EXETER CITY COUNCIL

EXECUTIVE
4 DECEMBER 2012

COUNCIL
11 DECEMBER 2012

2013/14 BUDGET STRATEGY AND MEDIUM TERM FINANCIAL PLAN

1. PURPOSE OF THE REPORT

1.1 To provide a strategic overview of the budgetary position for the 2013/14 financial year and beyond including an indication of the likely level of available resources and the known demand for resources and the proposals to ensure that a balanced budget is achieved.

2. BACKGROUND

2.1 Exeter City Council, like all other local authorities and public sector bodies, faces unprecedented reductions in its financial support from Government. The Comprehensive Spending Review 2010 (CSR 10) set out the likely scale of cuts to local authority funding and has subsequently translated in the Local Government Finance Settlement for 2011/12 and 2012/13. For Exeter this has meant a reduction in formula grant of almost 23% between 2010/11 and 2012/13 with expectations of further cuts in grant beyond that.

2.2 The Council's budget proposals for 2012/13 included a package of measures to save some £1.048 million which resulted in an overall reduction of the revenue budget requirement from £14.135 million in 2011/12 to £13.252 million for the current year.

2.3 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
- Universal Credits and Welfare Reforms
- Localising support for Council Tax Benefit
- Technical Reforms to Council Tax

3. LOCAL GOVERNMENT FINANCE SETTLEMENT

3.1 Last year's Local Government Finance settlement included notification of our formula grant for both 2011/12 and 2012/13. It is currently anticipated that the Draft Local Government Finance Report setting out the revenue funding for next year is not expected to be announced until at least 20 December 2012. At this stage therefore, the Medium Term Financial Strategy is based upon our best estimate of all the changes using both external advice and early release of some data by the Government.

4. COUNCIL TAX

4.1 On 8 October 2012, the Chancellor of the Exchequer announced an £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. In addition, in 2013/14 the Government will propose to lower the local authority tax referendum threshold to two per cent. After freezing its council tax for the last 2 years, the budget strategy for next year assumes that council tax will increase by 2%, which will raise an extra £96,000.

5. NEW HOMES BONUS

5.1 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.

5.2 To date the Council has received New Homes Bonus of £389,165 in 2011/12, £1,322,664 in 2012/13 and is expecting to receive a further £2.3 million in 2013/14. The Executive has previously determined how the New Homes Bonus funding will be allocated, with 30% and 50% of the funding going towards community projects and major infrastructure respectively after a top slice for capacity building and neighbourhood planning. Based upon this allocation and using future estimates of funding the New Homes Bonus would be allocated as 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	652	1,087	435	2,294
2014/15	120	847	1,412	564	2,943
2015/16	120	1,042	1,736	694	3,592
2016/17	120	1,236	2,061	824	4,241
2017/18	120	1,314	2,190	876	4,500
Total	**720**	**5,452**	**9,087**	**4,023**	**19,282**

5.3 The table above indicates that by using the current allocation some £5.5 million New Homes Bonus funding would go towards funding community projects. However, by taking into account the Council’s desire to deliver its proposed new swimming pool scheme and other major infrastructure projects there is an opportunity to consider the current allocation of New Homes Bonus Funding in the future. If the funding for community projects was set at a maximum level of £250,000 per annum from 2013/14 onwards, the revised allocation would be as set out in the following table:-

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	1,489	435	2,294
2014/15	120	250	2,009	564	2,943
2015/16	120	250	2,528	694	3,592
2016/17	120	250	3,047	824	4,241
2017/18	120	250	3,254	876	4,500
Total	**720**	**1,611**	**12,928**	**4,023**	**19,282**

5.4 The Council has previously decided not to use any of its New Homes Bonus allocation to fund any of its revenue budget services. Members may however wish to consider using part of the New Homes Bonus funding in order to meet some of the Council's additional revenue costs that have arisen as a result of more homes being built e.g. more refuse bins to collect, more streets to keep clean etc.

6. LOCAL GOVERNMENT RESOURCE REVIEW INCLUDING LOCALISATION OF BUSINESS RATES

6.1 On 18 July 2011, the Government published its consultation proposals for the retention of Business Rates. This was followed by a series of eight technical papers, published on 19 August 2011, which provided further detail. The Government's response to the consultation was published on 19 December 2011 and this was subsequently confirmed as one of the features of the recent Local Government Finance Act. Business Rates retention is intended to provide incentives for local authorities to drive economic growth, as the 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.

6.2 Under the proposals the overall level of funding to each authority from Central Government for 2013/14 will reflect 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.

6.3 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)

6.4 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.

6.5 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 will be limited to their needs baseline level of funding. In the case of Exeter its Business Rates baseline will be significantly more that its needs baseline such that it will have to pay a high levy payment of about 85%. This means that Exeter City Council would only get to keep 15% of its share of any business rates growth with the rest going to Government.

7. POOLING ARRANGEMENTS FOR BUSINESS RATES

7.1 The Local Government Finance Act also allows local authorities to form pools for the purposes of business rates retention. It is expected that pooling will offer many local authorities an opportunity to retain more of the business rates generated in their areas, due to the way in which the process is expected to operate, and to use that revenue more effectively to drive economic growth.

