

EXETER CITY COUNCIL

SCRUTINY COMMITTEE - RESOURCES 22 JANUARY 2014

EXECUTIVE
4 FEBRUARY 2014

REVENUE BUDGET PROPOSALS 2014/15

1. PURPOSE OF THE REPORT

- 1.1 To outline 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 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 2013 set out the likely scale of cuts to local authority funding and for Exeter this is estimated to result in a further reduction in formula grant of approximately 44% between 2013/14 and 2017/18.

3. LOCAL GOVERNMENT FINANCE SETTLEMENT

- 3.1 The Government announced the provisional Local Government Settlement on 18 December 2013. The Council is to receive £7.832 million in 2014-15, which is £40,000 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.
- 3.2 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. They appear to show that in comparison with most other Devon Districts the City Council has fared slightly worse in percentage terms of formula funding reduced.
- 3.3 In the grant settlement the Government announced that councils will face an average cut of 2.9% 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 3.5% for 2014/15.

4. COUNCIL TAX

4.1 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. In addition, the Government has yet to confirm the local authority tax referendum threshold but it is likely at best to be set at two per cent.

5. BUSINESS RATES POOL

5.1 Local Authorities in Devon have agreed to remain in the Business Rates pool for a second 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 gain of £179,000 from pooling.

6. KEY ASSUMPTIONS

6.1 An overall allowance of £353,660 has been allowed for inflation. The inflationary increases allowed in the budget are:

Pay Award	1.0%
Pay – Increments	0.5%
Electricity	8%
Gas	10%
Oil	12.0%
Water	5.1%
Insurance	3.0%
Rates	2.0%
Fuel	6.0%
General Inflation	0.0%
Income (excluding Car Parks)	2.5%

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

6.3 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.

7. FURTHER ISSUES TO BE CONSIDERED

7.1 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. EQUALITY IMPACT ASSESSMENT

- 8.1 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.

9. NEW HOMES BONUS

- 9.1 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.
- 9.2 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 and provisionally been notified that it will receive a further £2.778 million in 2014/15. The Executive has 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	286	1,418	381	2,205
2014/15	120	286	1,937	435	2,778
2015/16	120	286	2,456	565	3,427
2016/17	120	286	2,976	694	4,076
2017/18	120	286	3,183	746	4,335
Total	720	1,791	12,571	3,451	18,533

10. REVISED MEDIUM TERM REVENUE PLAN (APPENDIX 3)

- 10.1 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 five years total £3,966,000. The additional savings over the medium term are set out in the table below:-

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Savings required	0	(847)	(2,591)	(528)

- 10.2 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 2014/15 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 now have to be met from further savings.

11. BALANCES AND RESERVES

- 11.1 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 £3.124 million as at 31 March 2014, equivalent to 22.9% 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 2015/16.
- 11.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2014/15 includes a net transfer to earmarked reserves of £2,498,000. This is broken down as shown below:-

Transfer (from)/ to reserves:

	2014/15 £'000
New Homes Bonus	<u>2,498</u> 2,498

12. REVENUE ESTIMATES 2014/15 (APPENDIX 4)

- 12.1 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 4 February 2014. In total, Service Committee Expenditure for 2014/15 is £12,059,250 which is £272,930 higher than the current year.

12.2 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 £165,000 for net borrowing in respect of the overall cash balances, £1,470,000 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 2014/15 is planned to be £13,185,000, a decrease of £337,406 (2.5%) compared to 2013/14.

13. COUNCIL TAX BUDGET REQUIREMENT 2014/15

13.1 When all the Government Grant funding is taken into account the resultant net expenditure to be financed from council tax is £4,570,000 (as indicated in Appendix 4), an increase of £178,811 (4.1%) compared to 2013/14.

13.2 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 2014/15. For next year it is estimated that the collection fund will have a small surplus (£21,866), which will be used to fund part of the expenditure to be financed from Council Tax.

13.3 After taking into account the surplus and the taxbase of 34,344, the proposed band D council tax for 2014/15 will be £132.43, which means that the council tax will increase annually by £2.59 or 1.99%. If the Government amends its proposals for a referendum, then this figure will be amended accordingly.

14. RECOMMENDATION

14.1 That Scrutiny Committee – Resources notes the recommendation to the Executive and comments accordingly.

14.2 Executive approves the Draft Revenue budget proposals for 2014/15 and that the recommended minimum level for the General Fund Working Balance remains at £2 million.

ASSISTANT DIRECTOR FINANCE

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

Background papers used in compiling the report:

None