

EXETER CITY COUNCIL

SCRUTINY COMMITTEE - RESOURCES 23 JANUARY 2013

EXECUTIVE
5 FEBRUARY 2013

REVENUE BUDGET PROPOSALS 2013/14

1. PURPOSE OF THE REPORT

- 1.1 This report outlines the strategic framework within which the estimates have been prepared and circulated for discussion and comment during December and highlights the issues that will affect the actual setting of the overall level of council tax.
- 1.2 This report also summarises the overall budget position arising from the current cycle of Scrutiny Committee meetings.

2. BACKGROUND

- 2.1 At its meeting of 4 December 2012, the Executive approved a budget strategy based upon key assumptions including the likely level of available resources and identified spending pressures. This strategy, including the revised medium term financial plan, indicated that the Council needed to reduce its revenue budget by about £2.9 million over the next four years.
- 2.2 Next year will see significant changes affecting Council finances being introduced by Government. These include the following:
 - Local Government Resources Review including Local Business Rate Retention
 - Pooling Arrangements for Business Rates
 - Welfare Reforms and localising support for Council Tax Benefit
 - Technical Reforms to Council Tax
- 2.3 The Government has now announced the provisional two-year local government finance settlement covering 2013/14 and 2014/15. For Exeter the guideline figures are as follows:
 - Formula Funding 2013/14 £7,811,885 (decrease 5.4% against 2012/13 'adjusted' formula funding)

The provisional settlement now indicates that in overall cash terms our 2013/14 formula funding will decrease by £445,922 against the 2012/13 'adjusted' formula funding amount of £8,257,807.

3. LOCAL GOVERNMENT RESOURCE REVIEW INCLUDING LOCALISATION OF BUSINESS RATES

- 3.1 The localisation of Business Rates is intended to provide incentives for local authorities to drive economic growth, as local authorities will be able to retain a share of any growth that is generated in Business Rates revenue in their areas, as opposed to the current system where all Business Rates revenues go to central Government for distribution.
- 3.2 Under the new proposals the overall level of funding to each authority from Central Government for 2013/14 reflects the amount which would have been receivable from Formula Grant (i.e. grant and share of redistributed business rates) had there been no change to the system.
- 3.3 This is achieved by first splitting the business rates collected in the following proportions:
- 50% - to Central Government
 - 9% - to Devon County Council
 - 1% - to the Fire Authority
 - 40% - to be retained by Exeter City Council (the District's Business Rates Baseline)
- 3.4 Whilst there will be some local authorities that earn more in business rates than they used to receive from the current formula grant, there will be others who earn less. The Government takes account of this by introducing a system using "top-ups" and "tariffs". In overall terms however there is no new money for this finance system; it is a redistribution of the current monies allocated to Local Government but on a different basis.
- 3.5 Going forward however, the new system does allow local authorities to keep part of any increase in growth in their business rates base. The element of growth retained by each local authority has now been set at 50%. This will enable more business rates growth to be retained locally than was previously forecast.

4. POOLING ARRANGEMENTS FOR BUSINESS RATES

- 4.1 All the Devon Authorities have been jointly working together and have determined that based on early release of data it would be beneficial to form a Business Rates Pool for Devon. It is expected that pooling will offer the Devon authorities an opportunity to retain more of the business rates generated in their areas, due to the way in which the new process will operate. A proposal for a Devonwide Pool signed off by each relevant s151 officer and Chief Executive was submitted to Government by 9 November deadline.
- 4.2 The Government allowed local authorities a further chance to withdraw from pooling arrangements as long as a decision was made within 28 days of the draft report being published. The deadline of 15 January has now passed and the Council's section 151 officer (Assistant Director Finance) in consultation with the Leader has recommended that Exeter remains within the proposed Business Rates Pool for Devon.
- 4.3 The medium term financial plan has assumed an additional amount of £100,000 next year arising from pooling and localisation of business rates, increasing in subsequent years. At this stage this is a prudent forecast which will only become more certain in future months when the full impact of the new business rates scheme can be more accurately determined.

