

Minute extracts

Meeting: **Cabinet**

Date: **8 February 2017**

***70 General fund revenue budget 2017/18 and capital programme 2016/21.**

70.1 Councillor Ballard addressed the cabinet of the subject of homelessness. She referred to the recent government announcement of £50m additional funding to councils and asked what steps were being taken by the council to secure a share of these funds. Councillor Shuttleworth reported that the council had successfully bid for £470,000 of funding and upon the council's ongoing work with local partners to address the problem of homelessness.

70.2 Cabinet considered the report of the deputy chief executive (and chief finance officer) setting out the general fund revenue budget proposals for 2017/18 and a rolling 3-year capital programme 2016/21. The medium term financial strategy (MTFS) had been revised in July 2016 and the cabinet had agreed a draft 2017/18 budget proposal last December. The MTFS and resulting draft budget had been subject to extensive consultation and previously reported to cabinet and members of the scrutiny committee. The council's scrutiny committee had noted the contents of the current report at their meeting on 30 January 2017.

70.3 The budget was the product of various plans and strategies as part of an integrated and corporate planning process and was linked principally to:

- The medium term financial strategy (MTFS)
- Asset management plans
- The corporate plan
- Workforce strategy
- Treasury management strategy
- Service plans
- Housing revenue account business plan
- Joint transformation programme with Lewes District Council

70.4 The chief finance officer had a legal responsibility to give positive assurances on the robustness of the estimates used in the budget and the level of reserves. He commented that if the recommendations in his report

were agreed then these assurances would prevail. The only area to note was that part of the increased budget for income from investment property (c.£1m) was still subject to contract. Any further actions arising from this risk would be reported to cabinet as part of the normal corporate performance monitoring.

70.5 The budget proposals included:

- An increase in the council tax in 2016/18 of 1.9%; the first second for 6 years.
- Dealing with reductions in government funding of £1.5m.
- Overall savings/new income totalling £2m (13% of the net budget).
- Efficiency savings of £0.5m (3% of the net budget).
- Inflation and unavoidable costs of £0.4m (2.5% of the net budget).
- Other recurring service growth of £0.3m.
- Non recurring service investments met from reserves of £0.5m.
- General reserves averaging in excess of £4m (against a minimum recommended of £2m).
- Capital receipts of £0.5m invested in new capital schemes.

70.6 The budget represented management of financial risks by:

- Building on a favourable outturn position.
- Balancing the base budget requirement without needing to use reserves for recurring expenditure.
- Identifiable and deliverable savings with accountability and no general unidentified targets.
- Reserves above the minimum level.
- Providing the funding required for the joint transformation programme to deliver the future savings required by the MTFs as well as capital investments in revenue generating assets.

70.7 The underlying methods of local government financing had changed significantly in recent years including the wrapping up of grants in the base 'standard funding assessment' notably:-

- The council tax freeze grants (2011-15).
- Some new burdens grants.
- Homelessness grant.

For Eastbourne the headline figures of the government settlement were:

- A further reduction in revenue support grant of £0.9m (50%) to £0.9m (reduced from £10.4m in 2010).
- Reduction in new homes bonus of £0.2m from the 2016/17 level.
- Eastbourne would receive the second largest reduction nationally in "spending power" in the 4 year period to 2020.
- The government headline figure was a reduction of 16.4%, however this took into account the ability to raise council tax, predicted growth in the tax base as well as increases in the new homes bonus.
- The real reduction was therefore over 40% over the period to 2020.

70.8 The national non-domestic business rate (NNDR) base had remained static largely as a result of the continued provision for appeals and

resulting collection fund deficit, despite an inflationary increase which was linked to the September 2016 RPI and an overall increase of 11% in the gross rateable values. The government had revalued the business rates base and overall this had little effect on the retained business rates for the council. As part of the review into 100% retention of business rates the government would reassess the 'needs formula' to reflect demand for services and adjust redistribution accordingly.

70.9 The government had announced that the council would receive £0.840m in total of new homes bonus (NHB) due to the growth in housing in the area (a reduction of £200,000 on the projection). The settlement consultation reduced the period from 6 to 5 years that NHB was payable as well as a minimum threshold of 0.4% increase in band D equivalents before qualifying. The government had approved the council's joint efficiency statement and application for the 4 year settlement (to 2020). Over 97% of councils had opted for the fixed settlement including all neighbouring authorities.

