Council will work with the other members, the London Enterprise Panel and representatives of business, FE and Higher Education sectors, to ensure that the new investment can have a swift and significant impact to help strengthen and diversify our economy.

5.2 The SLP is currently (early 2016) finalising a growth strategy for the five boroughs, covering the following themes:

- the growth offer - namely jobs and housing growth - to the capital;
- infrastructure needs and ambitions;
- local business support and promotion; and
- sustainable suburban living.

5.3 SLP is also taking a lead on the South London Area Based Review.

6. Local Policy Context

6.1 The Corporate Plan covering the period to 2018/19 reflects the priorities for the Council. The current priorities are:

- **An Open Council** - Working collaboratively ensuring we involve and listen to residents. Helping individuals and communities to work together and to help themselves.

- **A Green Council** - Making Sutton more attractive and sustainable to build on our reputation as a green borough.
- **A Fair Council -** Building safe, strong and healthy communities. Increasing economic growth and investment in Sutton making it a place of choice to live and work.
- **A Smart Council** - Transforming our ways of working to manage reduced budgets and increasing demand. Developing an engaged, skilled and entrepreneurial workforce.

6.2 With the current pace of change in the national and regional policy context a review of the corporate plan is proposed to take place over the next six months. The focus on ambition and growth should be retained, but further consideration will be given to how the Council can enable and support residents to do more for themselves ensuring that further support is provided to build a resilient and fair borough.

6.3 This work will, in part, be informed by a LGA Peer Review, which will take place in Sutton from the 9-12 February. This will be Sutton’s second peer review under this new self-regulation regime and will focus on:

1. understanding of the local place and priority setting;
2. leadership of place;
3. financial planning and viability;
4. organisational leadership and governance; and,
5. capacity to deliver.

6.4 Alongside this, the peer review team will look at Sutton’s approach to commissioning, growth and commercialism.

7. National Update and Impact on Sutton

7.1 The Chancellor of the Exchequer unveiled the government’s Autumn Statement on 25 November 2015, announcing the outcome of the Spending Review (SR) and setting out the government’s spending plans from 2016 to 2020. Over the period to 2019/20, funding for local government through the Department for Communities and Local Government (CLG) is projected to fall by 54%. Government asserts that this will be partly offset by an projected increase in business rates (NNDR) of 2% annually resulting in a net real terms reduction in core funding for local authorities of 24% over the period. Taking account of potential increases in the council tax base as well as the level of tax charged, the Office of Budget Responsibility forecast a 6.7% real reduction in total local funding by 2020/21. It was expected that, in contrast to experience in recent years, reductions in revenue support grant (RSG) would be applied differentially with councils more reliant on RSG receiving smaller percentage cuts.

7.2 Other major announcements in the Spending Review included:

- <u>full devolution of business rates to local authorities and the phasing out of RSG, by 2020.</u> As the expected business rates receipts will exceed the planned total funding to local government, this would be accompanied by transfer of other responsibilities and absorbing of existing funding streams (such as public health grant and attendance allowances). There would also need to be a way of addressing the distributional impact caused by variations in tax bases between authorities. A consultation on the details of the scheme is expected in 2016. Overall this is seen as a positive development with opportunities for local government to take on wider responsibilities, but there is a risk that the funding transferred will be insufficient to address the new responsibilities or predicted social care pressures;

- no further council tax freeze grants to be offered. Referendum threshold retained, but in addition councils with adult social care responsibilities can levy a 2% ‘precept’ to meet cost pressures;

- revisions to the New Homes Bonus (NHB), reducing the duration from six years to four and changing the qualifying criteria by ‘sharpening the incentives’, including only paying for homes above the local target and also not paying for homes that are built after a successful planning appeal. Nationally this would save £0.75bn a year (about 65% of the total sum), which is to be redirected into the Better Care Fund (BCF) in later years. This would impact Sutton by about £1.5m a year in due course;

- BCF is to be increased nationally by £1.5bn by 2019/20 half of which will be funded by re-directed NHB (as above) and the other half coming from RSG topslice. Local plans for integration of health and social care are to be developed in 2017 for implementation by 2020;

- Public Health - indications are that £200m national in-year cut in 2015/16 will continue and further cash reductions of 9.6% by 2020/21. If this is spread evenly across local authorities it implies a reduction of about £0.85m in 2016/17 for Sutton compared to the baseline, increasing to £1.7m by 2020/21;

- Housing - Housing Benefit for social tenants to be restricted to relevant Local Housing Allowance *(i.e*. the amount available to private tenants). Increased funding/devolution to Councils re prevention and reduction of homelessness, but management fee for temporary accommodation stopped;

- Schools - core budget to be protected. There will be a national schools funding formula from 2017/18 (London likely to be losers as formula may fail to reflect higher costs). The government’s goal is to “end local authorities’ role in running schools and all schools becoming an academy” , which is likely to require legislative change. The Education Services Grant is to be reduced by £600m nationally (out of £815m). Some Council duties are to be removed and there will be a consultation on the detail in 2016. Sutton currently gets £2.2m ESG, so a proportionate reduction would be £1.5m. The timing of this is uncertain.; and,

- Skills - protection (in cash terms) for existing adult skills participation funding and £3bn to be raised from an apprenticeship levy from April 2017. Councils will have to pay the levy which will cost Sutton about £150k annually.

7.3 The **provisional grant settlement** for local authorities for 2016/17 was announced very late on 17 December 2015. The consultation process ended on 15 January with the final settlement expected to be confirmed in February 2016. As in 2015/16 the government has held back part of the local government control total, effectively from revenue support grant (RSG) as the other elements are indexed from a 2013/14 baseline, to finance certain items:

- the expected costs of the new homes bonus (£1.275bn). Any unused portion of this is returned to Councils through the New Homes Bonus adjustment grant; and
- the business rates safety net, to protect individual authorities from any fall in business rates that would reduce their total funding by more than 7.5% (£50m, unchanged from last year with any balance of costs met from levy collected from tariff authorities which have increased their business rates collected above baseline in 2015/16).

7.4 The settlement includes an offer to local government of a **four year settlement** covering the period to 2019/20, with future figures subject only to adjustments for inflation assumptions (affecting the business rate multiplier), transfer of functions and exceptional circumstances. Councils accepting this offer would have to produce an efficiency plan details of which are not yet certain. A four year settlement will provide a level of certainty to aid future financial planning. Government also recognises that more funding is needed for adult social care and is allowing authorities an additional 2% increase on council tax (for authorities with social care responsibilities) in each of the spending review years. It is also, in later years, providing additional resources for adult social care through the 'improved' Better Care Fund (albeit this is being partly funded by reductions in new homes bonus).

