

EXETER CITY COUNCIL

REPORT TO: SCRUTINY COMMITTEE - RESOURCES
DATE OF MEETING: 28 JANUARY 2015
REPORT TO: EXECUTIVE
DATE OF MEETING: 10 FEBRUARY 2015

REPORT OF: ASSISTANT DIRECTOR FINANCE
TITLE: REVENUE BUDGET PROPOSALS 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 outline the strategic framework within which the estimates have been prepared and highlight 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. Recommendations:

- 2.1 That Scrutiny Committee – Resources notes the recommendation to the Executive and comments accordingly.
- 2.2 Executive approves the draft revenue budget proposals for 2015/16 and that the recommended minimum level for the General Fund Working Balance remains at £2 million.

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 budget 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. 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.

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 provisionally been notified that it 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	Major Infrastructure £000's	Unallocated / Projects £000's	Total £000's
2011/12	-	-	-	389	389
2012/13	120	361	601	241	1,323
2013/14	120	286	1,757	42	2,205
2014/15	120	286	2,372	-	2,778
2015/16	120	286	3,123	-	3,529
Total	480	1,219	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 £3.466 million as at 31 March 2015, equivalent to 26.7% 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 £2.558 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 £1,846,000. 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	(840)
NNDR Deficit reserve	<u>(843)</u>
	(1,683)

8.10 REVENUE ESTIMATES 2015/16 (APPENDIX 4)

- 8.10.1 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 10 February 2015. In total, Service Committee Expenditure for 2014/15 is £12,632,080 which is £572,830 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 £11,792,000, a decrease of £1,680,698 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 £4,761,000 (as indicated in Appendix 4), an increase of £191,302 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 small surplus (£21,866), 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 £135.06, which means that the council tax will increase annually by £2.64 or 1.99%.

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 revolve around ensuring that the Council has sufficient funds to both meet the financial plans set out in the report and to protect itself against any unexpected expenditure that occurs. The risk is mitigated by ensuring that there are sufficient reserves held to offset unexpected expenditure needs. Regular monitoring is undertaken and reported to both the Strategic Management Team and Members.

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

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