

Body:	Cabinet
Date:	11 February 2019
Subject:	General Fund Revenue Budget 2019/20 and Capital Programme 2018/19- 2021/22
Report Of:	Homira Javadi, Chief Finance Officer
Cabinet member	Councillor Bill Giles, Cabinet Member for Finance
Ward(s)	All
Purpose	To agree the detailed General Fund budget proposals for 2019/20 and Capital Programme 2018/22.
Decision Type:	Key Decisions requiring approval of Full Council.
Recommendation:	<p>Members are asked to recommend the following proposals to Full Council:</p> <ul style="list-style-type: none"> (i) The General Fund budget for 2018/19 (Revised) and 2019/20 (original) Appendix 1 including growth and savings proposals for 2019/20 as set out in Appendix 2. (ii) An increase in the Council Tax for Lewes District Council of 1.99% resulting in a Band D charge for general expenses of £187.08 for 2019/20. (iii) The revised General Fund capital programme 2018/22 as set out in Appendix 3. (iv) To note the section 151 Officer's sign off as outlined in paragraph 1.6.
Reason for recommendations:	The Cabinet has to recommend to Full Council the setting of a revenue budget and associated council tax for the forthcoming financial year by law.
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1 Introduction

- 1.1 This report sets out the general fund revenue budget proposals for 2019/20 and a rolling medium term capital programme for 2018/22.
- 1.2 The Housing Revenue Account 2019/20 and associated capital programme, together with rent setting for 2019/20 is subject of a separate report elsewhere on this agenda.

- 1.3 The Council approved its Medium Term Financial Strategy (MTFS) in February 2018 and the Cabinet recommended a resulting draft 2019/20 budget proposal in December 2018 following the service and financial planning process in the autumn.
- 1.4 The MTFS and the draft budget have been subject to consultation as reported to Cabinet and Scrutiny since December.
- 1.5 The budget is the product of various plans and strategies as part of an integrated and corporate planning process and is linked principally to:
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 - The MTFS
 - Asset Management Plans
 - The Corporate Plan
 - Workforce Strategy
 - Treasury Management Strategy
 - Service Plans
 - HRA business plan
 - Joint transformation programme with Eastbourne BC
- 1.6 The Chief Finance Officer has a specific legal responsibility to give positive assurances on:
- The robustness of the estimates used in the budget
 - The level of reserves
- 1.7 If the recommendations of this report are agreed, then these assurances will prevail.

2 Summary of recommended budget proposals

- 2.1 The budget proposals include:
- An increase in the Council Tax in 2019/20 of 1.99%.
 - Dealing with further reductions in Government funding of £0.190m.
 - Overall savings/new income totalling £0.6m (4% of the net budget).
 - Efficiency savings of £0.4m (3% of the net budget).
 - New and increased income £0.2m (1% of the net budget).
 - Inflation and unavoidable costs of £0.5m (3% of the net budget).
 - Other recurring service growth of £0.5m.
 - Non recurring service investments met from general reserves of £0.5m.
 - General Working Balance £2.0m (in line with existing minimum recommended of £2m).
- 2.2 The budget represents continued management of financial risks by:
- Building on a balanced outturn position.
 - Balancing the base budget requirement without needing to use reserves for recurring expenditure.
 - Managing the new and increased demand on services, such as homelessness.
 - 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.

3 2019/20 General Fund Resources

Government Funding

- 3.1 The underlying methods of Local Government financing have 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
 - Grant for Flood Defence Levy
- 3.2 For Lewes the Headline figures of the Government settlement are:
- No revenue support grant.
 - Further reduction in new homes bonus of £0.192m from the 2018/19 level.
 - A real reduction in resources from Government of over 72% since 2016-2020.
- 3.3 The NNDR business rate base has remained volatile largely as a result of the economic uncertainty, continued provision for appeals and resulting collection fund deficit, despite an inflationary increase which is linked to the September 2018 CPI and a potential overall increase yet to be confirmed in the gross rateable values. The Government will reassess the “needs formula” to reflect demand for services and adjust redistribution accordingly from 2020 onwards.
- 3.4 Following the Government’s invitation for authorities to submit an application for the 75% business rates retention pilot and success of East Sussex submission, the Council is likely to benefit from an additional £100k retained income.
- 3.5 The Government has announced that Lewes will receive just under £0.5m in total of new homes bonus due to the growth in housing in the area. The settlement reduced the period from 6 to 4 years that NHB is payable as well as a minimum threshold of 0.4% increase in Band D equivalents before qualifying.
- 3.6 The Government approved the Council’s joint efficiency statement and application for the 4-year settlement (to 2020). Over 97% of Councils have opted for the fixed settlement including all neighbouring authorities.

