

EXETER CITY COUNCIL

REPORT TO: EXECUTIVE
DATE OF MEETING: 13 FEBRUARY 2018
REPORT TO: COUNCIL
DATE OF MEETING: 20 FEBRUARY 2018

REPORT OF: CHIEF FINANCE OFFICER
TITLE: GENERAL FUND / HRA ESTIMATES AND CAPITAL PROGRAMME 2018/19

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

- 1.1 To propose the General Fund revenue estimates for 2018/19 and to recommend the Band D level of Council Tax for 2018/19. This report also includes the proposed Capital Programme for 2018/19 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 recommended to Council for approval;
- 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 20 February 2018 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 notes and approves the passporting arrangement for distributing Wellbeing Exeter funding as set out in 8.10.3

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 2018/19. 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 shows additional savings are required in 2019/20 and 2020/21. The savings required total £2.75 million over the two years, which is a significant reduction requiring detailed planning.

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 Members should be aware of the provisions of Section 106 of the Local Government Finance Act 1992 applies to this report where members are present at a meeting of the Council, the Executive or a Committee and at the time of the meeting an amount of council tax is payable by them and has remained unpaid for at least two months.

In these circumstances, any such members shall at the meeting and as soon practicable after its commencement disclose the fact that Section 106 applies to them and shall not vote on any question concerning the matter.

It should be noted that such members are not debarred from speaking on these matters.

Failure to comply with these requirements constitutes a criminal offence, unless any such members can prove they did not know that Section 106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at the meeting.

8. Report Details:

8.1 LOCAL GOVERNMENT FINANCE SETTLEMENT

8.1.1 *4 year Settlement*

During the settlement for 2016-17, the Government offered Local Authorities the opportunity to apply for a 4 year agreed settlement subject to producing an efficiency plan. The Council took up this offer and were notified in November that the Government had agreed the Settlement.

- 8.1.2 The provisional settlement for 2018-19 therefore reflects the figures in the Medium Term Financial Plan, with the only change being that the revenue support grant has been rolled up into business rates as a result of the business rates pilot (see 8.3 for further details).

- 8.1.3 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 the most rural of authorities have fared better this year in percentage terms of formula funding reduction.

- 8.1.4 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 15.9% over the period.

8.2 COUNCIL TAX

- 8.2.1 The Government has announced in respect of the local authority tax referendum threshold, that Shire District councils will be allowed increases of less than 3% or up to and including £5, whichever is higher. Upper Tier Authorities may increase their Council Tax by up to three per cent above the threshold as long as the additional income is spent on Adult Social Care. This is on top of the 2.99% increase they may make for other services but can total no more than 6% over a three year period, which began in 2017-18. Exeter's budget strategy for next year assumes that council tax will increase by £5, which, along with the estimated surplus on the collection fund of £139,900 and increase in the taxbase will raise an extra £285,850.

8.3 BUSINESS RATES PILOT

- 8.3.1 Local Authorities in Devon have been successful in applying to be a 100% Business Rate pilot for 2018/19. This means that 100% of the growth generated in the County will be kept and split according to the percentages agreed between the Councils (40% for Districts, 59% for the County and 1% for Fire). The Government have included a no detriment clause in the agreement, which means that no Council will be worse off than they would have been under the 50% retention scheme. Potentially this could be worth at least £300,000 to the City Council on a one-off basis.

8.4 KEY ASSUMPTIONS

- 8.4.1 An overall allowance of £500,000 has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	2.0%
Pay – Increments	0.5%
Electricity	2.5%
Gas	2.5%
Oil	2.5%
Water	0.0%
Insurance	10.0%
Rates	2.5%
Fuel	3.0%
General Inflation	0.0%
Income (excluding Car Parks)	3.0%

- 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 2018/19 has yet to be agreed and may result in a higher settlement than the level at which the budget has been set.
- 8.4.3 In respect of interest rates, next year's budget reflects the likelihood that whilst base rate may remain low, borrowing for cashflow purposes 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 Government have deferred any further changes to the New Homes Bonus in 2018/19. As members will remember the Government has removed £800 million from New Homes Bonus in order to fund Adult Social Care and have completed the reduction to four years payment for 2018-19. Additionally, no payment has been made on housing growth below 0.4%. This has resulted in Exeter being awarded £2.591 million for 2018-19.
- 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, £4.232 million in 2016/17, £3.597 million in 2017/18 and provisionally been notified that it will receive a further £2.591 million in 2018/19. The methodology for using the New Homes Bonus has the following impact:-

Year	Top Slice (revenue)	Community Projects	Major Projects /Debt Reduction	Unused / Projects	Revenue	Total
	£000's	£000's	£000's	£000's	£000's	£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	159	150	2,000	923	1,000	4,232
2017/18	164	150	1,500	783	1,000	3,597
2018/19	164	150	1,150	127	1,000	2,591
Total	967	1,669	12,503	2,505	3,000	20,644

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. The MTFP currently indicates that savings are required in both 2019-20 and 2020-21. £2.750 million is required to be saved; £1.250 million in 2019-20 and £1.500 million in 2020-21. The savings in 2020-21 result from a reset of the business rates, which will mean that all the growth that Exeter has benefitted from in its business rates baseline will be redistributed and is intended to coincide with the introduction of the new formula resulting from the fair funding review currently being undertaken and the move to 75% business rates retention.
- 8.8.2 The amount of savings required in 2020-21 could vary significantly based on the results of the fair funding review and any changes to the distribution of growth introduced in the move to 75% business rates retention. Additionally there are further uncertainties and factors that could affect the future financial position. These include: 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 and will require careful consideration from members.