7.2 When authorities decide to enter into a pooling arrangement, a single funding baseline and single business rates baseline will be calculated for the whole pool, meaning that a combined tariff and levy is applied to the pool's business rates revenue as opposed to this being applied to each individual authority.

7.3 All the Devon Authorities have jointly worked together to determine if there would be any benefits from Business Rates Pooling in Devon. The key conclusions from this work were that:

- All Devon Districts are forecast to be tariff authorities and will be required to pay a levy on Business Rates growth; and this is a necessary condition in order to make pooling worthwhile financially for the region.

- Devon County Council, Plymouth and Torbay are forecast to be 'Top Up' Authorities.

- There were three scenarios in the analysis carried out, none of which indicated that the pool Authorities lose financially by acting as a pool. Under each of the three pooling scenarios, based on the "most likely", "lower" and "higher" estimates of Business Rates growth, a higher level of resources would be received by the pool, than if the authorities had acted individually.

8. ADVANTAGES OF POOLING

8.1 Pooling would significantly reduce each Authorities exposure to Business Rates income volatility and financial risks through loss of direct income if businesses go into decline. These risks are spread across a much larger pool, hence smoothing out any such volatility. Districts are at risk from having large business rate bases in comparison to their funding levels.

8.2 The financial advantage is that there will be a lower levy rate applied to growth – so the region will pay a reduced levy payment to central government. Financial modeling using the 'most likely' forecasts of growth for each council shows that over 5 years, the financial gains for the Devon region could be in the order of £11.7 million. This gain would be shared proportionately with all the Devon Authorities and Exeter's share would be in the region of an additional £1.1 million. An allowance for this additional growth funding has been included in the latest medium term financial plan.

9. POOLING – THE NEXT STAGE

9.1 Following a meeting of all the Devon Leaders and Chief Executives it was decided that Exeter should submit an expression of interest in July to Government to form a Devonwide pooling arrangement. This included all eight Devon District Councils, Plymouth and Torbay Unitary Councils and Devon County Council. In the months following the initial expression of interest the Councils have been working together to agree the governance arrangements of the proposed pool. A proposal for a Devonwide Pool signed off by each relevant s151 officer and Chief Executive has now been submitted to Government by 9 November deadline.

9.2 The Government intends to allow authorities the chance to withdraw from pooling arrangements once the draft Local Government Finance Report is published around late December (if the request is made within 28 days of the draft report being published). It is therefore proposed that the final decision of whether or not to remain in the pool should be delegated to the Council's section 151 officer (Assistant Director Finance) in consultation with the Leader.

10. WELFARE REFORM INCLUDING LOCALISING SUPPORT FOR COUNCIL TAX

10.1 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.

10.2 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 administrating 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.

11. TECHNICAL REFORMS TO COUNCIL TAX

11.1 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

11.2 The reforms were considered as part of a separate report to Executive on 20 November which considered the reforms in more detail. If approved, the reforms will raise an additional £374,000 in council tax revenue of which £33,000 will be directly attributable to the City Council.

12. OTHER BUDGETARY ASSUMPTIONS

12.1 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 the Council's 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.

12.2 With regard to inflation, an overall allowance of £300,000 has been set aside for next year. This includes an assumption with regard to increases in pay and increases for utility costs and contracts being offset by increases for fees and charges. For the following three years an annual inflation allowance of £300,000 has also been included for planning purposes. The inflationary assumptions that have been included for next year are as follows:

- Pay Award 1.0%
- Pay – Increments 0.5%
- Electricity 8.0%
- Gas 20.0%
- Oil 12.0%
- Water 5.1%
- Insurance 3.0%
- Rates 2.0%
- Fuel 6.0%
- General Inflation 0.0% - see para 12.3 below
- Income (excluding car parks) 2.5%

12.3 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 increased to 2.7% during October, up from a rate of 2.2% the month before.

13. LIKELY REVENUE RESOURCES 2013/14 TO 2016/17

13.1 The Government is due to announce the provisional grant settlement for local government in late December. Based upon the assumptions above regarding forecast grant reductions and levels of council tax then the resources available to the Council to finance its net revenue budget are set out below:-

(i) Excluding New Homes Bonus

	2012/13 £’000	2013/14 £’000	2014/15 £’000	2015/16 £’000	2016/17 £’000
Government Grant	8,376	7,666	7,000	6,452	6,013
Council Tax	4,757	4,881	5,016	5,155	5,298
Homelessness Grant	505	448	448	448	448
Funding for tax freeze	119	0	0	0	0
Resources	**13,757**	**12,995**	**12,464**	**12,055**	**11,759**
Increase/(decrease)	(884)	(762)	(531)	(409)	(296)
Annual % change	-6.0%	-5.5%	-4.1%	-3.3%	-2.5%

