

EXETER CITY COUNCIL

EXECUTIVE
4 FEBRUARY 2014

COUNCIL
25 FEBRUARY 2014

GENERAL FUND ESTIMATES AND CAPITAL PROGRAMME 2014/15

1. PURPOSE OF THE REPORT

- 1.1 To approve the General Fund revenue estimates for 2014/15 and to recommend the Band D level of Council Tax for 2014/15. This report also includes the proposed Capital Programme for 2014/15 and future years, and a note of the proposals in respect of the Housing Revenue Account.

2. BACKGROUND

- 2.1 At its meeting of 10 December 2013, 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 £3.2 million over the next four years after taking into account identified savings proposals of £2.4 million.
- 2.2 Since that meeting the Council has had notification of a range of additional unavoidable spending pressures and reductions in funding, along with an increase in income from Business Rates which have reduced the savings required to £3.107 million.

3. LOCAL GOVERNMENT FINANCE SETTLEMENT

- 3.1 The Government will announce the final Local Government Settlement in late January 2014. The Council is to receive £7.832 million in 2014-15, which is £40,000 lower than predicted within the Medium Term Financial Plan. It is proposed that 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 figures 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. The Council would receive £50,054 in Council Tax Freeze Grant for the next two years if it were to freeze Council Tax. 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 £358,000 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

9.3 In light of the current financial position that the Council faces, it is recommended that the amounts allocated for major infrastructure along with the unallocated funds are set aside to finance the proposed new leisure complex, with any additional funding left over used to support the revenue budget in terms of financing and repaying borrowing that has been incurred.

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 £3,107,000. 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	(376)	(2,386)	(345)

- 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 £2,202,000. This is broken down as shown below:-

Transfer (from)/ to reserves:

	2014/15 £'000
New Homes Bonus	<u>2,202</u> 2,202

12. REVENUE ESTIMATES 2014/15 (APPENDIX 4)

- 12.1 The Council's revenue estimates for next year have been 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 £13,431,000, a decrease of £91,406 (0.7%) compared to 2013/14.
- 12.3 In respect of fees and charges, it is recommended that whilst fees and charges are proposed and approved during the February budget meeting of the Council, Assistant Directors, with the agreement of their Portfolio Holder, will be authorised to amend the fees and charges set throughout the year to respond to market conditions. Any amendments made will be reported during the budget monitoring process and no amendments will be made to car parking charges or statutorily set fees and charges. Furthermore it is also recommended that Council agrees to not publish fees and charges, which are considered to be commercially sensitive and where the Council is in competition for business.

13. COUNCIL TAX BUDGET REQUIREMENT 2014/15 (APPENDIX 5)

- 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%. When the Government announces its proposals for a referendum, then this figure will be amended accordingly, if required.

14. HOUSING REVENUE ACCOUNT (HRA) (APPENDIX 6 & 7)

- 14.1 Next year will be the third financial year that the HRA has operated since the introduction of self-financing in April 2012. Self-financing enables local authority landlords to retain the income they collect from rents, service charges and other sources at a local level to deliver housing services and to invest in their housing stock.
- 14.2 The main features of self-financing are:
- The HRA continues to be framed by the Local Government and Housing Act 1989, which covers the detailed operation of the HRA; the structure and ring-fenced nature of the account therefore remain in place.
 - The Government have set a Council Housing Borrowing Limit for each local authority (the cap). The cap is calculated as the authority's one-off debt settlement payment plus the debt associated with new build schemes built under contract with the Homes and Communities Agency. This equates to a debt cap of £57.882m for the Council and currently prevents the HRA from taking on any additional borrowing in 2014-15.

- 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 business plan for housing for financial and service planning, monitoring progress and managing risk.

14.3 Rents in respect of council dwellings have been calculated in accordance with the Government's current social rent policy, which aims towards achieving rent convergence with housing associations by 2015-16. For 2014-15, an annual inflationary increase of 3.7% plus up to an extra £2 per week to help facilitate convergence will be implemented. This will result in an average annual rent increase of 6%, which is £4.09 per week over 52 weeks.