Council Tax

- 3.7 The aggregate Band D Council requirement comprises two elements:
- Special Expenses in respect of the cost of managing and maintaining parks and open spaces. The cost of each site is charged to the council taxpayers of that part of the district area in which it is located.

- General Expenses, all other costs.

3.8 The Council has made a commitment to passing on changes in the cost of the upkeep of open spaces, reflecting the devolution of these assets to town and parish councils. Special Expenses amounts are shown in the table below:

Town/ Parish Area	Special Expense 2019/20 £	Band D 2019/20 £	Special Expense 2018/19 £	Band D 2018/19 £
Lewes	334,370	54.31	338,830	55.03
Newhaven	155,620	43.60	155,150	43.47
Telscombe	53,400	20.61	53,230	20.55
Seaford	54,760	5.64	54,590	5.62
Peacehaven	37,930	7.85	37,810	7.83
Chailey	1,070	0.82	1,060	0.81
Ringmer	4,180	2.19	4,170	2.18
Total	641,330	17.45	644,840	17.41

3.9 As and when site ownership of open spaces is devolved to parishes, the Special Expenses reduce accordingly to reflect that the town and parish Councils will pick up the costs of management and maintenance. Work to achieve the devolution of these sites is ongoing.

3.10 Applying a 1.99% increase to the General Expenses element of the Council Tax gives a Band D tax amount of £187.08 as shown in the table below:

	2018/19	2019/20	Change	Change
	£	£	£	%
Band D				
Special Expenses	17.41	17.45	0.04	0.23%
General Expenses	183.43	187.08	3.65	1.99%
Total	200.84	204.53	3.69	1.84%

3.11 The Council has to give an indication of likely future council tax rises, it is still expected that council tax will rise in line by inflation 2% to 3% per annum for each of the next three years. This is within the Government's target for inflation (1-3%) and also the current ceiling on rises that would otherwise require a referendum.

3.12 Within this context, for 2019/20, the Council will raise £7.5m from its share of the council tax. This is determined by multiplying the council tax base of Band D equivalent dwellings by the Band D tax rate of £204.53 per annum.

3.13 In addition, there is a distribution of £0.059m payable to LDC from the collection fund due to a collection fund surplus.

Summary – 2019/20 Resources

3.14 A summary of the resources available is shown below:

Source:	<u>£'m</u>
Other Government Grants	(0.4)
Retained business rates	(3.1)*
New Homes Bonus	(0.5)
Contribution from East Sussex Business Rate Pool	(0.2)
Council tax	<u>(7.5)</u>
Total Resources Available	<u>(11.7)</u>

**To be finalised*

3.15 In order to achieve a balanced budget the Council needs to set a net recurring budget for 2019/20 of £11.2m, this includes an allowance of £700k to be set aside to meet any in year service demands. The contribution to reserves of £500k provides the opportunity to maintain reserves at a level to safe guard against adverse financial conditions and risks.

3.16 In addition, the Council will fund non-recurring investments of £0.5m from reserves.

4 Specific Grants

4.1 In addition to the general grant distributed through the new formula grant system, which is given towards financing the Council's net expenditure, the Government also provides some specific grants. These specific grants will fund in part or in full, service costs.

Grant	2019/20 £'m
Housing Benefit Subsidy	(33)*
H B Administration Grant	(0.4)
<i>* Approximate</i>	

Housing Benefit Subsidy:

4.2 As part of a national scheme delivered locally, this grant is intended to reimburse the Council for the awards of benefit it makes to eligible tenants in both the private and public rented sector. Not only is this by far the largest single specific grant that the Council receives, but it is performance related. The Council has maintained its good performance in recent years.

4.3 The system of universal credit (UC) is due to be completed in this parliament which will see the caseload moved to the Department for Work and Pensions. Currently only new applicants are put on universal credit. In line with most of local authorities

caseloads remain constant resulting in an increase in Housing Rent arrears, and the number of families presenting as homelessness with a reduction in the private sector rental market.

- 4.4 The Housing Benefit admin grant has been reduced by at least 5% per annum for the last 7 years from £0.8m to £0.4m. The caseload has reduced only marginally in that time, and additional complexity has been introduced as part of the welfare reform programme.

Homelessness:

- 4.5 This is intended to assist with prevention and to find alternative accommodation other than bed and breakfast. This grant has now been subsumed into the main grant system. The government did announce a special grant for homelessness prevention during 2018/19. The Council has adopted an affective homeless prevention model to reduce the cost of families put into temporary accommodation. Homelessness continues to present a significant financial risk to the Council as not all costs are funded by Housing Benefit.

