

EXETER CITY COUNCIL

REPORT TO: EXECUTIVE
DATE OF MEETING: 9 FEBRUARY 2016
REPORT TO: COUNCIL
DATE OF MEETING: 23 FEBRUARY 2016

REPORT OF: ASSISTANT DIRECTOR FINANCE
TITLE: GENERAL FUND / HRA ESTIMATES AND CAPITAL PROGRAMME 2016/17

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To approve the General Fund revenue estimates for 2016/17 and to recommend the Band D level of Council Tax for 2016/17. This report also includes the proposed Capital Programme for 2016/17 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, Devon and Cornwall Police and Crime Commissioner and the Devon and Somerset Fire Authority are set then the revised council tax levels be submitted to Council on 23 February 2016 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.

2.1.5 Council approves the new distribution methodology for the New Homes Bonus set out in 8.7.2.

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 2016/17. 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 £3 million. The Medium Term Financial Plan is balanced, but there is uncertainty over the future funding of Local Government in general.

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 17 December 2015. The Council is to receive £5.802 million in 2016/17, which is £110,000 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 managed within the budget.

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 better in percentage terms of formula funding reduced.

8.1.3 The provisional settlement has provided indicative figures for the next four years, with an offer to agree a four year settlement with the Government. Further details are yet to be announced, but the figures could change even after agreement if circumstances require further savings. Over the four year period, the Revenue Support Grant for the Council reduces from £2.022m in 2016/17 to £0.365m in 2019/20. Although dramatic, many Council's find themselves in a negative position by 2019/20 and will have their business rates top-up / tariff adjusted as a result.

8.1.4 In the grant settlement the Government announced that councils will face an average cut of 6.7% based upon councils 'core spending power'. Core spending power is a new definition used by the Government, which encompasses an individual authority's:

- Council Tax Requirement including estimates of Council Tax increases and increases in the Taxbase;
- Social Care Precept (not applicable for district councils);
- Formula Grant;
- New Homes Bonus;
- Rural Services Delivery Grant and
- Better Care Fund (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 core spending power reduces by 14.8% over the period.

8.2 COUNCIL TAX

- 8.2.1 The Local Government Finance Settlement set the referendum level for District Councils in the lowest quartile of Council Tax rates at no more than £5 rather than 1.99%. Exeter falls into this category and therefore has the opportunity to increase its Council Tax by £5 (3.7%). Along with the increase in the taxbase this would raise an additional £269,000.

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 fourth year. The benefits of the pool are that any additional growth within Devon is shared between the Councils 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 £150,000 has been allowed for inflation. The inflationary increases allowed in the budget are:

Pay award	1.0%
Pay – Increments	0.5%
Electricity	1.5%
Gas	1.5%
Oil	1.5%
Water	0.0%
Insurance	5.0%
Rates	1.2%
Fuel	0.0%
General Inflation	0.0%
Income (excluding Car Parks)	1.5%

- 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. The pay award for 2016/17 has yet to be agreed and therefore an estimate of 1% has been added in line with Government policy.
- 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.

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, £3.529 million in 2015/16 and provisionally been notified that it will receive a further £4.232 million in 2016/17. A new methodology for distributing New Homes Bonus is being proposed for this financial year and has the following impact:-

Year	Top Slice (revenue) £000's	Community Projects £000's	Major Projects /Debt Reduction £000's	Unused / Projects £000's	Revenue £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
2016/17	120	189	2,000	923	1,000	4,232
Total	600	1,408	9,853	1,595	1,000	14,456

8.7.3 The Government is consulting on the future format of New Homes Bonus, with the specific intention of freeing up £800 million of funding for Adult Social Care. The consultation runs until 10 March 2016 and looks at various options for reducing the value of the award. These range from reducing the length of award from 6 to 4 years (or even 3 or 2 years), and sharpening the incentive by reducing payments for e.g. no Local Plan, houses built after a successful appeal, or removing an amount of award for houses that would have been built regardless. The results vary but could reduce the New Homes Bonus for Exeter by around half.

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 during the budget setting process. The MTFP currently indicates that no additional savings are required over the next four years (2016/17 – 2019/20), although savings identified in future years, particularly in Public Realm will be considered annually to ensure that they are achievable.
- 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 revaluation of Business Rates in time for 2017/18, the consultation on New Homes Bonus, 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 / reduced income streams that are not currently identified within the medium term financial plan will have to be met from further savings. Further ahead, the move to 100% Business Rate retention by Local Government as a whole provides further uncertainty over future funding levels. Consultation on the new proposal is due this year.

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. As the Council faces greater uncertainty in the medium term over funding it is prudent to hold reserve levels at a higher rate to offset sudden losses of income. The latest estimated position of the General Fund Balance is that it will be £4.135 million as at 31 March 2016, equivalent to 25.4% of Exeter's net revenue budget. The Council's revised medium-term financial plan (Appendix 3) indicates that the General Fund Balance will increase to £4.880 million by the end of 2019/20.
- 8.9.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2016/17 includes a net transfer to earmarked reserves of £631,000. This is broken down as shown below:-

Transfer (from)/ to reserves:

	2016/17 £'000
Transfers to Reserves	
New Homes Bonus	<u>4,232</u> 4,232
Transfers from Reserves	
New Homes Bonus	<u>(3,601)</u> (3,601)

8.10 REVENUE ESTIMATES 2016/17 (APPENDIX 4)

- 8.10.1 The Council's revenue estimates for next year have been considered during the recent cycle of Scrutiny Committee meetings, with this final budget report to the Executive for approval at Council on 23 February 2016. In total, Service Committee Expenditure for 2016/17 is £12,548,290 which is £21,580 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 £300,000 for net borrowing in respect of the overall cash balances, £2,875,000 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 £12,151,861, an increase of £195,071 compared to 2015/16.