7.5 A number of previously separate funding streams have been rolled in to **revenue support grant for 2016/17** and will no longer be paid separately. This means that the true reduction in funding is greater than that implied by a simple comparison of 2015/16 to 2016/17. For Sutton the funding streams rolled in are Care Act 'new burdens' funding (£1.017m in 2015/16) and lead local flood authorities' funding (£35k in 2015/16).

	£m	%
Revenue Support Grant 2015/16	33.796	
Care Act funding rolled in	1.017	
Lead Local Flood funding rolled in	0.035	
Adjusted 2015/16 funding	34.848	
Reduction	10.097	29.0
Revenue Support Grant 2016/17	24.751	

7.6 In overall terms the Settlement Funding Assessment (SFA) for Sutton in 2016/17 totals £58.082m, comprising:

- the business rate baseline (reflecting the Government's estimate of the 30% of **business rates collected locally** that is retained in Sutton) set in 2013/14 and uprated by 1.95% in 2014/15, 1.91% in 2015/16 and a further 0.8% (September 2015 RPI) in 2016/17 - £15.710m;

- the **top-up grant**, reflecting the difference between the 2013/14 baseline funding and the business rates baseline, also uprated on the same basis - £17.622m; and
- the **revenue support grant** (RSG) which has been reduced to £24.751m, a reduction of £9.045m (26.8%) compared to 2015/16. Taking account of the rolled in grants the reduction is £10.097m (29.0%).

7.7 SFA for 2015/16 was £66.675m, so there is an overall cash reduction of £8.593m (12.9%). After taking account of rolled in grants, this settlement represents an effective overall reduction of £9.645m (14.2%) compared to 2015/16, which is £1.687m higher than the reduction assumed in the previous medium term financial plans.

7.8 It should be noted that although the **business rate** baseline forms part of the SFA the actual funding available depends on the amount of business rates collected and therefore locally retained. This is particularly affected by the impact of **appeals** by ratepayers against their valuations, which can be backdated to the last revaluation in 2010. In some cases this results in not only a reduction in the tax base going forward, but in significant refunds in respect of business rates paid in previous years. Appeals can also take a long time to resolve. The Council works closely with the Valuation Office Agency to understand the likely impact of appeals.

7.9 Another significant factor in determining the amount of business rates collected is the new reliefs offered by the government as business incentives. As these are mandatory reliefs the government compensates councils for the lost revenue through section 31 grants. Overall the expected receipts from business rates in 2016/17 are £15.606m (£104k less than the SFA figure). In addition s31 grants totalling £1.132m are expected, although this sum has not yet been confirmed by the government.

7.10 Where there are differences between planned and actual business rate receipts, after adjusting for other items such as providing for the likely future cost of appeals, this gives rise to a surplus or deficit on the **Collection Fund**. For 2015/16 the projected surplus in respect of business rates is £0.723m of which the Sutton share is £0.217m. This has been taken into account in the 2016/17 budget proposals. Going forward there is still considerable uncertainty due to the impact of appeals. There are appeals still to be determined in respect of about £12m of business rates receipts over the period since 2010, but the historical success rate is only around 20% and even this level may not be sustained as priority is given to appeals more likely to be successful. There is a substantial provision for appeals which is judged sufficient to cover the likely cost in future years as appeals are determined and this will be carefully monitored. It is not proposed to make any further provision for deficits or surpluses in relation to business rates in years after 2016/17.

7.11 There are also changes in other specific grants and funding outside the SFA. A further allocation of **New Homes Bonus** (NHB - £776k) has been made in respect of new homes and empty homes brought back into use in the year to October 2015. Total NHB is now £4.018m and there will also be a small 'adjustment grant' which distributes any unused part of the funding held back from the settlement to fund NHB (estimated at £80k for 2016/17, £108k in 2015/16). The government is consulting on proposals to amend the NHB scheme which will reduce likely allocations from 2018/19 by about £1.5m. In mid-January it was confirmed that the top-slice which was applied to London Borough NHB allocations in 2015/16 (£937k for Sutton) and provided to the London LEP to be redistributed is not to be continued.

7.12 **Housing Benefit administration grant** has been confirmed at £733k for 2016/17 (£804k in 2015/16). **Council Tax Reduction Scheme administration grant** has not yet been confirmed (2015/16 £205k) and nor has Local Reform and Community Voices grant (£99k in 2015/16, funding Local Healthwatch and some costs associated with Deprivation of Liberty Safeguards.

7.13 It has been announced that the **Better Care Fund** will continue into 2016/17, but the funding has not yet been confirmed (£11.096m in 2015/16). Also to be confirmed is the amount of the **Public Health Grant**, although the indications from the SR were that the 2015/16 in-year reduction would continue and there would be further funding cuts over the SR period. For planning purposes it has been assumed that spending on both the BCF and Public Health will be contained within the final funding allocations. However, it is very unsatisfactory that final budget proposals are having to be put forward with these uncertainties remaining.

7.14 The Secretary of State's limit for determining whether council tax increases in 2016/17 are excessive has been set at 2%, unchanged from 2015/16. Increases at or above the announced threshold could trigger a **local council tax referendum** under the terms of the Localism Act. However, in addition to this the government have introduced a new precept flexibility for councils with adult social care responsibilities to increase council tax by up to a further 2%, subject to confirmation that the adult social care budget would have otherwise been lower by that amount.

7.15 The provisional grant settlement included information comparing Councils' '**core spending power**' over the spending review period. This is a revision of the previous spending power calculations and now includes:

- settlement funding assessment figures as set out above;
- council tax requirement (assuming that council tax is increased in line with CPI - an average of 1.75% per year, that the 2% additional social care 'precept' is added each year and that the council tax base grows in line with the actual increases between 2013/14 and 2015/16);
- New Homes Bonus (including adjustment grant);
- the 'Improved Better Care Fund' (part of the additional £1.5bn by 2019/20 announced in the spending review); and,
- Rural Services delivery grant (not applicable to Sutton).