5. WELFARE REFORM INCLUDING LOCALISING SUPPORT FOR COUNCIL TAX

- 5.1 With the introduction of the Welfare Reform Bill, the Government plans that local authorities will no longer be responsible for the administration of Housing Benefit payments. Benefits payments will form part of the Universal Credit proposals amalgamating a number of welfare payments into one system administered directly by the Department for Works and Pensions (DWP). It is currently proposed to be introduced in October 2013 with a lengthy period of implementation and customers rolling into the system at different stages. This clearly brings with it uncertainties for customers, Council staff and financial uncertainty in understanding clearly the role the Council will play in the future. There is a risk in the calculations to be used by Government to reduce funding to reflect the stopping of this responsibility that the Council could be left disadvantaged.
- 5.2 As part of the Welfare Reform and linked with the Local Government Finance Act, the Government are Localising Support for Council Tax. This has been the subject to a separate report to Executive on 20 November 2012. The proposals are that the Council will become responsible for assisting those on low incomes to help meet their Council Tax liability, not only in terms of administering a scheme but actually setting the scheme details locally. The financial risks associated with this relate to how the Council will be financially reimbursed for the payments made under the scheme and the cost of administration. Under the current system, Council Tax Benefit payments are reimbursed directly to the Council based on actual cost. The new system will instead be based upon an annual allocation and not linked to actual costs thereby giving significant risk to local authorities on potential costs incurred. The Governments financial target of introducing this change is to reduce overall expenditure by 10%, thereby putting local authorities into a difficult position of having to reduce benefits/discounts to those on low incomes compared with the current scheme.

6. TECHNICAL REFORMS TO COUNCIL TAX

- 6.1 The Government is introducing a number of technical reforms to Council Tax from April 2013. The reforms give billing authorities more flexibility on some of the discounts that can be granted which will provide the opportunity to generate additional income. This flexibility relates to:
- Second Homes
 - Empty Properties
 - Properties undergoing or requiring structural works
- 6.2 The reforms were considered as part of a separate report to Executive on 20 November which considered the reforms in more detail. Following approval the reforms will raise an additional £374,000 in council tax revenue of which £33,000 will be directly attributable to the City Council.

7. KEY ASSUMPTIONS

- 7.1 In order to produce the Council's medium financial plan and annual revenue budget a number of factors have to be taken into consideration. Economic factors outside of our control such as inflation, interest rates, and economic growth etc. can have a huge impact upon the council's overall financial position. Consequently it is necessary to make a number of assumptions on such issues so that a meaningful financial plan can be produced.

7.2 With regard to inflation the following assumptions have been made with regard to the revenue budget for 2013/14:

7.3 As a means of finding efficiency savings many non-pay budgets will again not be fully increased for inflation. There will be some exceptions to this in particular where there are ongoing contractual arrangements in place and where the Council has to meet the full price increase e.g. insurance and fuel. Recently released figures show that the rate of Consumer Prices Index (CPI) inflation in the UK remained unchanged at 2.7% during November. Retail prices index (RPI) inflation, which includes housing costs, fell to 3% during November, down from 3.2% in October.

7.4 With regard to interest rates the Bank of England has continued to put the base rate of interest on hold at only 0.5% since March 2009. Most analysts are predicting that interest are likely to remain at their historically low levels in the short term with perhaps only a modest increase towards the end of the next financial year. The low levels of interest rates affect the City Council in different ways. On the negative side the Council has to assume low investment returns on cash deposits. Conversely, on the positive side, the low interest rates currently prevailing means that the cost of short term borrowing remains low. This is particularly important to the City Council now that it has to make use of borrowing in order to fund a significant part of its capital programme.

8. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2013/14

8.1 As indicated above the provisional settlement provides local authorities with their provisional funding allocations for the next two years. The final allocations are expected to be confirmed in January 2013. The City Council's provisional formula funding settlement for 2013/14 is £7.812 million and this represents an overall cash decrease of £0.446 million (5.4%) compared to the current year 'adjusted' formula funding of £8.258 million.

8.2 Appendix 1 shows as a comparison the formula funding settlement figures for all Devon authorities covering the current spending review period up to 2013/14. The final settlement figures will be announced later this month but at this stage it is not expected that they will be significantly different from the provisional announcement. They appear to show that in comparison with most other Devon Districts the City Council has fared slightly better in percentage terms of formula funding reduced.

8.3 In the grant settlement the Government announced that councils will face an average cut of 1.7% based upon council's 'revenue spending power'. Revenue spending power is a definition used by the Government, which encompasses an individual authority's:

- Council Tax Requirement;
- Formula Grant;
- New Homes Bonus
- Other Grants; and
- NHS funding for social care (not applicable for district councils).

Appendix 2 shows a comparison of Devon authorities using this definition of revenue spending power. Using this measure Exeter's revenue spending power has increased by 2.3% for 2013/14, which compares favourably both nationally and with the other Devon authorities. This is primarily due to this Council's success in generating additional New Homes Bonus funding.

9. MONITORING OF REVENUE SAVINGS – 2012/13

9.1 The revenue budget for the current financial year incorporated proposed savings of £1 million. These savings are monitored during the year as part of the stewardship process and the most recent revenue budget overview report to Executive in December indicated that the Council is on track to deliver those savings.