New Homes Bonus:

- 4.6 This was introduced in 2011/12 (£0.519m) and grew to £1.592m in 2016/17 awards are currently guaranteed for four years which is a change from the original scheme which was 6 years. The Government has 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 £0.2m per annum are expected by 2020.

5 Budget movements 2018/19 to 2019/20

- 5.1 The detailed budget proposals are set out in **(Appendix 1)** show in detail the movement from the 2018/19 budget to the 2019/20 proposed budget. The movements are summarised below: -

5.2	Movement from 2018/19 Base Budget	<u>£m</u>
	Change in resources:	
	Government grants	0.2
	Business Rates	<u>0.2</u>
		0.4
	Cost increases:	
	Inflation and unavoidable costs	0.5
	Other growth and changes	<u>1.0</u>
		1.5
	Savings:	
	Efficiency savings	(0.3)
	Increased Income/other changes	<u>(0.2)</u>
		(0.5)
	Change in contribution to reserves	<u>(1.4)</u>
		<u>0.0</u>

- 5.3 If Cabinet approves the proposals set out in the report it will be able to recommend to

Council on 25 February a balanced budget in line with available resources without the need to use reserves for recurring expenditure.

- 5.4 The Council now follows a rolling three-year financial planning cycle and the service and financial plans have been set out in detail for 2019/20. The next MTFS update due in July will project forward a further three years and continue to provide the basis of service and financial planning for the medium term. It should be noted that at a significant level the savings required for the next MTFS have already been identified, further reports to Cabinet will detail the business plans under the Joint transformation programme and income generation initiatives.
- 5.5 The Government set out a revised four year programme of reductions in funding and the Council's current MTFS already takes account of this overall however the MTFS will be refreshed in July following the year-end outturn for 2018/19.

6 Setting the Council Tax

- 6.1 The calculation of the overall tax requirement will be presented to the Council on 25 February 2019, when all the precept details are will be known, including both the major preceptors (East Sussex County Council, East Sussex Fire Authority and Sussex Police, and all the Town and Parish Council precepts.

7 Risks, Contingencies and Reserves

- 7.1 All budgets contain an element of financial risk. The Council sets an operational budget with careful consideration of known risks, but accepts that this cannot cover every eventuality. As a consequence, the Council sets a contingency budget and holds a minimum level of general reserve as a hedge against additional and significant financial turbulence.

Principal Risks

- 7.2 The key areas of financial risk that the Council faces in the operation of its 2019/20 budget are: -
- Economic uncertainty
 - Housing Benefit Performance
 - Welfare reform and Homelessness
 - Inflation on goods and services
 - Income from services linked to customer choice
 - Legal challenges
 - Savings or new income streams being delayed
 - Excessive demand for services
 - Failure to realise capital receipts to finance the capital programme.
- 7.3 On an exception basis, information on each of the risk areas identified above, together with any new and significant risks that may emerge over the course of the year, will be included in each financial performance report to Cabinet and Scrutiny during 2019/20.

Contingencies

- 7.4 The 2019/20 budget includes appropriate levels of corporate contingency budget to allow for unexpected expenditure or reductions in income. This is in addition to the known inflation that has been built into the service budgets and reserves.

Reserves

- 7.5 Part 2 of the 2003 Local Government Act requires the Chief Finance Officer to report on the adequacy of the proposed financial reserves, and determine the minimum level required. There is no statutory minimum requirement, but reserves must be set at a prudent level given the activities of individual Councils and potential liabilities that they face or may face in the future i.e. a risk based approach. The Council's earmarked reserves are reviewed at least annually for adequacy. If at any time the adequacy is in doubt the Chief Finance Officer is required to report on the reasons, and the action, if any, that she considers appropriate.
- 7.6 The Council will always seek to contain any unforeseen additional costs within allocated annual budgets, including the contingency budget. However, it is proposed that in addition the minimum level of general reserves be set at £2m based on the following risk analysis :