7.16 The government figures show a cash increase by 2019/20 compared to an adjusted 2015/16 position of £1.4m (0.9%), although this is due to £2.2m additional 'improved BCF' funding in 2019/20 - earlier years show cash reductions compared to 2015/16 as set out below. The cash increase of 0.9% compares with a national average 6.7% real reduction in spending by 2020/21 projected by the Office of Budget Responsibility (see para 7.1). The Sutton figures are shown in the table below.

Core Spending Power 2015/16 to 2019/20 (cash)					
	2015/16	2016/17	2017/18	2018/19	2019/20
Core Spending Power (£m)	152.4	148.6	147.5	149.4	153.8
Change (year on year) (£m)		(3.8)	(1.1)	1.9	4.4
Change (year on year) (%)		(2.5)	(0.7)	1.3	2.9
Cumulative change from 2015/16 (£m)		(3.8)	(4.9)	(3.0)	1.4
Cumulative change from 2015/16 (%)		(2.5)	(3.2)	(2.0)	0.9

7.17 On the assumed CPI figures, this represents a **real reduction of about £9.5m (6.2%)** in 2019/20 compared to 2015/16. The assumptions about increases in council tax base will need to deliver about £11.6m of extra income by 2019/20, implying growth in the base of 2,400 band D equivalents each year. This is far higher than the locally expected increases in properties and therefore completely unrealistic. The years which the government has used to project the base increase include the impact of changes to the assumed collection rate and to the council tax reduction scheme and also a campaign to identify incorrect single person discount claims, all of which have one-off impacts on the council tax base. The true position is therefore likely to be a spending power significantly lower than the government has projected in each year.

7.18 In relation to schools, announcements of the provisional **dedicated schools grant** (DSG) and the pupil premium have been made. The DSG is split into 3 blocks, namely Schools, Early Years and High Needs blocks. There is an allocation per pupil in the Schools block of £4,670.41. The Early Years block has an allocation per pupil of £4,486.36 for 3 and 4 year olds and £5,253.50 for 2 year olds and a provisional early years pupil premium allocation of £154k. All the per pupil allocations are unchanged from 2015/16 and therefore this is a real terms reduction in schools funding. The High Needs block is a cash limited sum set provisionally at £31.457m (2015/16 £31.577m), less a deduction for places directly funded by the Education Funding Agency of £4.122m (net £27.335m). In addition there is £43k funding for induction of newly qualified teachers. This results in a provisional DSG allocation of £177.441m for 2016/17 prior to deductions for academies, compared to a 2015/16 figure of £176.685m, an overall increase of 0.4%. The estimated net DSG after academy recoupment is £110.084m.

7.19 **Pupil premium rates** for 2016/17 have been set at £1,320 for Primary pupils and £935 for Secondary pupils eligible for Free School Meals (FSM), and £1,900 for looked after children, children who have been adopted from care or who have left care under a special guardianship order or certain other orders. There is also a Service Premium of £300 payable for children of members of the armed forces (all unchanged from 2015/16). The Sutton allocation for 2016/17 will not be finalised until June 2016 and will be passed on to individual schools at that time.

7.20 **Education Services Grant** allocations have been announced. This grant is paid to Local Education Authorities and academies to support the cost of central education services not funded from the DSG. Local authorities are funded at a rate of £77 per pupil in mainstream schools, £288.75 per place in Pupil Referral Units and £327.25 per place in special schools. They are also funded at £15 per pupil for retained duties, for every pupil both at maintained schools and academies. Sutton's provisional allocation totals £1.987m and is a reduction of £171k (7.9%) compared to the final allocations for 2015/16. The final allocation will be reduced if further academy conversions take place. Reductions in later years have been projected based on government announcements on the national cuts in aggregate ESG and it is expected that Sutton's allocations will fall to about £1m by 2018/19 and to £570k by 2019/20.

8. Revenue Budget

Base Budget – additions and other variations

8.1 In 2015/16 and future years a flat rate of 1% has been provided for **price inflation** on expenditure items and 1% on income items. This reflects the low inflation expectations over the medium term and the Council's experience over the last few years. A review of the scope of items that should be routinely adjusted for inflation has resulted in a number of income lines being removed from scope. This results in additional inflation provision of £137k being required in 2016/17, increasing to £183k by 2018/19. The adequacy of and need for inflation provision will be kept under review.

8.2 In relation to **fees and charges** on discretionary services the Council's policy is normally to set these at a level to recover full cost, except where there is an explicit decision to subsidise a service to achieve a specific policy objective. The justification for any subsidy should be kept under review in the light of changing circumstances and the achievement of agreed outcomes. Where services are being provided on a commercial basis pricing will be based on market levels, which may result in surpluses subject to any legal constraints relating to the service. This approach may deliver additional income over and above the inflation assumption in future years and this will contribute towards meeting future savings targets.

8.3 Agreement has not yet been reached on a **pay** settlement to take effect from 1 April 2016. The planning assumption is for a 1% increase in each year from 2016/17 to 2018/19. In addition, the implementation of the People Plan for 1 April 2016, as agreed by Strategy and Resources Committee in September 2015, requires additional funding of £500k as set out in the reports to the February and September Committee meetings.

8.4 Under the Localism Act the Council is required to publish a **pay policy statement** annually. Council approved the existing pay policy statement in March 2015. The proposed revised policy is attached at appendix I. This has been amended to reflect latest guidance and legislative requirements. It is recommended that the revised policy is approved for publication by Full Council on 7 March 2016. This will meet the Localism Act requirement for 2016/17.

8.5 In November 2015 the **London Living Wage** (LLW) was set at £9.40 an hour with effect from April 2016, a 2.7% increase from last year's figure of £9.15. The Council has previously decided to adopt the LLW for employees and long-term agency staff. However, the changes to pay structures arising from the implementation of the People Plan will already ensure that nearly all staff will be paid above this level and there is no requirement for further budgetary provision in 2016/17. The Council has previously considered seeking accreditation as a LLW employer, but the potential additional costs resulting from applying LLW to contractors as well as Council staff was judged to be prohibitively expensive and this is still the case although this will be kept under review.

8.6 The Local Government & Housing Act 1989 and the Local Authorities (Members' Allowances) (England) Regulations 2003 require authorities to make a scheme for payment of **allowances to councillors** and to review their members' allowances scheme on an annual basis – taking into account the advice of an independent remuneration panel (the panel). The panel is organised by London Councils on behalf of all London authorities and is required to review members' allowances every four years as a minimum.