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 £3 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 £3.732 million as at 31 March 2019, equivalent to 25.9% of Exeter's net revenue budget. The Council's revised medium-term financial plan (Appendix 3) indicates that the General Fund Balance will reduce slightly to £3.319 million by the end of 2020/21.
- 8.9.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2018/19 includes a net transfer from earmarked reserves of £428,000. This is broken down as shown below:-

Transfer (from)/ to reserves:

	2018/19 £'000
Transfers to Reserves	
New Homes Bonus	<u>2,591</u> 2,591
Transfers from Reserves	
New Homes Bonus	(2,864)
Events	(100)
Sports	<u>(55)</u>
	(3,019)

8.10 REVENUE ESTIMATES 2018/19 (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 13 February 2018. In total, Service Committee Expenditure for 2016/17 is £12,975,450 which is £123,190 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 £100,000 for net borrowing in respect of the overall cash balances, £1,720,160 towards repaying debt in respect of the Council's capital programme, New Homes Bonus grant and transfers in respect of balances and reserves. The Council's total General Fund Expenditure budget requirement for 2018/19 is planned to be £11,844,390, a reduction of £20,419 compared to 2017/18.
- 8.10.3 DCC have agreed that ECC will be the lead commissioner for Wellbeing Exeter from April 2018 through to 2020. This means that £760,000 funding from DCC and the NHS will come to ECC for us to then passport out to Devon Community Foundation for them to contract with the various providers. Other than the funding allocated by Exeter, this is not included in the budget, but Members are asked to approve the expenditure, noting how it is financed.

8.11 COUNCIL TAX BUDGET REQUIREMENT 2018/19

- 8.11.1 As stated above, the Government is setting the referendum trigger for District Councils at above £5 or 3%, 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 District Councils 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 £5,623,730 (as indicated in Appendix 4), an increase of £285,921 compared to 2017/18.
- 8.11.3 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 2018/19. For next year it is estimated that the collection fund will have a surplus (£139,902), which will be used to fund part of the expenditure to be financed from Council Tax.
- 8.11.4 After taking into account the surplus and the taxbase of 36,547, the proposed band D council tax for 2018/19 is £150.05, which means that the council tax would increase annually by £5.00 or 3.45%. An increase of 2.99% would reduce the Council Tax requirement by £24,231, 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.
 - 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 With effect from 1st April 2016, the Welfare Reform and Work Act 2016 requires social housing landlords to reduce social housing rents by 1% a year for 4 years from a 2015/16 baseline.

The financial year 2018/19 represents Year 3 out of 4 of implementing the 1% rent cut.

As previously reported, 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. The statutory 1% rent cut has therefore significantly reduced the resources available to the HRA with approximately £7.9 million less rental income over the 4 year period compared to previous income projections.

For 2018/19 this will result in an average reduction of £0.75 per week, over 52 weeks, per property.

- 8.12.4 The proposed budgets for 2018/19 indicate that a total of £3,762,145 will need to be taken out of the HRA Working Balance in order to meet the budgeted deficit. The Forecast Balance at the end of 2018/19 is £5.465 million, well in excess of the minimum balance requirement of £4 million. In respect of the Council's Own Build properties a surplus of £16,630 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 (£25.801m) and Housing (£24.052m) in 2018/19. The Capital Programme totals £25.050 million in respect of the General Fund and £18.177 million for the HRA. The borrowing requirement for the General Fund is £3.861 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 2017/18 totals £25.050 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 2018/19 the medium term financial strategy provides for a HRA capital programme of £18.177 million. This is funded from:

HRA Capital Finance	£
Major Repairs Reserve	7,830,670
Revenue Contribution to Capital	7,196,550
Capital Receipts	1,000,000
Commutated sums	10,000
Department of Health grant for St Loyes Extra Care Scheme	1,490,000
External contributions	650,000
Total HRA Capital Financing 2018-19	18,177,220

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 2018/19 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 £3 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 maintain reserves at this higher level. The latest estimated position of the General Fund Balance is that it will be £3.814 million as at 31 March 2018, equivalent to 25.2% of Exeter's net revenue budget. The Council's current medium-term financial plan indicates that the General Fund Balance will remain fairly consistent and be £3.319 million by the end of 2021/22, although savings of £2.75 million are required to deliver this.

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>	31/03/2017 £'000	31/03/2018 £'000	31/03/2019 £'000
Total Earmarked Reserves	5,111	5,553	5,125
<u>Non-Earmarked</u>			
General Fund Balance	5,265	3,814	3,732

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 15th, 2nd and 16th February respectively. The precepts will be tabled at the Council meeting for approval.

8.18.2

	2017/18	2018/19	Change	
	£	£	£	%
Devon County Council	1,208.46	x,xxx.xx	xx.xx	x.xx
DCC Adult Social Care	59.46	xxx.xx	x.xx	x.xx
OPCC Devon and Cornwall	176.28	xx.xx	x.xx	x.xx
Devon and Somerset Fire Authority	81.57			
Total Precept	1,525.77	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 2018/19 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 £1,670.82 levied for 2017/18.

8.19.3 The detailed figures are: -

Band	Exeter £	DCC £	Police £	Fire £	Total £
A	100.03	xxx.xx	xxx.xx	xx.xx	x,xxx.xx
B	116.71	xxx.xx	xxx.xx	xx.xx	x,xxx.xx
C	133.38	x,xxx.xx	xxx.xx	xx.xx	x,xxx.xx
D	150.05	x,xxx.xx	xxx.xx	xx.xx	x,xxx.xx
E	183.39	x,xxx.xx	xxx.xx	xx.xx	x,xxx.xx
F	216.74	x,xxx.xx	xxx.xx	xxx.xx	x,xxx.xx
G	250.08	x,xxx.xx	xxx.xx	xxx.xx	x,xxx.xx
H	300.10	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