70.10 It was proposed that council tax increase by 1.9% for 2017/18; which would result in a band D rate of £232.92 (an increase of £4.41 over the whole year). This would be the second increase in 6 years. The council was required to give an indication of likely future council tax rises. It was still expected that council tax would rise by no more than 2% per annum for each of the next three years. This was the government's target for inflation and also the current ceiling on rises that would otherwise require a referendum in order to exceed up to a £5 per year increase on a band D (an additional £30,000 per annum). Within this context, for 2017/18, the council would raise £7.9m from its share of the council tax. This was determined by multiplying the council tax base of band D equivalent dwellings by the band D tax rate of £232.92. This was unchanged from the tax base setting report submitted to cabinet on 13 December last. In addition, there would be a distribution of £130,000 payable by the council to the collection fund due to a small collection fund surplus.

70.11 A summary of the resources available was given, as shown below:

	£'m
Government formula grant	(1.0)
Other grants	(0.3)
Retained business rates (normal)	(3.1)
New homes bonus	(0.9)
Section 31 grants	(0.9)
Contribution from business rate reserve	(0.3)
Collection fund surplus	(0.1)
Council tax	(7.9)
Total resources available (rounded)	<u>(14.5)</u>

In order to achieve a balanced budget without using reserves, the council would need to set a net expenditure budget for 2017/18 of £14.5m.

70.12 In addition to the general grant distributed through the new formula grant system, which was given towards financing the council's net expenditure, the government also provided some specific grants. These specific grants would fund in part or in full, service costs.

Grant	2016/17 £'m
Housing benefit subsidy	(c.50.0)
Housing benefit administration	(0.5)

Housing benefit subsidy was intended to reimburse the council for the awards of benefit it made to eligible tenants in both the private and public rented sector. Not only was this by far the largest single specific grant that the council received, but it was performance related. It was noted that the council had maintained its good performance in recent years. A new system of universal credits was due to be completed by 2019 which would see the caseload moved to the Department for Work and Pensions. Currently only new applicants were put on universal credit. The main rollout of universal credit in Eastbourne was due in 2017. The administration grant had been reduced by c.5% per annum for the last 6 years from £0.8m to £0.5m. The caseload had reduced only marginally in that time, and additional complexity had been introduced as part of the welfare reform programme. It was noted that the former homelessness grant (to assist with prevention and to find alternative accommodation other than bed and breakfast) had now been subsumed into the main grant system. The government did announce a special grant for homelessness prevention during 2016/17. Homelessness presented a significant financial risk to the council as not all costs were funded by housing benefit.

70.13 New homes bonus, introduced in 2011/12 at £187,000 had grown to £1.040m in 2016/17. Awards were now guaranteed for 5 years and the government had top-sliced an amount equivalent to 0.4% growth to divert resources to upper tier authorities for adult care services. Further reductions down to approximately £400,000 per annum were expected by 2020.

70.14 The detailed budget proposals were set out in appendix 1 to the report. Movement from the 2016/17 budget to the 2017/18 proposed budget were summarised as follows:

Movement from 2016/17 base budget:	£m	£m total
Change in resources:		
Government grants	1.5	

Council tax	(0.2)	
		1.3
Cost increases:		
Inflation and unavoidable costs	0.4	
Other growth and changes in income	<u>0.3</u>	
		0.7
Savings:		
Efficiency savings	(0.5)	
Increased income/other changes	<u>(1.5)</u>	(2.0)
		<u>0</u>

70.15 Details of proposed growth and savings were given in full in appendix 2 to the report. The proposals set out in the report would allow full council on 22 February to approve a balanced budget in line with available resources and without the need to use reserves.

70.16 The council now followed a rolling 3-year financial planning cycle and the service and financial plans had been set out in detail for 2017/18. The next MTFS due in July would project forward a further 3 years and continue to provide the basis of service and financial planning for the medium term. It was noted that the significant level of the savings required for the next MTFS had already been identified. Further reports to cabinet would detail the business plans under the joint transformation programme. The government had set out a revised 4-year programme of reductions in funding and the council's current MTFS already took account of this overall however the MTFS would be refreshed in July following the year end closedown.