8.7 The London Councils Independent Remuneration Panel reported in 2014 and has not met since the Strategy and Resources Committee reviewed the scheme on 23 March 2015 therefore no changes are recommended to the current scheme which is attached for approval at appendix K. Members are asked to note that Councillors Basic Allowance and Special Responsibility Allowance will be increased or decreased by the amount of the local government pay settlement each year as set out in the current scheme and it is recommended that the Monitoring Officer be delegated authority to update the scheme to reflect any such increase or decrease.

8.8 In the light of the Council's overall financial circumstances every effort has been made to keep base budget increases to a minimum. Nevertheless, the following increases are proposed for 2016/17.

- **Looked after children placement costs** £0.7m - numbers of looked after children in placements have continued to increase, reaching 216 by December 2015 which is about 6 more than expected in February 2015. A further increase in budget is proposed. It is recognised that this is a demand-led, volatile budget and if necessary further funding can be provided in-year from the risk reserve which is earmarked to mitigate a range of risks including demographic pressures on children's social care.

- **People with no recourse to public funds** £0.2m - although not at the level experienced in some London boroughs, there is a cost pressure arising in 2015/16 from people with no recourse to public funds, particularly children and young people, which is expected to continue into 2016/17.

- **Temporary accommodation** £0.2m - Sutton is experiencing an increased requirement for temporary accommodation driven by changes in the benefit system and also by people with no recourse to public funds.

- **Adult social care** £0.5m - additional costs arising from Care Act implementation and price increases on residential and nursing care placements. Can be funded from Care Act funding held centrally.

- **Electricity costs** £0.15m - electricity budgets have been reviewed across the Council and additional provision is required. This reflects differences between general inflation and energy prices in recent years. Gas budgets have also been reviewed, but no adjustment is required.

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- **Car parking income** £0.78m - car parking income budgets have been increased in previous years and have contributed to savings targets. However, the expected additional income from the changes to prices and tariff structures have not fully materialised and overspends caused by under-achievement of income budgets have been regularly reported through the performance and finance monitoring process. It is now proposed to align income budgets with current projections. It is expected that this will eliminate the structural overspend against budget in future years.

- **Prevent manager post** £0.052m - this post, which oversees the Council's work to discharge its duty under the Counter-Terrorism and Security Act 2015 to have 'due regard to the need to prevent people from being drawn into terrorism'. The post was funded on a temporary basis for 2015/16, but it is now clear that there is an ongoing need for the post and base budget provision is proposed.

- **Libraries income** £0.177m - current income budgets within the library service are not being achieved, reflecting changes in library use (reduced demand for hire of CDs/DVDs, reduced fines income due to availability of on-line renewal). It is proposed to reduce income budgets to levels that are achievable in current conditions.

- **Leisure contract** £0.2m - current budgets reflect revenue savings projected from the contract with SLM, which began in 2012 and the renovation of Westcroft Leisure Centre completed in 2013. The latest information suggests that achievable ongoing savings are lower than originally projected.

- **Individual electoral registration** £0.03m - the government provided one-off funding to meet the costs of implementing individual electoral registration. It is now clear that the ongoing costs are higher than those for the previous household registration system, but no ongoing funding has been provided.

- **Software licensing and support** £0.1m - additional costs associated with the use of proprietary software for information management in various services within Education and Early Intervention in the People Directorate.

- **London Local Authority Gold** £0.015m - the costs of servicing the London Local Authority Gold structure to manage the strategic response to emergencies across London are now being shared by London local authorities in place of the previous funding by the London Fire Brigade.

- **Concessionary fares** £0.035m - Sutton's share of the cost of the London-wide 'Freedom Pass' scheme is higher than previously provided for.

- **Recyclate income** £0.25m - there is a shortfall in budgeted income from recyclates, reflecting current market conditions. It is proposed to provide for this shortfall in 2016/17 only, funded from reserves, and to review for 2017/18 in the light of conditions at that time.

- **Smarter Council programme costs** £0.2m - the Smarter Council programme is the Council's mechanism for delivering savings and service transformation. Since initiation it has been funded from the £1m Business Change reserve set up in 2013. In order to deliver the planned programme for 2016/17 additional funding is required, which it is proposed to fund from the Invest to Save reserve.

8.9 The net impact of the changes in paragraphs 8.1 to 8.8 is to increase net expenditure in 2016/17 by £4.226m which exceeds the provision for growth (£1.0m) by £3.226m. The changes are summarised at appendix C.

Savings

8.10 In the Commissioning and Financial Planning 2016/17 to 2018/19 report to the June meeting of the Strategy and Resources Committee savings targets for Directorates totalling £27.518m over the period to 2018/19 were agreed. These targets were in addition to the savings of £3.056m in 2016/17 and £0.341m in 2017/18 already agreed as part of the 2015/16 budget process and would be sufficient to close the funding gap projected at that time. Since then plans to deliver these savings have been developed and the proposals expected to achieve savings in 2016/17 have been taken into account in this report. The savings are listed in Appendix D and are summarised below:

Directorate	**Savings Proposals**				**Target June 2015**	**Remaining**
	2016/17 over 2015/16	2017/18 over 2016/17	2018/19 over 2017/18	Total		
	£m	£m	£m	£m	£m	£m
CE's	0.275	0.045	0.000	0.320	0.908	0.588
EHR	1.237	1.800	1.086	4.123	7.346	3.223
People	3.798	1.697	0.165	5.660	18.527	12.867
Resources	0.653	0.258	0.346	1.257	0.737	(0.520)
Total	**5.963**	**3.800**	**1.597**	**11.360**	**27.518**	**16.150**

8.11 The new proposals in this report contribute net additional savings of £11.360m over the planning period towards the target of £27.517m.

Levies

8.12 Three external bodies (the Environment Agency, Lee Valley Regional Park Authority and the London Pensions Funds Authority) raise levies on the Council. The levies are apportioned between relevant boroughs according to the council tax base of each council. The estimates currently provide for an increase of 1% over 2015/16 levels on all three levies. There have been recent freezes or reductions in the LVRPA and LPFA levies, although the actual levies payable by Sutton will also depend on relative tax base changes.

Levies 2015/16 and 2016/17

	Levy 2015/16	Estimated Levy 2016/17	Change	Change
	£	£	£	%
Environment Agency	155,310	156,863	1,553	1.0
Lee Valley Regional Park Authority	212,039	214,159	2,120	1.0
London Pensions Fund Authority	263,639	266,275	2,636	1.0
Total - General Levies	628,988	637,297	6,309	1.0

8.13 Final amounts for all three levies will be reported to Full Council on 7 March 2016.

Council Tax

8.14 Financial planning for the medium term reported to members has been based on no change to council tax over the period to 2018/19. It was however noted that the budget gap could be reduced by around £5.1m if there was a council tax rise of 1.99% in each of the next three years. This would reduce the amount of savings the Council would have to find.