8.11 COUNCIL TAX BUDGET REQUIREMENT 2016/17

8.11.1 As stated above, the Government is setting the referendum trigger for District Councils with a lower quartile Council Tax level at above £5 or 2%, whichever is higher. The budget has been set on the basis of a £5 increase, although this is ultimately a Member decision. It should be noted that in the Government spending calculations, they have assumed that all authorities in the lower quartile will raise their Council Tax by £5 and have set the spending reductions accordingly.

8.11.2 When all the Government Grant funding is taken into account the resultant net expenditure to be financed from council tax is £5,029,636 (as indicated in Appendix 4), an increase of £268,846 compared to 2015/16.

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 (£67,778), 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 35,429, the proposed band D council tax for 2016/17 is £140.05, which means that the council tax would increase annually by £5.00 or 3.70%. An increase of 1.99% would reduce the Council Tax requirement by £82,222, which would have to be taken from reserves.

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. Exeter has not bid for an increased borrowing limit.
- 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 On 8 July 2015 the Chancellor announced in the Summer Budget that local authorities would be required to reduce rents in social housing in England by 1% a year for 4 years.

This was an unexpected policy change, as local authorities had previously been given assurance that rents would rise by Consumer Price Index inflation (CPI) + 1% for the ten years; 2015-16 to 2024-25. In overall terms, the 1% reduction in rents is expected to lose the HRA £7.9 million over the next 4 years compared to previous income projections.

For 2016-17 this will result in an average reduction of £0.77 per week, over 52 weeks, per property.

8.12.4 There is a forecast deficit in 2016/17 for the HRA of £44,125, which will be funded from balances. In respect of the Council's Own Build properties a surplus of £38,020 is forecast.

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 following capital resources are available for General Fund (£1.805m) and Housing (£19.601m) in 2016/17. The Capital Programme totals £5.272 million in respect of the General Fund and £16.118 million for the HRA. The borrowing requirement for the General Fund is £3.467 million. 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 £5.272 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 2016/17 the medium term financial strategy provides for a HRA capital programme of £16.118 million. This is funded from:

- Major Repairs Allowance £6.277 million
- Revenue Contributions to Capital £4.689 million
- Capital Receipts £0.750 million
- DoH Funding £0.700 million
- Commuted Sums £3.702 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 2016/17 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. In the current financial climate, with uncertainty regarding the new financing of Local Government and taking into account the potential level of financial risk facing the Council in the medium term, it is proposed to keep reserves at a higher level (£3 million and above). The latest estimated position of the General Fund Balance is that it will be £4.135 million as at 31 March 2016, equivalent to 25.4% of Exeter's net revenue budget. The Council's current medium-term financial plan indicates that the General Fund Balance will continue to rise to £4.880 million by the end of 2019/20.

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 £3 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>	31/03/2015 £'000	31/03/2016 £'000	31/03/2017 £'000
Total Earmarked Reserves	5,640	4,744	5,375
<u>Non-Earmarked</u>			
General Fund Balance	3,975	4,135	4,164

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 Devon & Somerset Fire Authority will meet on the 18th, 5th and 19th February respectively. The precepts will be tabled at the Council meeting for approval.

8.18.2

	2015/16	2016/17	Change	
	£	£	£	%
Devon County Council	1,161.27	x,xxx.xx	xx.xx	x.xx
OPCC Devon and Cornwall	169.47	xxx.xx	x.xx	x.xx
Devon and Somerset Fire Authority	78.42	xx.xx	x.xx	x.xx
Total Precept	1,409.16	x,xxx.xx	xx.xx	x.xx

8.19 FINAL POSITION

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 2016/17 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 £1,544.21 levied for 2015/16.

8.19.3 The detailed figures are: -

Band	Exeter £	DCC £	Police £	Fire £	Total £
A	93.37	xxx.xx	xxx.xx	xx.xx	x,xxx.xx
B	108.93	xxx.xx	xxx.xx	xx.xx	x,xxx.xx
C	124.49	x,xxx.xx	xxx.xx	xx.xx	x,xxx.xx
D	140.05	x,xxx.xx	xxx.xx	xx.xx	x,xxx.xx
E	171.17	x,xxx.xx	xxx.xx	xx.xx	x,xxx.xx
F	202.29	x,xxx.xx	xxx.xx	xxx.xx	x,xxx.xx
G	233.42	x,xxx.xx	xxx.xx	xxx.xx	x,xxx.xx
H	280.10	x,xxx.xx	xxx.xx	xxx.xx	x,xxx.xx

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:

Democratic Services (Committees)

Room 2.3

(01392) 265275