In April 2012 the Government raised the cap on Right to Buy (RTB) discounts to £75,000 and confirmed that receipts from the additional sales this would generate need to be used to fund replacement stock on a one-for-one basis. Each local housing authority is able to retain the additional RTB receipts, providing it can demonstrate that it has spent a sufficient amount on replacement homes within 3 years and have entered into an agreement with the Department for Communities and Local Government for the provision of replacement homes. Exeter City Council entered into an agreement with DCLG on 27 June 2012 and entered into an update of that Agreement on 28 June 2013 and is therefore able to retain the additional RTB receipts for local reinvestment.

15. CAPITAL PROGRAMME RESOURCES (APPENDIX 8)

- 15.1 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.
- 15.2 The available capital resources for General Fund and Housing for 2014/15 are £13.431 million. An estimated spend of £7.844 million is required in respect of the General Fund and £11.995 million for the HRA. The total spend on capital will be £19.839 million of which £6.998 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.
- 15.3 In order to keep borrowing to a minimum, and to reflect the proposed capital programme, it is recommended that Council remove the ring fence on the Canal Basin capital receipts to allow the section 151 officer to use capital receipts to finance any schemes and reduce borrowing wherever possible.

16. GENERAL FUND CAPITAL PROGRAMME (APPENDIX 9)

16.1 The proposed capital programme is set out in Appendix 9. The programme for 2014/15 totals £7.844 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.

17. HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME (APPENDIX 10)

17.1 For 2014/15 the medium term financial strategy provides for a HRA capital programme of £11.995 million. This is funded from:

- Major Repairs Allowance £3.816 million
- Revenue Contributions to Capital £6.195 million
- Capital Receipts £1.984 million

18. RISK ASSESSMENT

18.1 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.

18.2 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 stewardship 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

18.3 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.

19. STATEMENT OF THE ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

- 19.1 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.
- 19.2 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 2014/15 that have been prepared are both robust and achievable.
- 19.3 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 £3.124 million as at 31 March 2014, equivalent to 22.9% of Exeter's net revenue budget. The Council's current medium-term financial plan indicates that the General Fund Balance will be reduced to the minimum recommended level of £2 million by the end of 2015/16.
- 19.4 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

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

<u>Earmarked</u>	31/03/2013 £'000	31/03/2014 £'000	31/03/2015 £'000
Total Earmarked Reserves	3,021	4,799	7,001
<u>Non-Earmarked</u>			
General Fund Balance	3,358	3,124	3,141

20. PRECEPTS

- 20.1 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 20th, 7th and 17th February respectively. The recommendations are not yet known:

	2013/14	2014/15	Change	
	£	£	£	%
Devon County Council	1,116.36			
OPCC Devon and Cornwall	162.92			
Devon and Somerset Fire Authority	75.39			
Total Precept	1,354.67			

21. FINAL POSITION

21.1 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 2014/15 of £xxx per Band D property.

21.2 This is an overall increase of £ (%) on the amount of £ levied for 2013/14.

21.3 The detailed figures are: -

Band	Exeter £	DCC £	Police £	Fire £	Total £
A					
B					
C					
D					
E					
F					
G					
H					

22. RECOMMENDATION

It is recommended that :

- 22.1 the Council's overall spending proposals in respect of both its revenue and capital budgets are approved;
- 22.2 the amounts allocated from the New Homes Bonus for major infrastructure along with the unallocated funds are set aside to finance the proposed new leisure complex, with any additional funding left over used to support the revenue budget in terms of financing and repaying borrowing that has been incurred;
- 22.3 Assistant Directors in consultation with their Portfolio Holders can vary fees and charges throughout the year to take account of market conditions, with the exception of car parking charges and statutory charges set by the Government. Commercially sensitive fees are no longer published;
- 22.4 the ring-fence on capital receipts for the Canal Basin project is removed;
- 22.5 the council tax for each Band be recommended to the Council as set out in section 21.3, subject to Devon County Council, OPCC Devon and Cornwall and the Devon and Somerset Fire Authority confirming their Band D levels respectively;
- 22.6 when the actual council tax amounts for Devon County Council, Devon and Cornwall Police Authority, and the Devon and Somerset Fire Authority are set then the revised council tax levels be submitted to Council on 25 February 2014 for approval;
- 22.7 Members note the Statement given by the chief finance officer as required under Section 25 of the Local Government Act 2003.

ASSISTANT DIRECTOR FINANCE

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

Background papers used in compiling the report:

None