10. FURTHER ISSUES TO BE CONSIDERED

10.1 Before the Council can finalise its revenue budget for next year there are a number of issues that require further consideration as follows: -

- Equality Impact Assessment
- Central Government advice on the level of Council Tax
- New Homes Bonus
- Future spending pressures and review of the medium term financial planning process
- The level of reserves and balances

11. EQUALITY IMPACT ASSESSMENT

11.1 Equality Impact Assessments (EQIA) form part of the Council's decision making process and are a tool to help the Council identify what effect or possible effects its work may have on different groups of people. All local authorities have a legal responsibility to assess their policies and functions, and to set out how they will monitor any possible negative impact on equality target groups. The Council needs to consider the impact on equalities of all new and reviewed Council strategies, policies, projects, services or functions, budget decisions and restructures. By anticipating the consequences of its actions on equality groups the Council can make sure that, as far as possible, any negative consequences are eliminated, minimised or counterbalanced by other measures, and opportunities for promoting equality are maximised. As part of this process any revenue savings proposals are assessed for any potential equality issues and EQIA's are undertaken as appropriate with the results available on the council's web site. An EQIA has previously been undertaken for both the Council's senior management restructure and organisational review process.

12. COUNCIL TAX

- 12.1 On 8 October 2012, the Chancellor of the Exchequer announced an extra £450 million fund for local authorities who decide to freeze council tax next year. If they do, councils, police and fire authorities will stand to receive £225 million of funding in both financial years 2013/14 and 2014/15, equivalent to raising their 2012/13 council tax by one per cent.
- 12.2 As part of the Local Government Finance settlement the Secretary of State has also announced the council tax referendum principles he proposes to set. He has proposed that a two per cent referendum principle will apply for all local authorities, Police and Fire and Rescue Authorities. This means that if an authority wishes to raise their relevant basic amount of council tax in 2013/14 by more than two per cent, they will have to arrange for a referendum to give the local electorate the opportunity to approve or veto the increase. The result of a referendum will be binding. However importantly there are some exceptions to the 2 per cent excessiveness principle, covering shire district councils, Fire and Rescue Authorities and Police Authorities whose 2012/13 own Band D council tax is in the lower quartile for their category of authority. For these authorities a referendum need only be held where the increase in the relevant basic amount of council tax for 2013/14 is more than 2 per cent and there is a cash increase of more than £5 in the relevant basic amount.
- 12.3 Exeter is identified as an authority that falls into the lower quartile and could therefore increase its council tax next year by up to £5 before a referendum would be triggered. The band D council tax for Exeter is currently £124.84 and an increase of £5 per year equates to an increase of 4.0%. If the Council decided to increase its level of council tax by 4% this would increase council tax revenue by £170,000.
- 12.4 The Budget Strategy presented to Executive in December had assumed that council tax would increase by 2%. However taking into account the revised referendum threshold and the Council's current low level of council tax it is now assumed that council tax can increase by £5 next year.

13. NEW HOMES BONUS

- 13.1 The New Homes Bonus is designed to create an effective fiscal incentive to encourage local authorities to facilitate housing growth. The scheme provides local authorities with a New Homes Bonus grant, equal to the national average for the council tax band on each additional property and paid for the following six years as an unringfenced grant. There is also an enhancement for affordable homes. Whereas previously DCLG has allocated additional funding for the scheme in 2011/12 and 2012/13, this is no longer the case from 2013/14 onwards with funding for the scheme being 'top-sliced' from mainstream grant funding.

- 13.2 To date the Council has received New Homes Bonus of £389,165 in 2011/12, £1,322,664 in 2012/13 and provisionally notified that it will receive a further £2.205 million in 2013/14. The Executive has recently approved a revised allocation that sets out how the New Homes Bonus funding should be used from 2013/14 onwards. Based upon this revision and using future estimates of New Homes Bonus funding the allocation is set out in the table below:-

Year	Top Slice £000's	Community Projects £000's	Major Infrastructure £000's	Unallocated £000's	Total £000's
2011/12	-	-	-	389	389
2012/13	120	361	601	241	1,323
2013/14	120	250	1,418	417	2,205
2014/15	120	250	1,937	547	2,854
2015/16	120	250	2,456	677	3,503
2016/17	120	250	2,975	806	4,151
2017/18	120	250	3,183	858	4,411
Total	720	1,611	12,570	3,935	18,836

14. FUTURE SPENDING PRESSURES AND REVIEW OF THE MEDIUM TERM FINANCIAL PLANNING PROCESS

- 14.1 The Council has a medium term financial strategy that forms an integral part of its formal financial planning processes. The key elements of this strategy form part of the overall Budget Strategy that is approved by Council each year. As a brief reminder the Medium Term Financial Strategy contains the following key points:

- It sets out a 5 year revenue financial plan (covering the period to 2016/17)
- It identifies the likely level of grant support from the government
- Sets out the likely level of future council tax increases
- Identifies future service cost variations
- Identifies level of future investment income and costs of borrowing
- Takes into account the revenue consequences of the Capital Programme
- Identifies the future amount of efficiency savings/cost reductions required for a balanced budget

- 14.2 An updated medium term financial plan (MTFP) covering the period 2012/13 to 2016/17 is attached in Appendix 3. The proposed reductions for next year's revenue budget are £2.19 million.

