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| Body: | Scrutiny |
| Date: | 2 February 2015 |
| Subject: | General Fund Revenue Budget 2015/16 and Capital Programme 2014/18 |
| Report Of: | Deputy Chief Executive |
| Ward(s) | All |
| Purpose | To note the detailed General Fund budget proposals for 2014/2015 and Capital Programme 2014/2018. |
| Decision Type: | Key Decisions requiring approval of Full Council |
| Recommendation: | Members are asked note the following proposals being considered by Cabinet on 4 th February for recommendation to Full Council: <ul style="list-style-type: none"> (i) General Fund budget for 2014/15 (Revised) and 2015/16 (original) (Appendix 1) including growth and savings proposals for 2015/16 as set out in Appendix 2. (ii) No increase in the Council Tax for Eastbourne Borough Council resulting in an unaltered Band D charge of £224.19 for 2015/16. (iii) General Fund capital programme and financing 2014/18 as set out in Appendix 3. |
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1.0 Introduction

- 1.1 This report sets out the general fund revenue budget proposals for 2015/16 and a rolling three year capital programme 2014/18.
- 1.2 The Housing Revenue Account 2015/16 and associated capital programme, together with rent setting for 2015/16 is subject of a separate report elsewhere on this agenda.
- 1.3 The Council revised its medium term financial strategy (MTFS) in July 2014 and the Cabinet recommended a resulting draft 2015/16 budget proposal in December 2014 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 in 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:

- The MTFS
- Asset Management Plans
- The Corporate Plan
- Workforce Strategy
- Treasury Management Strategy
- Service Plans
- HRA business plan
- DRIVE corporate transformation programme
- Sustainable Service Delivery Strategy

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

If the recommendations of this report are agreed then these assurances will prevail.

2.0 Summary of recommended budget proposals

2.1 The budget proposals include:

- No increase in the Council Tax in 2015/ 16
- Overall savings/new income totalling £1.5m (9% of the net budget)
- Efficiency savings of £1m (6% of the net budget)
- Inflation of £0.6m (4% of the net budget)
- Other recurring service growth of £0.4m
- Non recurring service investments £0.5m
- General Reserves averaging in excess of £4m (against a minimum recommended of £2m)
- Capital resources of £0.8m invested in new capital schemes

2.2 The budget represents continued 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 well above the minimum level
- Zero basing of minor reward grants
- Providing the funding required for the DRIVE change programme to

deliver the future savings required by the MTFS via the strategic change fund.

3.0 2015/16 Resources

3.1 Government Funding

3.2 The underlying methods of Local Government financing were changed significantly from 2013/14 and 2014/15 onwards the wrapping up of grants in the base "Start Up Funding" notably:

- The Localisation of council tax grant (previously £1.2m)
- The council tax freeze grants
- Some new burdens grants

3.4 For Eastbourne the Headline figures of the Government settlement are:

- A reduction in revenue support grant of £1.2m (30%)
- Partially offset by new homes bonus (additional £0.2m in 2015/16)

3.5 The NNDR business rate base has increased slightly (£0.2m) largely as a result of the inflationary increase which has been capped at 2%.

3.6 In addition to the formula grant the Government is financing the cost of a 1% increase in council tax (£86,000) which it has confirmed will be put in the base for 2016/17 and beyond.

3.7 The Government has announced that Eastbourne will receive £1.1m in total of new homes bonus due to the growth in housing in the area and the further reduction in empty properties.. The grant is paid in tranches for six years. The 2015/16 figure includes 5 tranches. The funding is not guaranteed beyond a 6 year horizon for each tranche. The projected award for 2016/17 is £1.3m. The Government is financing the additional NHB from reductions in RSG, therefore, whilst volatile, it is currently the preferred method of distribution of resources.

3.8 Council Tax

3.9 The proposal for no increase in council tax for 2015/16 results in an unchanged Band D rate of £224.19 for the Council.