8.15 It is proposed in this report to recommend to Full Council to increase the Band D council tax in 2016/17 by 2% (£23.27 per annum) for the social care 'precept' permitted by the government and by a further 1.99% (£23.16 per annum) for general purposes. This will result in a Band D council tax of £1,210.03, an increase of £46.43 equivalent to just over 89p a week.

8.16 Taking up the 2% social care precept will help to mitigate the cost pressures faced by the Council on adult social care, including costs arising from changes introduced in the Care Act and other government policy changes which have not been adequately funded. The government's projections of the resources available to councils assume that the additional 2% precept is applied in each of the next four years.

8.17 The rationale for applying the 1.99% increase includes:

- the overall financial position faced by the Council means that every option to reduce the funding gap needs to be carefully considered. A council tax increase shares the burden of addressing the funding gap across all council tax payers whereas service reductions affect only users of the service. The Council will have to face difficult choices in terms of reducing services in the future. This modest 1.99% increase will help to protect key services that have a significant effect on people's lives, for example, effective prevention and early intervention that reduce the likelihood of vulnerable individuals moving into residential care;

- although council tax was increased in 2015/16, before that there had been no increase since 2009/10. Since then prices measured by CPI have increased by 11.6% (23.0% if measured by RPI, comparing March 2009 with November 2015). Had council tax been increased in line with CPI it would be £1,272.98, so the proposed rate still represents a real terms reduction over the period. The *Sutton's Future* resident engagement programme attracted many comments in support of a council tax increase as part of a strategy to close the funding gap; and,

- council tax is the largest major source of revenue funding that the Council can control. However an increase of 2% or more (in addition to the 2% social care 'precept') would require a local referendum before it could be implemented. In view of the cost of conducting a referendum this would only be worthwhile if a significantly higher increase was being proposed.

8.18 The proposed increases would result in additional council tax receipts of £3.2m in 2016/17, of which about £1.6m relates to the income from the social care 'precept'. The medium term financial plans do not assume increases in future years, this will be reviewed and considered by members as part of the future financial planning process.

8.19 There is a one-off Collection Fund undistributed surplus from 2014/15 on council tax of £1.33m, which is proposed to be used in 2016/17.

Overall General Fund Budget Position 2016/17

8.20 The proposals set out in this report deliver a balanced budget for 2016/17 with net expenditure of £144.9m. This is based on the assumption of levying the 2% social care 'precept' on council tax and an additional increase of 1.99% and is summarised at Appendix B.

Housing Revenue Account

8.21 Local authorities that own a housing stock are required to account for their management and maintenance separately from the General Fund in a ring-fenced Housing Revenue Account (HRA). As with the General Fund, HRA budget estimates are set annually.

8.22 The recently introduced Welfare Reform and Work Bill contains provisions requiring landlords of social rented housing to reduce rents by 1% from 2016/17 and by a further 1% in each of the three following years, this means that the HRA will need to find savings of £4.43m per annum by the end of the fourth year, £995k of which needs to be delivered in 2016/17. This 1% enforced reduction by central government goes against the recent policy of convergence with private rents and also goes against the recent agreement with government to 'buy out' the housing subsidy system and to not make any changes to these plans for at least 10 years. The Council took on £141m of additional debt as part of this original deal.

8.23 Sutton Housing Partnership (SHP) have been asked to look at ways that savings can be made over the coming years from its management fee, as the fee accounts for the bulk of the non-fixed HRA costs. As well as a range of possible efficiencies that could be made to revenue (day to day) services there are also some that could be made in relation to major works, with projected management fees already having been reduced. These will be explored further and set out in SHP's new delivery plan, to be submitted for approval in March.

8.24 The Council and its HRA will also be affected by two further recent policy changes. Firstly, is the intention to extend the Right-to-Buy (RTB) to housing association tenants, with the costs of doing so being funded by a requirement on local authorities to sell off their 'high value' stock. The second is the proposal that from April 2017 social tenants with incomes over a certain threshold will be required to pay a market or near market rent. However, in the case of council tenants, the additional revenue raised will be passed directly back to Central Government, so there will be no extra income to the HRA. At this stage, when a considerable amount of further detail on the first of these two policies is yet to be worked up, it is difficult to assess its impact.

8.25 The draft 2016/17 HRA estimates are based on individual dwelling rents reducing by 1% in April 2016, as required by the government. This will result in an average weekly rent of £107.76. per week. It is proposed to increase service charges by a maximum of 2% to reflect the cost of providing services, garage rents by an average of 0.9% and reduce heating charges by 8% due to the recent reduction in gas prices. Details of other proposed income and expenditure changes are set out in Appendix E along with HRA budget estimates for 2016/17 for approval.

8.26 The HRA balance at the end of 2015/16 at £3.386m is forecast to be £1.02m higher than originally planned. This is mainly because of a decision not to repay HRA debt at the end of 2014/15 which was originally provided for (£667k) and higher than expected rental income in 2015/16 due to lower voids and right to buy sales taking longer than expected to complete (£309k), and other various minor variations. The estimates provide for an end of year balance in 2016/17 of £2.259m amounting to 5.93% of turnover.

<u>Schools</u>

8.27 Expenditure delegated to schools and certain related expenditure by the Council is financed from the dedicated schools grant (DSG) and for sixth form funding from the Education Funding Agency (EFA). The total DSG amount received by the Council depends on the per pupil amount in the Schools and Early Years blocks and the number of pupils in local authority provision. The High Needs block is in addition to per pupil funding. The government's announcements with provisional funding allocations are outlined in paragraphs 7.18 and 7.19. In overall terms there is a cash freeze in per pupil amounts, which will mean a real terms reduction in funding for schools where their pupil numbers remain the same. The final DSG allocations for individual schools will be based on pupil numbers in October 2015 for the Schools block and January 2016 for the Early Years block.

8.28 Allocations to individual schools, including Academies, will be calculated using the Council's school funding formula, as prescribed by the DfE and agreed locally. Allocations to Academies are deducted from the Council's final DSG settlement and paid to the Academies directly by the EFA. The funding formula for the schools block was agreed by the Children, Families and Education Committee on 17 December 2015.

