

EXETER CITY COUNCIL

REPORT TO: EXECUTIVE
DATE OF MEETING: 10 FEBRUARY 2015
REPORT TO: COUNCIL
DATE OF MEETING: 24 FEBRUARY 2015

REPORT OF: ASSISTANT DIRECTOR FINANCE
TITLE: GENERAL FUND / HRA ESTIMATES AND CAPITAL PROGRAMME 2015/16

Is this a Key Decision?

Yes

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To approve the General Fund revenue estimates for 2015/16 and to recommend the Band D level of Council Tax for 2015/16. This report also includes the proposed Capital Programme for 2015/16 and future years, and the proposals in respect of the Housing Revenue Account.

2. Recommendations:

2.1 It is recommended that :

2.1.1 the Council's overall spending proposals in respect of both its revenue and capital budgets are approved;

2.1.2 the council tax for each Band be recommended to the Council as set out in section 8.19.3 subject to Devon County Council, OPCC Devon and Cornwall and the Devon and Somerset Fire Authority confirming their Band D levels respectively;

2.1.3 when the actual council tax amounts for Devon County Council and the Devon and Somerset Fire Authority are set then the revised council tax levels be submitted to Council on 24 February 2015 for approval;

2.1.4 Members note the Statement given by the chief finance officer as required under Section 25 of the Local Government Act 2003.

3. Reasons for the recommendation:

3.1 To ensure that the Council is in a position to set a budget and determine the Council Tax for the City of Exeter in line with the statutory timeframe.

4. What are the resource implications including non financial resources

4.1 The report sets out the proposed budgets for 2015/16. Details of the resource implications are set out in section 8.

5. Section 151 Officer comments:

5.1 The proposed budget will achieve the requirement to maintain a minimum balance in excess of £2 million. The Medium Term Financial Plan is reliant on substantial savings being delivered over the next three years in order to maintain and strengthen the Working Balance.

6. What are the legal aspects?

6.1 The Council is required by the Local Government Act 1992 to determine the Council Tax for the following year. In order to do this, a balanced budget is prepared.

7. Monitoring Officer's comments:

7.1 This report raises no issues of concern for the Monitoring Officer.

8. Report Details:

8.1 LOCAL GOVERNMENT FINANCE SETTLEMENT

8.1.1 The Government announced the provisional Local Government Settlement on 18 December 2014. The Council is to receive £6.635 million in 2015/16, which is £11,000 lower than predicted within the Medium Term Financial Plan. At this stage there is no intention to revisit the budgets set and the shortfall can be taken from balances.

8.1.2 Appendix 1 shows as a comparison the formula funding settlement figures for all Devon authorities. 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. The figures show that in comparison with the other Devon Districts the City Council has fared worse in percentage terms of formula funding reduced.

8.1.3 In the grant settlement the Government announced that councils will face an average cut of 1.8% 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 reduced by 3.1% for 2015/16.

8.2 COUNCIL TAX

8.2.1 The Chancellor of the Exchequer has again announced funding for local authorities who decide to freeze council tax next year. If they do, councils, police and fire authorities will stand to receive an equivalent to raising their council tax by one per cent. The Council would receive £51,601 in Council Tax Freeze Grant if it were to freeze Council Tax. In addition, the Government has confirmed the local authority tax referendum threshold will remain at two per cent.

8.3 BUSINESS RATES POOL

8.3.1 Local Authorities in Devon (with the exception of South Hams DC) have agreed to form a Business Rates pool for a third year. The benefits of the pool are that any additional growth within Devon is shared between the Council's in Devon rather than a levy being paid over to Central Government. However there are risks that where a Council's Business Rates income falls below their safety net, then it is the responsibility of the members of the pool to make payments to them rather than Central Government. The budget allows for a small gain from pooling and in total along with growth in Business Rates there is a budget of £561,000.

8.4 KEY ASSUMPTIONS

8.4.1 An overall allowance of £258,000 has been allowed for inflation. The inflationary increases allowed in the budget are:

Pay award	1.0%
Pay – Increments	0.5%
Electricity	3.0%
Gas	2.8%
Oil	4.0%
Water	0.0%
Insurance	3.0%
Rates	2.8%
Fuel	5.0%
General Inflation	0.0%
Income (excluding Car Parks)	2.5%

8.4.2 General inflation has again been held at zero; however where there are contracts in place, inflation at around RPI has been added.