Risks	Cost	Impact	Likelihood	Detail and possible mitigations
0.25% change in interest rates on our existing capital programme	£56m	£0.14m	High	The Bank of England has suggested 2 rise of 0.25% per year probably for the next 3 years. Therefore, the Council could look to borrow earlier than when it needs to – up to 2 years in the future. The main lesson learned is that all projects need to cover borrowing costs unless the Council chooses to increase its savings target.
1% change in pay	£8m	£0.08m	Low	This is set nationally and pay is growing slightly over 2% per year, except next year due to a review of pay scales. A possible mitigation is that all services would need to cover any inflation by holding vacancies
1% change in average price inflation	£10m	£0.1m	Medium	Current inflation and Brexit means there is a significant likelihood of above average rises However, the main contracts that are funded are only worth £30m so a £30k impact is possibly more likely
1% change in pensions	£8m	£0.08m	Low	It is expected that Lewes will continue to see its lump sum increase by £50k per year to clear the existing deficits but this is already included in our

				assumptions. The risk is that the actuaries will adjust their assumptions requiring a higher contribution rate due to a more negative view on our investment returns. This is difficult to predict at present.
Unfunded business rate discounts by Government	£m?	£m?	Medium	This is a common strategy of Central Government when it can offer tax cuts at no cost to itself. The impact is unknown but so far has been containable.
9% Reduction in retained NNDR	£2.8m	£0.25m annually	High	This reduction has already been modelled as the 9% reduction in reduced core funding (NNDR+RSG) was the original approach of the Coalition Government. Any over-provision could offset other costs in future years.

7.7 It is the view of the Chief Finance Officer that this level of reserves remains adequate to meet the current commitments and proposals detailed within this report and any unforeseen expenditure that cannot be met by external resources.

7.8 Should the budget recommendations be followed, the level of general fund reserves (the working balance and earmarked reserves) is projected at £6m by March 2019 (**Appendix 1**). In addition to acting as a potential buffer against future risks, this should create further opportunities for one off investments in the future.

Other earmarked revenue reserves:

7.9 The Council has been following a process of consolidating its reserves into the corporate reserves above. This better facilitates corporate priority planning. The only further reserves that the Council holds have other obligations attached (e.g. Section 106/partnership contributions).

7.10 The Chief Finance Officer is satisfied that the integrated budget and corporate planning process provides a robust basis for identifying appropriate budget estimates and appropriate level of reserves.

8 Capital Programme 2018/2022

8.1 The principles for formulating the capital programme were set out in the draft budget report submitted to Cabinet on 5th December 2018. All schemes have been agreed by the Council previously. The proposed Capital Programme is attached at Appendix 3.

8.2 The Council has a policy of only using borrowing for schemes that are invest to save and can generate enough savings or additional income to service the financing costs.

The funding requirements are set out within appendix 3.

- 8.3 The 18/19 Budget has not yet been re-profiled to reflect any slippage in spending between years, this will be done for both quarter three and year end and reported to Cabinet in March and June respectively.
- 8.4 The Housing Revenue Account capital programme is set out in another report on the agenda and is financed entirely from HRA resources. Once approved it will be amalgamated with the general fund programme.
- 8.5 No future capital receipts have been factored into the available resource where there is not a significant chance of them materialising. There will be opportunities to supplement the programme as the three-year period progresses.

9 Consultation

- 9.1 The Council's medium term financial strategy and the resulting draft budget proposal for 2019/20 as reported to Cabinet in December have been subject to wide and varied consultation. The Scrutiny Committee has been invited to comment on the budget proposals at its meetings in February.

10 Financial appraisal

- 10.1 The financial implications of all budget proposals are set out throughout the report and/or within its Appendices.

11 Legal implications

- 11.1 Section 151 of the Local Government Act 1972 requires that every local authority make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs. .
- 11.2 Sections 32 and 43 of the Local Government Act 1992 require local authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating their budget requirement.
- 11.3 The Chief Finance Officer, appointed under section 151 mentioned above, has a duty to report on the robustness of estimates and adequacy of reserves under section 25 of the Local Government Act 2003.

12 Risk Management implications

- 12.1 A full risk assessment was provided as part of the MTFS approved by Cabinet in December 2018.

13 Equality Analysis

- 13.1 The equality implication of individual decisions relating to the projects/services covered in this report are addressed within other relevant Council reports. The recommendation in this report does not have any disproportionate impact on any

specific group. The approved Council Tax Reduction Scheme offers targeted support to low income households.

14 Conclusion

14.1 The Council is reasonably placed financially to meet the demands on its services as well as the reductions in Government support. However, the challenge over the medium term is profound and more change is necessary to move to a sustainable position. The Council is more dependent on commercial activities than it has ever been and this requires a high level of monitoring and risk management.

Homira Javadi (FCCA, ACCA, CPFA)
Chief Finance Officer

Appendices:

- Appendix 1 – General Fund Summary, Reserves and Service Analysis 2019/20
- Appendix 2 - Savings and Growth proposals for 2019/20
- Appendix 3 – Capital Programme

Background Papers:

The Background Papers used in compiling this report were as follows:

Cabinet reports - December 2018:

- Council Tax Base for 2019/20
- Draft Budget Proposals 2019/20

To inspect or obtain copies of background papers please refer to the contact officer listed above.