8.29 The DSG is under increased pressure due to the numbers and complexity of need affecting the High Needs block due to primary and special school numbers, actual cost of provision and the additional cost of post-19 provision.There is also pressure in the Schools Block due to continuing growth in pupil numbers and the lagged funding for these pupils. For 2016/17 there is a total growth fund of £1.9m, which is unfunded by pupil allocation. Schools, including academies are also having to deal with a real terms reduction as the unit value of the formula factors remain unchanged and the minimum funding guarantee is set at minus 1.5%.

8.30 The increase in the number of children born in the borough has continued requiring further expansion of the capacity of primary schools to meet the additional demand for places. The capital expenditure to provide additional places is funded through the capital grants, but there are also significant revenue implications for schools having to educate increased numbers of children. Expenditure incurred due to this significant growth in pupil numbers is top-sliced from the DSG each year prior to the allocation of schools funding and provides a budget pressure.

8.31 The remainder of the DSG is available to meet appropriate centrally funded school related costs including the education of children other than in local authority maintained or voluntary aided schools. Increased responsibilities in respect of 19-25 year olds with Special Educational Needs have created additional pressures on funding. Overall there are significant uncertainties throughout the schools and education funding system due to the scale of the changes being made and increased financial risks as a result.

8.32 It is expected that the unearmarked DSG balance brought forward from 2015/16 will be around £700k. Cost pressures on the DSG in 2016/17 are likely to result in a continuing overspend compared to available resources and may exceed the expected unearmarked balance. Measures to reduce DSG spend are under consideration and will need to be implemented during 2016/17.

Balances and Reserves

8.33 Councils are required to agree a budget that allows for a level of balances that provides 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 (Strategic Director – Resources) to report on the adequacy of the proposed reserves.

8.34 The existing Council policy is that a general reserve of at least 5% of net General Fund expenditure (excluding the schools budget) is necessary to provide a sound minimum level of prudence. The Council's external auditors support this policy. In 2012 Full Council agreed, in the light of identified financial risks and the potential for turbulence in the following period, to increase reserves wherever the financial plans permit in order to maintain the maximum amount of flexibility in the future.

8.35 It is not lawful for local authorities to set deficit budgets (funded by borrowing) and so reserves are key to ensuring that the Council can meet its obligations when it needs to. Over the next four years the Council faces further significant reductions in funding alongside continuing demographic pressure on key services. Although the identification and delivery of savings options to close the funding gap is continuing, time is needed to design and implement the transformational change to services that is necessary to achieve the required savings. It is therefore proposed to make a planned contribution from reserves in each of the next three years. £1.309m in 2016/17 and £2m in the following two years. This policy will be reviewed annually as part of the budget process. The Committee is recommended to agree this revised policy and to note that the planned level of General Fund balances will remain at a prudent level at the end of 2018/19 at £9.1m, representing 6.4% of the projected net revenue budget.

	1 April 2015	1 April 2016	1 April 2017	1 April 2018
	£'000	£'000	£'000	£'000
General Fund Balance	14,366	13,057	11,057	9,057

8.36 Specifically earmarked reserves not shown above include the Insurance Fund, the redundancy reserve, the treasury management and capital financing reserve and other reserves to fund specific investments and planned expenditure in the future. These are detailed in the Council's statement of accounts.

Risks

8.37 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 through the risk management strategy, the corporate risk register and Directorate risk registers. These are reviewed regularly as part of the Council's financial and performance management framework, with the corporate risk register reviewed quarterly by Strategy and Resources Committee. The consideration of key risks through the commissioning and 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. The forward plan shows a very challenging position for 2016/17 and later years. In order to achieve a balanced position savings need to be identified and implemented in a relatively short timescale and this is likely to have significant implications for some services currently provided to residents.

8.38 The principal financial risks are set out below:

- revenue grant funding – the government has offered to make the provisional allocations over the four year period firm if authorities produce an 'Efficiency Plan', the detailed requirements of which are not yet clear. Although it is helpful to have more certainty about future funding levels, there remains a risk on the impact on these allocations should the government fail to reduce aggregate public sector borrowing in line with the plans announced by the Chancellor;
- identification and delivery of required savings - the identification and delivery of savings to meet existing targets and projected future requirements remains challenging. Directorates are working to identify savings options to meet medium term savings requirements, but on current assumptions there are significant further savings yet to be identified every year after 2016/17. There is also a risk of slippage against delivery timescales for savings already identified;
- adult social care – in addition to continuing demographic pressures, there are significant additional costs for the Council arising from the implementation of the Care Act. The Council will continue, in conjunction with local government organisations, to lobby for full funding of any new burdens. There are also risks around the integration of health and social care where the Council is sharing some financial risks with the CCG as part of a pooled budget. The government has recognised the need for additional funding for social care and

this is being delivered through the ‘social care precept’ and the enhanced Better Care Fund. However, this is insufficient to address the projected cost pressures;

- children’s social care – numbers of looked after children in placements have continued to increase reaching 216 in December 2015, an increase of eight since 2014 and six more than budgeted. As set out in the report, additional resources are proposed for 2016/17, but there remain risks that numbers of looked after children will rise further (including through migration impacts) or that efforts to mitigate costs for example by recruiting additional foster carers will not deliver the expected results;
- housing - impacts through migration on homelessness, market rent pressures, government policy initiatives on reducing social rented provision and funding for right to buys in the housing association sector are all potential risks in forward planning within the Council’s housing functions;
- business rate retention - through the business rate retention scheme the Council is now exposed to a financial risk if business rate receipts are lower than expected. Although there is a ‘safety net’ to protect authorities in this position, for Sutton this would only operate beyond a loss of £30.6m of business rates, equivalent to a 200% reduction, so effectively it provides no protection. There continue to be particular risks arising from long outstanding rating appeals;
- capital receipts - the assumptions built into the funding arrangements for the capital programme may be too optimistic, despite a significant risk factor having been provided. The market for property assets remains uncertain and it may not be possible to achieve the expected sale proceeds within the planned disposal timetables, thereby reducing the resources available for investment in the capital programme. Again, reserves can play an important role in maintaining key capital investment;
- capital grant funding – the programme to expand the number of primary school places is now broadly funded, but there is a risk that government capital funding for secondary school places funding may not be sufficient to meet all the identified needs in the medium to longer term, especially since the announcement of capital allocations for basic need have been delayed. Based on announced funding only, there is currently a deficit in the four year programme.