3.10 The Council has to give an indication of likely future council tax rises, it is still expected that council tax will rise by no more than 2% per annum for each of the next three years. This is the Governments target for inflation and also the current ceiling on rises that would otherwise require a referendum in order to exceed.

3.11 Within this context, for 2015/16, the Council will raise £7.3m 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 £224.19. This is unchanged from the December tax base setting report.

3.12 In addition, there is a distribution of £24,000 payable by EBC to the collection fund due to a small collection fund surplus.

3.13 **Summary – 2014/15 Resources**

A summary of the resources available is shown below:

| Source: | £'m |
|--|----------------------|
| Government formula grant | (2.7) |
| Retained business rates | (4.0) |
| New Homes Bonus | (1.1) |
| Council tax freeze grant | (0.1) |
| Council tax | (7.3) |
| Total Resources Available (Rounded) | <u>(15.2)</u> |

3.14 In order to achieve a balanced budget without using reserves, the Council needs to set a net expenditure budget for 2015/16 of £15.2m.

4.0 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 | 2015/ 16 £'m |
|--------------------------------|-------------------------|
| Housing Benefit Subsidy | (50)* |
| Housing Benefit Administration | (0.8) |
| * Approximate | |

4.2 Housing Benefit Subsidy:

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 improved its performance in recent years.

A new system of universal credits was due to be completed in October 2017 which will see the caseload moved to the Department for Work and Pensions. Responsibility for council tax benefit has now devolved to a local level.

4.3 Housing Benefit/Council Tax reduction scheme Administration:

This is to fund the cost to Eastbourne of administering the national Housing

Benefit and local Council Tax Support schemes. This represents a reduction of around 15% from the 2013/14 funding.

4.4 Homelessness:

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.

4.5. New Homes Bonus:

This began in 2011/12 (£187,000) and is guaranteed for six years. A further £190,000 was been awarded for 2012/13 and £180,000 in 2013/14 making a total payable of £557,000 in 2013/14. Further increases will take this source of funding to approximately £1.3m per annum by 2016/17. The Council's policy as outlined in the MTFS is to utilise surplus grant for economic regeneration initiatives. Therefore the proposed budget includes an increase in the capital financing budget to reflect.

5.0 **Budget movements 2014/15 to 2015/16**

5.1 The detailed budget proposals are set out in **(Appendix 1)** show in detail the movement from the 2014/15 budget to the 2015/16 proposed budget. The movements are summarised below:-

| 5.2 | Movement from 2014/15 | £m | £m |
|-----|------------------------------------|--------------|--------------|
| | Base Budget | | |
| | Change in resources: | | |
| | RSG and New Homes Bonus | 0.8 | |
| | Weekly refuse collection grant | 1.3 | |
| | Retained business rates | (0.5) | |
| | Council tax – increase in tax base | (0.1) | |
| | Cost increases: | | |
| | Inflation | 0.5 | |
| | Other growth and changes in income | <u>0.4</u> | <u>2.4</u> |
| | Savings: | | |
| | Efficiency savings | (1.0) | |
| | Increased Income/other changes | (0.5) | |
| | Reduced contributions to reserves | <u>(0.9)</u> | <u>(2.4)</u> |

5.3 If Cabinet approves the proposals set out in the report it will be able to recommend to Council on 18th February a balanced budget in line with available resources without the need to use reserves.

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 2015/16. The next MTFS 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 transformation programme (DRIVE)

5.5 The Government has set out a revised four year programme of reductions in funding and the Council's current MTFS already takes account of this.

The change programmes in place such as Agile and the SSDS and the rest of the DRIVE programme are projected to deliver savings over and above the minimum in order to create headroom for investment in priority services.

6.0 Risks, Contingencies and Reserves

6.1 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.