(ii) Including New Homes Bonus

	2012/13 £’000	2013/14 £’000	2014/15 £’000	2015/16 £’000	2016/17 £’000
Government Grant	8,376	7,666	7,000	6,452	6,013
Council Tax	4,757	4,881	5,016	5,155	5,298
New Homes Bonus	1,323	2,294	2,943	3,592	4,241
Homelessness Grant	505	448	448	448	448
Funding for tax freeze	119	0	0	0	0
Resources	**15,080**	**15,289**	**15,407**	**15,647**	**16,000**
Increase/(decrease)	50	209	118	240	353
Annual % change	0.3%	1.4%	0.8%	1.6%	2.2%

13.2 The tables above clearly show the impact of New Homes Bonus upon funding. From 2013/14 onwards, funding for New Homes Bonus is top sliced from mainstream grant and this is reflected in tables (i). The Council has to date been very successful in generating New Homes Bonus and if this is factored in (as reflected in tables (ii) above) then overall funding levels appear more reasonable.

13.3 It has been assumed that Exeter will benefit from the localisation of business rates and in particular the proposed Devonwide pooling arrangement. If the Devon authorities are able to deliver their forecast growth the additional forecast revenue for Exeter will be:-

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
Retained Business Rates Growth	99	156	251	336

14. ADDITIONAL SPENDING PRESSURES

14.1 For 2013/14 the significant known increases in service revenue costs are shown below:-

	£'000
RAMM – Extra costs for rates, utilities etc.	100
Proposed new revenue bids	nil
Localised Council Tax Support*	588
	688

* To be funded by council tax support grant

15. REVENUE SAVINGS AND OTHER BUDGETARY REDUCTIONS

15.1 In the current year we have already identified some areas where we expect savings to occur that will have an impact next year. These savings and budget reductions total £1,573,000 and are shown below:-

	£'000
Reduction in provision for pay award (in 2012/13 base budget)	300
Savings in cost of elections – no City Council Elections	83
Reduction in Asset Improvement Maintenance (AIM)	90
Additional Planning Income	100
Additional Car Parking Income	500
Removal of 2012/13 one-off expenditure	100
Voluntary Redundancies	400
	1,573

16. REVISED MEDIUM TERM REVENUE PLAN (APPENDIX 1)

16.1 An updated Medium Term Financial Plan (MTFP) is set out in Appendix 1. The MTFP currently indicates that the savings required next year are £890,000 with further savings required in future years. It is anticipated that the savings required for next year will be met from the current programme of structural change and service rationalisation. The required savings over the medium term are set out in the table below:-

Year	Required Savings £000
2013/14	890
2014/15	653
2015/16	665
2016/17	649
Total	**2,857**

17. ASSET IMPROVEMENTS AND MAINTENANCE (AIM)

17.1 The draft revenue proposals for 2013/14 include an overall allowance of £1,543,892 for AIM expenditure in order to maintain and service the Council's non-housing properties. Of this amount £1,439,892 will be allocated to meet on-going revenue commitments and £104,000 for high priority service requirements.

18. GENERAL FUND CAPITAL PROGRAMME

18.1 Attached at Appendix 2 is a table setting out the forecast capital resources available for General Fund capital schemes over the next five years. This table is based upon the Council's currently approved capital programme plus proposed new capital bids. It shows that the Council now has to use significant amounts of borrowing in addition to its other capital resources to finance its capital programme requirements. This also has an ongoing impact on the Council's revenue budget. The prudential capital framework enables the Council to borrow within self-imposed targets largely based on affordability. The capital programme has recently been reviewed as part of the overall budgetary process. This has resulted in some previously approved schemes now being removed from the programme in order to reduce borrowing costs in the future.

18.2 It is expected that the available resources for the General Fund Capital Programme (other than borrowing) over the next 5 years will total about £3.3 million and the capital programme that can be funded other than by borrowing is therefore still quite substantial. In terms of the General Fund, the currently approved capital programme and proposed new bids total almost £22.2 million over the next 4 years with a resultant borrowing requirement of £18.9 million. The current extra revenue cost of borrowing are £50,000 for each £1 million that is borrowed which means the future borrowing costs of the Council's capital programme are significant and are a must be met within the Council's overall revenue budget. The Capital Programme must therefore be continually reviewed with a view to reducing the programme wherever possible. With regard to proposed new capital bids, approval must be limited to those that are only absolutely essential. New bids should only be successful if they meet strict criteria such as meeting a statutory or health and safety requirement, or if there is a compelling business case to show that they will save costs or generate extra revenue in the future.

19. RISK ASSESSMENT

19.1 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.

19.2 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 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

20. RECOMMENDATIONS

It is recommended to Council that: -

20.1 The contents of the report are noted and that the proposals to establish a balanced revenue budget and capital programme are approved.

20.2 The revised allocation of New Homes Bonus funding as set out in 5.3 of the report is approved.

20.3 A final decision on whether or not to join a Devonwide Business Rates Pool is delegated to the Council's section 151 officer (Assistant Director Finance) in consultation with the Leader.

ASSISTANT DIRECTOR FINANCE

CORPORATE SERVICES DIRECTORATE

Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling this report:

None