Three Year Forecast

8.39 The medium term forecast in appendices B and C shows that on current assumptions additional savings of £7.2m in 2017/18 and a further £6.8m in 2018/19 will be required in order to achieve a balanced budget in those years, adding up to £14m by year 2018/19, after £2m contribution from reserves, so effectively a £16m funding gap going in to 2019/20. This £16m forecast gap compares to the £27.5m gap used for financial planning purposes from the beginning of this process in June 2015.

8.40 These projections are based on an assumption of no increase in council tax in future years. If, however, the social care precept was used in each of the two following years the overall funding shortfall in 2018/19 would be reduced by £3.5m to about £12.5m. If council tax was increased by a further 1.99% in each year, the gap would reduce to about £9m. The council tax assumption will be reviewed annually by Members as part of future years' budget planning, based on circumstances at the time.

9. Capital Programme 2016/17 - 2019/20

9.1 Appendix F details the background and issues considered in preparing this year's capital programme. It sets out the recommended programme for capital investment in the borough over the next four years of some £185m.

9.2 The programme is being funded by a mixture of capital receipts from the sale of surplus sites, grant funding and prudential borrowing. In a continuation of the agreed current policy it is proposed that any new prudential borrowing for the next four years agreed through the capital programme review is only on an 'invest to save' basis whereby either revenue savings or additional income can pay for the financing costs. Appendix F also sets out the policy on capital receipts and funding for agreement.

9.3 The programme reflects the Council's priorities and objectives with major investment in housing and school places as well as rolling programmes to improve highways, pavements and street lighting. The Council is also investing in car parks and libraries and continuing a programme to develop the council's capability to deliver services digitally with expected consequent improvements in customer service and efficiency.

9.4 The assumed level of prudential borrowing to finance the capital programme is £47.4m, as detailed in appendix F. This includes headroom borrowing & Local Growth Fund borrowing undertaken for the HRA of £15.6m and £31.9m of Sutton approved borrowing under prudential arrangements, this includes £26m for investment in commercial properties in line with the Investment Property Portfolio approach agreed by Members in 2015. Financing costs for borrowing to fund the purchase of commercial properties will be funded through additional rental income. Allowance for the financing costs for other borrowing approvals has been made in revenue estimates for 2016/17.

9.5 The outline HRA capital programme has been drafted on the basis of the existing Housing Revenue Account Business Plan. This expenditure over the four years (2016/17 to 2019/20) is financed by headroom borrowing & Local Growth Fund borrowing of £15.6m, right to buy receipts of £4.8m Major Repairs Reserve funding of £31.1m and revenue contributions of £16.7m. The Housing capital budget includes provision for a programme of new council house building predominantly financed by headroom borrowing and right to buy receipts. The Council was successful in a bid to the Local Growth Fund for additional borrowing approvals and the £4.05m awarded will be used for this programme.

9.6 The education programme includes provision for primary and secondary expansions and the expansion of SEN provision, however the announcement of basic need allocations for 2018/19 have not yet been announced. On the basis of confirmed funding only there is currently a funding deficit of £15m over the period. It is expected that basic need allocations for 2018/19 will go some way to filling this gap, meanwhile every effort is being made to contain the costs of school expansions within budgeted sums.

10. Treasury Management Strategy

10.1 The proposed treasury management strategy for 2016/17 is attached at Appendix H. This includes the annual investment strategy for surplus cash and borrowing including a policy statement on the minimum revenue provision required to be set aside to repay debt. Under the prudential code for capital finance, the Council can take a local decision on the level of borrowing that it considers appropriate to support new capital investment (except in the HRA where an overall borrowing cap is in place). In taking such a decision the Council has to determine that any such borrowing is affordable (by reference to the impact on the revenue budget), prudent and sustainable. In order to support any decision on prudential borrowing, local authorities are required to set a number of prudential indicators before the beginning of the financial year. These range from the setting of local limits on prudential borrowing to those that relate to treasury management activities. Monitoring against the indicators will be undertaken throughout the financial year and quarterly reports submitted to the Audit Committee. The indicators may be revised, following approval by Full Council, at any time during the year.

11. Council Tax and Resources

Net Budget Requirement

11.1 The Council's net budget revenue requirement for 2016/17, based on the proposals in this report, is £144.916m (appendix B). The proposals assume a council tax increase of 2% for the social care 'precept' and a further 1.99% for 2016/17.

Settlement Funding Assessment (SFA)

11.2 As set out at paragraph 7.6, the funding received through the Settlement Funding Assessment for 2016/17 is estimated at £58.082m. This consists of £24.751m revenue support grant, £15.710m retained business rates and £17.622m top up grant. The estimate of business rates to be collected during 2016/17 is lower than that assumed in the SFA as set out in paragraph 7.9. The Council's share is expected to be £15.606m.

National Non-Domestic Rate

11.3 The provisional business rate multipliers for 2016/17 are shown below and reflect the inflation uplift, based on an increase of 0.8% in the retail price index to September 2015. Funding will be provided to local authorities to compensate them for the effect of capping of the increase at 2% in the two previous financial years via a s31 grant agreement.

Small Business Multiplier – 48.4p per £ (48.0p in 2015/16)

Standard Multiplier – 49.7p per £ (49.3p in 2015/16)

11.4 Large individual properties in London with a rateable value of more than £55k will also be subject to a 2p in the £ business rate supplement to help pay for Crossrail. This additional levy is expected to continue until 2037/38.

The Collection Fund

11.5 Any estimated surplus or deficit arising on the Council Tax Collection Fund at 31 March 2016 has to be taken into account in calculating the Council Tax for 2016/17. The estimated surplus is nil and so no allowance has been made in the 2016/17 budget. In addition there is undistributed surplus from 2014/15 of £1.679m of which the Council's share is £1.330m. This has been included in the budget calculations.

11.6 Under the retained business rates system there is the possibility of a surplus or deficit on the business rates part of the collection fund. The surplus for 2014/15 was fully distributed during 2015/16. The estimated surplus for 2015/16 is £0.723m of which the Council's share is £0.217m. This has been included in the budget calculations.