8.4.3 In respect of interest rates, next year's budget reflects the likelihood that whilst base rate may remain low, it is likely that the cost of borrowing will increase and the Council may begin to take out borrowing over a longer timeframe as a result.

8.5 FURTHER ISSUES TO BE CONSIDERED

8.5.1 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
- New Homes Bonus
- Future spending pressures and review of the medium term financial planning process
- The level of reserves and balances

8.6 EQUALITY IMPACT ASSESSMENT

8.6.1 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.

8.7 NEW HOMES BONUS

8.7.1 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 has no longer been the case since 2013/14 with funding for the scheme being 'top-sliced' from mainstream grant funding. There is real uncertainty about whether the New Homes Bonus will continue following the General Election in May and therefore no assumptions have been made about New Homes Bonus for the years after 2015/16.

8.7.2 To date the Council has received New Homes Bonus of £0.389 million in 2011/12, £1.323 million in 2012/13, £2.205 million in 2013/14, £2.778 million in 2014/15 and will receive a further £3.529 million in 2015/16. Council has approved a revised allocation that sets out how the New Homes Bonus funding should be used from 2014/15 onwards. Based upon this revision the allocation is set out in the table below:-

Year	Top Slice (revenue) £000's	Community Projects £000's	Ward Grants £000's	Major Infrastructure / Debt Finance £000's	Specific Projects £000's	Total £000's
2011/12	-	-		-	389	389
2012/13	120	361		601	241	1,323
2013/14	120	250	36	1,757	42	2,205
2014/15	120	250	36	2,372	-	2,778
2015/16	120	250	36	3,123	-	3,529
Total	480	1,111	108	7,853	672	10,224

8.8 REVISED MEDIUM TERM REVENUE PLAN (APPENDIX 3)

8.8.1 An updated Medium Term Financial Plan (MTFP) is set out in Appendix 3. There have been a number of changes to the financial plan since it was reported in December after additional spending pressures were identified either during the budget setting process or through announcements made during late December. The MTFP currently indicates that additional savings required over the next two years (2016/17 – 2017/18) total £3,033,000. The additional savings over the medium term are set out in the table below:-

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Savings required	0	(2,500)	(533)	0

8.8.2 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 2015/16 including localisation of business rates, 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 have to be met from further savings.

8.9 BALANCES AND RESERVES

- 8.9.1 The Council's current policy is such that the minimum level of the General Fund Balance will remain above £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 £2.892 million as at 31 March 2015, equivalent to 21.4% 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 a low point of £2.522 million by the end of 2015/16.
- 8.9.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2015/16 includes a net transfer to earmarked reserves of £1,607,980. This is broken down as shown below:-

Transfer (from)/ to reserves:

	2015/16 £'000
Transfers to Reserves	
New Homes Bonus	<u>3,529</u>
	3,529
Transfers from Reserves	
New Homes Bonus	(1,193)
NNDR Deficit reserve	<u>(728)</u>
	(1,921)

8.10 REVENUE ESTIMATES 2015/16 (APPENDIX 4)

- 8.10.1 The Council's revenue estimates for next year have been considered during the previous cycle of Scrutiny Committee meetings in time for this final budget report to the Executive on 10 February 2015. In total, Service Committee Expenditure for 2015/16 is £12,526,710 which is £467,460 higher than the current year.
- 8.10.2 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 £150,000 for net borrowing in respect of the overall cash balances, £1,571,000 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 2015/16 is planned to be £11,956,980, a decrease of £1,515,718 compared to 2014/15.

8.11 COUNCIL TAX BUDGET REQUIREMENT 2015/16

- 8.11.1 When all the Government Grant funding is taken into account the resultant net expenditure to be financed from council tax is £4,760,790 (as indicated in Appendix 4), an increase of £191,092 compared to 2014/15.
- 8.11.2 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 2015/16. For next year it is estimated that the collection fund will have a surplus (£67,782), which will be used to fund part of the expenditure to be financed from Council Tax.

8.11.3 After taking into account the surplus and the taxbase of 34,750, the proposed band D council tax for 2015/16 will be £135.05, which means that the council tax will increase annually by £2.63 or 1.99%.