70.17 The report detailed the principal financial risks the council was likely to face, as follows:

- Housing benefit performance.
- Welfare reform
- Inflation on goods and services.
- Income from services linked to customer choice (theatres, tourism; sports centres, car parking).
- Legal challenges.
- Savings or new income streams being delayed.
- Excessive demand for services.
- Failure to realise capital receipts to finance the capital programme.

70.18 On an exception basis, information on each of the risk areas identified above, together with any new and significant risks that might emerge over the course of the year, would be included in each financial performance report to cabinet and scrutiny during the 2017/18 financial year. A corporate contingency budget of £120,000 for unbudgeted expenditure or reductions in income had been allowed. This was in addition to the known inflation that had been built into service budgets.

70.19 The chief finance officer was obliged to report on the adequacy of the proposed financial reserves, and determine the minimum level required. There was no statutory minimum requirement, but reserves had to be set at a prudent level given the activities of individual councils and potential liabilities that they faced or might face in the future, i.e. a risk based approach. The council's earmarked reserves were reviewed at least annually for adequacy. If at any time the adequacy was in doubt the chief finance officer was required to report on the reasons, and the action, if any, that he considered appropriate. The council would always seek to contain any unforeseen additional costs within allocated annual budgets, including the contingency budget. However, it was proposed that, in addition, the minimum level of general reserves should be set at £2m. Should the budget recommendations be followed, the level of general fund reserves was projected at over £4m by March 2018. In addition to acting as a potential buffer against future risks, this should create further opportunities for one off investments in the future. The council had followed a process of consolidating its reserves into the corporate reserves above. This better facilitated corporate priority planning. The only other reserves that the council held had specific obligations attached (e.g. Section 106/partnership contributions).

70.20 The principles for formulating the capital programme were set out in the budget report to cabinet last December and the updated programme was given in appendix 3 to the report (proposed new schemes were shown in red text) and showed a projected outturn for 2016/17 of £32.759m; a total budget for 2017/18 of £39.839m; £40.554m for 2018/19; £26.529m for 2019/20; and £1.376 for 2020/21. The council had a policy of only using borrowing for schemes that were 'invest to save' and could generate enough savings or additional income to service the financing costs. In addition to schemes that qualified for borrowing, the council had a further £500,000 of capital receipts to apply to the programme. The housing revenue account (HRA) capital programme was set out in another report on the agenda (see minute 72 below) and was financed entirely from HRA resources. Once approved it would be amalgamated with the general fund programme. No future capital receipts had been factored into the available resource where there was not a significant chance of them materialising. There would be opportunities to supplement the programme as the 3-year period progressed.

70.21* Resolved (budget and policy framework): That full council, at their meeting on 22 February 2017, be recommended to approve the following:

(a) A general fund budget for 2016/17 (revised) and 2017/18 (original) as set out in appendix 1 to the report including growth and savings proposals for 2017/18 as set out in appendix 2 to the report.

(b) An increase in the council tax for Eastbourne Borough Council of 1.9%

resulting in a 'Band D' charge of £232.92 for 2017/18.

(c) A general fund capital programme and financing 2016/21 as set out in appendix 3 to the report.

(d) Notes that the council's 'section s.151 officer' has signed off the budget proposals as outlined in paragraph 70.4 above.

Meeting: **Scrutiny**

Date: **30 January 2017**

23. General Fund 2017/18 and Capital Programme 2016/20.

Part extract only:

Queries were raised on the following points:

New investment income - The Deputy Chief Executive advised that income would be generated as part of the Estates function of the Council. Further investment opportunities were being considered across Eastbourne, a strategy the Council had been pursuing for the last 18 months. An update was reported to Cabinet in December.

Contingency budget for Risk; specifically breaches of legislations such as Health and Safety and Human Rights - The Deputy Chief Executive advised that this historically related to discrepancies in benefits payments and subsequent fines imposed by the Department of Work and Pensions (DWP). A great deal of work had been undertaken to resolve this matter and it was now considered that the allocated contingency was sufficient.

Business rate appeals – The Financial Services Manager advised that this had now been reduced to a total of approximately 150 appeals outstanding; however, the 1 April 2017 would see the introduction of a new rating system which would likely open a new raft of appeals.

Capital Programme; the differences between the committed and uncommitted sums and the expectations of Capital Receipts – the Deputy Chief Executive advised that committed spend referred to items where contracts were in place. In addition Members were advised that the expectation of capital receipts was unchanged from the programme adopted by Full Council in 2016.

The recommendations were noted.

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