Council Tax Requirement

11.7 The Council Tax requirement for 2016/17 is calculated as follows:

	£m
Council Net Budget Requirement	144.916
Less:	
Retained Business Rates	(15.606)
Top Up Grant	(17.622)
Revenue Support Grant	(24.751)
Collection Fund Surplus – council tax Collection Fund Surplus – business rates	(1.330) (0.217)
Council Tax Requirement	85.391

Tax Base

11.8 The council tax base calculation takes account of the council tax reduction scheme which treats council tax support as a discount on the tax bill. There are no structural changes to the council tax reduction scheme in 2016/17. The council tax base has been set by the Strategic Director – Resources, under delegated authority, on 27 January 2016 at 70,569.2 Band D equivalents. This compares to 69,723.2 in 2015/16, an increase of 1.2%.

11.9 In order to meet the council tax requirement with a tax base of 70,569.2 Band D equivalents, the Sutton Band D council tax for 2016/17 will be £1,210.03, an increase of £46.43 (3.99%) compared to 2015/16 (£1,163.60), comprising £23.27 (2%) for the adult social care 'precept' and £23.16 (1.99%) for general purposes. This is below the level that would require a referendum to be held before the council tax could be set under the terms of the Localism Act and is equivalent to just over 89p a week for Band D properties.

Greater London Authority (GLA) Precept

11.10 The GLA precept for 2015/16 was £295.00 at Band D. In the draft consolidated budget published on 21 December 2015 the Mayor of London proposed to reduce the precept by £19 (6.4%) to £276.00 for 2015/16. This provisional figure has been taken into account in the proposals set out in this report. The draft budget is due to be considered by the Greater London Authority on 22 February 2016.

11.11 The proposed GLA precept means that the total band D council tax (including Sutton's own requirement and the GLA precept) for 2016/17 will be £1,486.03. This compares with £1,458.60 in 2015/16, an increase of £27.43 (1.9%) or just under 53p a week for a Band D property.

11.12 The Greater London Authority contributed £925m towards the cost of the Olympic and Paralympic Games in 2012. This is being funded by an addition to the precept which all London Boroughs collect on behalf of the GLA. The contribution will be collected for 11 years in total. It was set at £20 for a Band D property each year between 2006/07 and 2015/16. In the final year (2016/17) it will reduce to £9. This amount is included in the £276.00 stated above and accounts for £11 of the £19 reduction in the GLA precept. In 2016/17 Sutton residents will pay £0.653m under this arrangement.

Council Tax Resolution

11.13 The budget requirement for 2016/17 inclusive of the growth and savings proposals and a draft of the formal council tax resolution is at Appendix H. This resolution is based on a council tax increase of 2% for the social care precept and a further 1.99% for general purposes. It takes into account the provisional precept notification from the Greater London Authority. The wording of the resolution is based on CIPFA Guidance and reflects amendments to the Local Government Finance Act 1992 enacted in the Localism Act 2011 and the Local Government Finance Act 2012. The resolution will be finalised and revised as necessary before consideration by Full Council on 7 March 2016.

12. Stakeholder Engagement

12.1 Consultation with Sutton's residents forms an important part of the Council's budget setting and commissioning and finance planning process. This is particularly important given the changes to services being proposed or implemented as part of the Council's Smarter Council Programme, which is the council's transformation and efficiency programme that aims to fundamentally reassess how we deliver key front line services in order to balance the budget over the next three years and meet increasing customer expectations.

12.2 To ensure that residents are informed about and involved in the savings decisions the Council has already made and will be making, the Council has been running its 'Sutton's Future' campaign since July 2014. The campaign aims to involve, inform and consult stakeholders about the changes required.

12.3 Through the consultation residents have submitted a range of suggestions and ideas about making savings and service re-design which have been fed in to Council service review teams. A priority for 2015/16 was to ensure that residents were able to have their say on the future of children's centres, libraries and the youth services, and on changes to charging for adult social care brought about by the Care Act 2014.

12.4 More information on the Sutton's Future consultation can be found at www.sutton.gov.uk/suttonsfuture

13. Impacts and Implications

Financial

13.1 Financial implications are covered in the report.

Legal

13.2 The Local Government Act 2003 requires the Chief Finance Officer to report to Council as part of the budget process on the robustness of the estimates and the adequacy of the proposed financial reserves. The Council is required by the Local Government Finance Act 1992 to make specific estimates of gross revenue expenditure and anticipated income leading to the setting of the overall budget and council tax. The amount of council tax must be sufficient to meet the council's legal and financial commitments, ensure the proper discharge of its statutory duties and lead to a balanced budget. The proposed budget and timetable will meet the council's duty to set a balanced duty and council tax

13.3 The Localism Act 2011 provides for a council tax referendum to be held if an authority increases its relevant basic amount of council tax in excess of principles determined by the Secretary of State. In December 2015, the Spending Review announced that most principal authorities, which includes Sutton council, proposing increases of 2% or more will need to hold a referendum. However, in addition, councils with adult social care responsibilities may increase council tax by up to a further 2% (so the overall referendum limit is 4%), subject to confirmation that the adult social care budget would have otherwise been lower by that amount. The proposal is not to increase the council tax by 4% or more and therefore, a referendum would not be required.

13.4 In considering the budget for 2015/16, members must consider the on-going duties under the Equality Act 2010 to have due regard to the need to eliminate unlawful discrimination, harassment and victimisation; and advance equality of opportunity between people who share a protected characteristic and those who do not; and foster good relations between those who share a protected characteristic and those who do not. Members must consider how the decisions will contribute to meeting these duties in light of other relevant circumstances such as economic and practical considerations.

13.5 It is a statutory requirement under the Localism Act 2011 to approve the Pay Policy Statement on an annual basis.

13.6 The Local Government & Housing Act 1989 and the Local Authorities (Members' Allowances) (England) Regulations 2003 require authorities to make a scheme for payment of allowances to councillors and to review their members' allowances scheme on an annual basis having regard to the recommendations of an independent remuneration panel

14. Appendices and Background Documents

Appendix letter	Title
A	Strategic Commissioning Plan 2016/17
B	Gross Budget Trail
C	Resource Shortfall Tracker
D	Savings
E	Housing Revenue Account Estimates 2016/17
F	Capital Programme 2016/17 to 2019/20
G	Treasury Management Strategy 2016/17
H	Council Tax Resolution
I	Pay Policy Statement 2016/17
J	Gross and Net Expenditure by Directorate
K	Members' Allowances Scheme

Background documents
None

Audit Trail		
Version	Final	Date: 28/01/16
Consultation with other officers		
Finance	Yes	Phil Butlin
Legal	Yes	Fiona Thomsen

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