- 14.3 Although the Council is required to approve an annual revenue budget it does also need to take into account future spending pressures and the likely level of available resources covered by its medium term financial plan. The latest forecast MTFP currently indicates that in addition to the savings proposed for next year the Council will need to reduce its revenue budget by a further £727,000 in 2014/15, £836,000 in 2015/16 and by a further £885,000 in of 2016/17. This would amount to **a cumulative reduction of £2.448 million over the following three years** as shown in the following table:-

Year	Required Savings £000
2014/15	727
2015/16	836
2016/17	885
Total	2,448

- 14.4 Looking to the longer term there are a number of uncertainties and factors that could affect the future financial position. These include: the amount of grant support from central government after 2013/14 including localisation of business rates, the level of future years' pension contributions, potential costs arising from the review of service plans, the cost of any new statutory functions, and additional borrowing and revenue costs in respect of any new capital programme commitments. Any additional revenue costs that are not currently identified within the medium term financial plan will now have to be met from further savings.

15. BALANCES AND RESERVES

- 15.1 The Council's current policy is such that the minimum level of the General Fund Balance will now be £2 million. This is considered a sufficient level taking into account the potential level of financial risk facing the Council in the medium term. The latest estimated position of the General Fund Balance is that it will be £3.476 million as at 31 March 2013, equivalent to 25.3% of Exeter's net revenue budget. The Council's revised medium-term financial plan (Appendix 3) indicates that the General Fund Balance will be reduced to the minimum recommended level of £2 million by the end of 2016/17.
- 15.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2013/14 includes a net transfer to earmarked reserves of £2,443,000. This is broken down as shown below:-

Transfer (from)/ to reserves:

	£
New Homes Bonus	2,205,000
Restructuring	<u>238,000</u>
	2,443,000

16. REVENUE ESTIMATES 2013/14 (APPENDIX 4)

- 16.1 The Council's revenue estimates for next year are being considered during the current cycle of Scrutiny Committee meetings for the final budget report to the Executive on 5 February 2013. In total, Service Committee Expenditure for 2013/14 is £11,786,320 which is £1,790,630 less than the current year. A summarised breakdown of this decrease is shown below: -

£000's

Service Committee Expenditure 2012/13	13,580
Net Inflation Allocation	272
Increase in service costs	124
Revenue Savings	<u>(2,190)</u>
Service Committee Expenditure 2013/14	11,786

- 16.2 In addition there are other items to take into account referred to as 'below the line' as they do not form part of the individual service controllable budgets. These include an estimate of £140,000 for net borrowing in respect of the overall cash balances, £1,358,000 towards meeting the borrowing costs of the Council's capital programme, and new homes bonus grant and transfers in respect of balances and reserves. The Council's total General Fund Expenditure budget requirement for 2013/14 is planned to be £13,522,406, a decrease of £234,746 (1.7%) compared to 2012/13.

17. COUNCIL TAX BUDGET REQUIREMENT 2013/14

- 17.1 When all the Government Grant funding is taken into account the resultant net expenditure to be financed from council tax is £4,391,189 (as indicated in Appendix 4), a decrease of £365,403 (7.7%) compared to 2012/13. The reason for the decrease is due to the replacement of council tax benefit by the new localised council tax support scheme.
- 17.2 Each year the Council must estimate the likely surplus or deficit position on its Collection Fund and any such amounts must be taken into account when determining the band D Council Tax amount for 2013/14. For next year it is estimated that the collection fund will break even resulting in neither a surplus or deficit position.
- 17.3 As indicated above it is proposed that the net expenditure to be funded by council tax for 2013/14 is £4,391,189. When the tax base of 33,820 divides this amount, the proposed band D council tax for 2013/14 will be £129.84, which means that the council tax will increase annually by £5.

18. SUMMARY

- 18.1 Although the final grant settlement figures from the Government are not expected to be available until the end of January it is unlikely that they will be significantly different from the provisional settlement figures used elsewhere in this report. Based on this and the proposed revenue estimates presented to each Scrutiny Committee the proposed council tax increase for next year will be £5 (4.0%).

19. RECOMMENDATION

- 19.1 That Scrutiny Committee – Resources notes the recommendation to the Executive and comments accordingly.
- 19.2 Executive approves the Draft Revenue budget proposals for 2013/14 and that the recommended minimum level for the General Fund Working Balance remains at £2 million.

ASSISTANT DIRECTOR FINANCE

CORPORATE SERVICES DIRECTORATE

Local Government (Access to Information) Act 1985 (as amended)

Background papers used in compiling this report:

None