8.12 HOUSING REVENUE ACCOUNT (HRA) (APPENDIX 6 & 7)

8.12.1 Since April 2012, the Council's HRA is expected to be self-financing. Thus all income collected locally from rents, service charges and other sources are kept at a local level to deliver housing services to tenants and to maintain the housing stock.

8.12.2 The main features of self-financing are:

- The HRA is framed by the Local Government and Housing Act 1989. This Act created the ring-fence and the structure within which the HRA operates and covers the detailed operation of the HRA, including the credits (income) and debits (expenditure) which make up the account.
- The Government have put a limit on the amount of borrowing the authority can have for the purposes of the HRA, called the 'debt cap'. For Exeter City Council, the debt cap is £57,882,413.
- The Chancellor's Autumn Statement announced that the cap limiting the amount councils can borrow will be increased by £150m in both 2015-16 and 2016-17. This allocation will be subject to a competitive bidding process with local authorities submitting proposals to build new homes using the additional borrowing facility.
- Local authorities are expected to maintain a long term housing business plan for financial and service planning, monitoring progress and managing risk.

8.12.3 In the 2013 Spending Round, the Government announced a new social housing rent policy to apply for ten years from 2015/16 to 2024/25. Under the new policy, rents in the social sector should increase by Consumer Price Index inflation (CPI) + 1 percent annually.

For 2015/16 this represents an increase of 2.2% (CPI + 1%), which will result in an average increase £1.65 per week, over 52 weeks, per property.

8.12.4 In April 2012 the Council signed up to the Right to Buy Retention agreement with the Department for Local Government and Communities. Under the agreement the Council has committed to reinvesting Right to Buy receipts in the provision of replacement homes and agreed to match fund the investment within a 3 year time-frame.

To date, the Council has retained £2.5m in Right to Buy receipts which needs to be spent on new affordable housing. This will be fulfilled by the development of new social housing at Newport Road, Bennett Square, Brookway and Rennes House car park as part of COB Wave II.

8.13 CAPITAL PROGRAMME RESOURCES (APPENDIX 8)

- 8.13.1 In previous years the annual capital programme has been financed from Government allocated grants together with money from the Council's own capital receipts and capital reserves. However the funding from these sources has now reduced and as a result the Council has to use borrowing instead to fund a significant part of its proposed capital programme. This also has an ongoing impact on the Council's revenue budget. The Council must ensure that any borrowing decisions remain affordable and to this end, has to adopt a number of prudential indicators, which are set out in the Prudential Code for Capital Finance in Local Authorities developed by CIPFA. A separate report to this meeting of the Executive sets out the Council's Prudential Indicators for approval by members.
- 8.13.2 The available capital resources for General Fund and Housing for 2015/16 are £12.363 million. An estimated spend of £4.813 million is required in respect of the General Fund and £11.537 million for the HRA. The total spend on capital will be £16.350 million of which £3.987 million will have to be funded from borrowing. Appendix 8 sets out the forecast use of the resources available for the General Fund and the Housing Revenue Account and the likely amounts of borrowing that will be necessary to fund the capital programme in the future.

8.14 GENERAL FUND CAPITAL PROGRAMME (APPENDIX 9)

- 8.14.1 The proposed capital programme is set out in Appendix 9. The programme for 2015/16 totals £4.813 million. The capital programme has been set out in line with the Council's current purposes, in order to demonstrate how the Council's capital priorities help to contribute towards their achievement. Although a number of schemes contribute to the achievement of more than one purpose, they have been placed under the purpose to which it is considered the scheme contributes the most.

8.15 HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME (APPENDIX 10)

- 8.15.1 For 2015/16 the medium term financial strategy provides for a HRA capital programme of £11.537 million. This is funded from:
- Major Repairs Allowance £3.660 million
 - Revenue Contributions to Capital £5.772 million
 - Capital Receipts £0.500 million
 - Commuted Sums £1.605 million

8.16 RISK ASSESSMENT

- 8.16.1 It has already been mentioned above in this report that our financial forecasts are based on a number of assumptions including the level of inflation, interest rates, income levels, support from the Government and general prevailing economic conditions. In addition there are a number of uncertainties that could affect the financial position either now or in the future. These include the level of future years' pension contributions, potential costs arising from the review of service plans, and the cost of any new statutory functions.