6.2. Principal Risks

The key areas of financial risk that the Council faces in the operation of its 2015/16 budget are:-

- Housing Benefit Performance
- Inflation on goods and services
- Income from services linked to customer choice (theatres, tourism; sports centres, car parking)
- Demand led services
- Legal challenges
- Savings being delayed

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 2015/16.

6.3 Contingencies

The 2015/16 budget includes a corporate contingency budget of £152,000 to allow for unbudgeted expenditure or reductions in income. This is in addition to the known inflation that has been built into the service budgets It represents 1% of the overall net budget requirement.

6.4 Reserves

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 he considers appropriate.

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:

| 6.5 | Risk | £m |
|-----|---|------------|
| | Unexpected Events e.g. flooding, major storm in excess of Bellwin Scheme provision | 0.5 |
| | Significant financial overruns e.g. prior year negative Housing Benefits subsidy adjustments and costs of welfare reform | 0.5 |
| | Exceptional fluctuations in income that have a major corporate impact e.g. loss of major sponsor close to an event (2% of income) | 0.3 |
| | Cost of providing priority services during an incident or emergency in excess of insurance cover | 0.3 |
| | Exceptional fluctuations in costs or demand that have a major corporate impact e.g. fuel costs | 0.2 |
| | Cost of significant breach of legislation e.g. health and safety, human rights | 0.2 |
| | TOTAL | 2.0 |

The overall proposed minimum level of £2 million is the same as the current year and in line with the risk assessment outlined above. 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.

Should the budget recommendations be followed, the level of general fund reserve is projected at £4m by March 2016 (**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.

6.6 Earmarked Reserves:

The following revenue reserves have been set aside in addition to the general reserve in order to facilitate projects under the DRIVE programme. The available balances at 31.3.15 are projected to be (**Appendix 1**):

| Reserve | Purpose | Amount £'m |
|-----------------------|--|-----------------------|
| Strategic Change | To fund internal transformation projects under DRIVE | 0.6 |
| Economic Regeneration | To promote economic growth | 0.5 |

6.7 Other earmarked revenue reserves:

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).

6.8 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.

7.0 **Capital Programme 2014-2018**

7.1 The principles for formulating the capital programme were set out in the draft budget report submitted to Cabinet on 10th December 2014. The proposed new schemes to be financed are shown in **bold** in at **(Appendix 3)**.

7.2 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.

7.3 In addition to schemes that qualify for borrowing the Council had a further £0.8m of capital resources to apply to the programme.

7.4 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.

7.5 No uncertain future capital receipts have been factored into the available resource so there will be opportunities to supplement the programme as the three year period progresses. Potential disposals will be identified by the asset management plans.

8.0 **Consultation**

8.1 The Council's medium term financial strategy and the resulting draft budget proposal for 2015/16 as reported to Cabinet in December have been subject to wide and varied consultation. The Scrutiny Committee held a finance event in October and has been invited to comment on the budget proposals at its meeting in February.

9.0 **Implications**

9.1 **Financial**

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

9.2 **Human Resources**

Implications have been discussed with Members through the detailed service

and financial planning process, and where appropriate with the local Branch of Unison. Specific staff briefings have taken place as necessary.

9.3 **Environmental**

Both capital and revenue budget proposals include improvements to the maintenance of Council buildings and open spaces across the town. These include a number of energy efficiency initiatives to reduce usage, cost and emissions. Consultation with residents demonstrates that these types of initiatives are well supported and are seen as high priority areas for new investment.

10.0 **Conclusions**

10.1 The Council is well placed financially to meet the demands on its services as well as the reductions in Government support over the medium term.

10.2 The new method of distributing Government funding for local government gives incentives for new development both domestic and business.

Alan Osborne
Deputy Chief Executive and Chief Finance Officer

Background Papers:

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

Cabinet reports:

December 2013

- Council Tax Base for 2015/16
- Draft Budget Proposals 2015/16
- Consultations on Council priorities

July 2014 – Medium Term Financial Strategy

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