- 8.16.2 Although the Council faces risks from the assumptions and uncertainties outlined above these have been mitigated by the following:
- Adopting a prudent approach to financial forecasting which involves obtaining information from external professional sources
 - Continuous monitoring and review of the key factors together with regular reports to Strategic Management and Members on any key issues
 - Regular budget monitoring meetings with budget managers to ensure that budget pressures are identified at the earliest opportunity
 - The adoption of robust financial management arrangements including option appraisal, risk assessment and financial monitoring
 - Retaining a prudent level of reserves and balances

8.16.3 As part of the general budget-setting process the Council needs to also consider the risks inherent in the budgets set and the adequacy of the measures put in place to manage the potential risks.

8.17 **STATEMENT OF THE ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES**

8.17.1 There is a requirement under Section 25 of the Local Government Act 2003 that requires the chief finance officer of a local authority to formally report to its members on the robustness of the estimates and the adequacy of its reserves when it is considering its budget and council tax.

8.17.2 I have already outlined above in this report the key assumptions that have been made in the budget proposals for next year including an assessment of the risks and mitigating factors. As the chief finance officer for this Council I therefore consider that the budget estimates for 2015/16 that have been prepared are both robust and achievable.

8.17.3 The Council's current policy is such that the minimum level of the General Fund Balance will 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 £2.892 million as at 31 March 2015, equivalent to 21.4% of Exeter's net revenue budget. The Council's current medium-term financial plan indicates that the General Fund Balance will be reduced to a low point of £2.522 million by the end of 2015/16.

8.17.4 The Council's financial strategy recognises the need to maintain a General Fund Balance to provide stability for both medium and longer term planning and to provide a contingency against unforeseen events. In setting this minimum amount of £2 million the following have been taken into account: -

- The size of the authority
- The volatility of some income and expenditure budgets
- The risks faced by the Council with regard to funding unforeseen events
- The financial risks inherent in partnerships, outsourcing deals and as accountable body for external funding

8.17.5 The Council's estimated revenue Reserves are as follows: -

<u>Earmarked</u>	31/03/2014 £'000	31/03/2015 £'000	31/03/2016 £'000
Total Earmarked Reserves	6,440	8,122	9,730
<u>Non-Earmarked</u>			
General Fund Balance	3,365	2,892	2,522

8.18 PRECEPTS

8.18.1 Devon County Council, the Office of the Police and Crime Commissioner Devon and Cornwall (OPCC Devon and Cornwall) and the Devon and Somerset Fire Authority will all precept separately upon the council tax payers in Exeter. The County Council, OPCC Devon and Cornwall and Fire Authority will meet on the 19th, 6th and 20th February respectively. The precepts will be tabled at the Council meeting for approval.

8.18.2

	2014/15	2015/16	Change	
	£	£	£	%
Devon County Council	1,138.59			
OPCC Devon and Cornwall	166.16			
Devon and Somerset Fire Authority	76.89			
Total Precept	1,381.64			

8.19 FINAL POSITION – TO BE TABLED AT COUNCIL

8.19.1 Based upon the recommendations above the aggregate requirements of Exeter City Council, Devon County Council, OPCC Devon and Cornwall and the Devon and Somerset Fire Authority will result in a council tax for the City of Exeter for 2015/16 of £x,xxx.xx per Band D property.

8.19.2 This is an overall increase of £xx.xx (x.xx%) on the amount of £1,514.06 levied for 2014/15.

8.19.3 The detailed figures are: -

Band	Exeter £	DCC £	Police £	Fire £	Total £
A	90.03				
B	105.04				
C	120.04				
D	135.05				
E	165.06				
F	195.07				
G	225.08				
H	270.10				

9. How does the decision contribute to the Council's Corporate Plan?

9.1 The budget underpins the Corporate Plan by determining the amount of funds available to the Council to deliver its priorities.

10. What risks are there and how can they be reduced?

10.1 The key risks are set out in section 8.16 above

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, Economy safety and the environment?

11.1 Not applicable.

12. Are there any other options?

12.1 Not applicable.

Dave Hodgson, Assistant Director Finance

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:

None

Contact for enquiries:

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