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**Appendix 1**
**to the Council Budget and Setting of the Council Tax for 2015/16 report (item 8**

# Minute extracts

Meeting: **Cabinet**
Date: **4 February 2015**

## 54 * General Fund Revenue Budget 2015/16 and Capital Programme 2014/17

54.1 Cabinet considered the report of the deputy chief executive and chief finance officer setting out the general fund revenue budget proposals for 2015/16 and a 3-year capital programme 2014/18. The medium term financial strategy (MTFS) had been revised in July 2014 and the cabinet had agreed a draft 2015/16 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. Scrutiny committee, at their meeting on 2 February 2015, made no comments and noted the report.

54.2 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
- Asset management plans
- The corporate plan
- Workforce strategy
- Treasury management strategy
- Service plans
- Housing revenue account business plan
- DRIVE corporate transformation programme
- Sustainable service delivery strategy

54.3 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.

54.4 The budget proposals included:

- No increase in the council tax in 2015/16.
- Overall savings totalling £1.5m (9% of the net budget).
- Efficiency savings of £1 (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 of £0.5m.

- General reserves averaging in excess of £4m (against a minimum recommended of £2m).
- Capital receipts of £0.8m invested in new capital schemes.

54.5 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 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.

54.6 The underlying methods of local government financing were changing significantly from 2013/14 and 2014/15 onwards and included 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.

For Eastbourne the headline figures of the government settlement were:

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

54.7 The national non-domestic business rate base had increased slightly (£0.2m), largely as a result of the inflationary increase which had been capped at 2%. In addition to the formula grant, the government was financing the cost of a 1% increase in council tax (£86,000) which it had confirmed would be put in the base for 2016/17 and beyond. The government had announced that Eastbourne would receive £1.1m in total of NHB due to the growth in housing in the area and the further reduction in empty properties.. The grant was paid in tranches for six years. The 2015/16 figure included five tranches. The funding was not guaranteed beyond a 6 year horizon for each tranche. The projected award for 2016/17 was £1.3m. The government was financing the additional NHB from reductions in RSG, therefore, whilst volatile, it was currently the preferred method of distribution of resources.

54.8 No increase in council tax for 2014/15 was proposed and this would result in an unchanged band D rate of £224.19. 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. Within this context, for 2015/16, the council would raise £7.3m 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 £224.19. This was unchanged from the tax base setting report submitted to cabinet on 10 December last. In addition, there was a distribution of £24,000 payable by the council to the collection fund due to a small collection fund surplus.

54.9 A summary of the resources available was given, as 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)** | **(15.2)** |

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

54.10 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** | **2014/15 £'m** |
|---|---|
| Housing benefit subsidy | (c.50) |
| Housing benefit administration | (0.8) |

53.11 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 is this by far the largest single specific grant that the council received, but it was performance related. The council had improved its performance in recent years. A new system of universal credits was due to be completed in October 2017 which would see the caseload moved to the Department for Work and Pensions. Responsibility for council tax benefit had now devolved to a local level. Housing benefit administration grant funded the cost of administering the national housing benefit and local council tax support schemes (a reduction of 15% from the 2013/14 funding) 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.

54.12 In December, cabinet had put forward their draft budget proposals, the main movements since then were detailed in appendix 1 to the report as summarised below:

| **Movement from 2014/15 base budget** | **£m** | **£m** |
|---|---|---|
| **Change in resources:** | | |
| Revenue support grant 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 unavoidable costs increases and changes in income | 0.4 | 2.4 |
| **Savings:**<br>Efficiency savings | (1.0) | |
| Increased Income/other changes | (0.5) | |
| Reduced contributions to reserves | (0.9) | (2.4) |

54.13 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 18 February to approve a balanced budget in line with available resources and without the need to use reserves.

54.14 The council now followed a rolling 3-year financial planning cycle and the service and financial plans had been set out in detail for 2015/16. The next MTFS was due in July and 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 council's transformation programme (DRIVE). The government had set out a revised 4-year programme of reductions in funding and the Council's current MTFS already took this into account. The change programmes in place, such as the agile working programme and the sustainable service delivery strategy (SSDS) and the rest of the DRIVE programme, would deliver savings over and above the minimum in order to create headroom for investment in priority services.

54.15 The council sought to set an operational budget with careful consideration of known risks, but accepted that this could not 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.

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

- Housing benefit subsidy 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 might emerge over the course of the year, would be included in each financial performance report to cabinet and scrutiny during the 2015/16 financial year. A corporate contingency budget of

£152,000 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.

54.17 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 must 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 be set at £2m (as detailed in paragraph 6.5 of the report).

54.18 The following reserves had been set aside in addition to the general reserve in order to facilitate projects under the DRIVE programme. The available balances at 31 March 2015 were projected to be:

| **Reserve** | **Purpose** | **£'m** |
|---|---|---|
| Strategic change | To fund internal projects under DRIVE | 0.6 |
| Economic regeneration | To promote economic growth | 0.5 |

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).

54.19 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 bold text ) and showed a projected outturn for 2014/15 of £7.394; a total budget for 2015/16 of £16.548m; £13.089 for 2016/17; and £4.271m for 2017/18. 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 £800,000 of capital receipts to apply to the programme. No uncertain future capital receipts had been factored into the available resource so there would be opportunities to supplement the programme as the 3-year period progressed. Potential disposals would be identified through the asset management plans.

54.20 The HRA capital programme was set out in another report on the agenda (minute 56 below) and was financed entirely from HRA resources. Once approved it would be amalgamated with the general fund programme.

54.21 Councillor Mattock commented that the steps taken by the council in previous years had ensured the making of significant efficiency savings allowing the council to adjust to the continuing reduction in government funding, the impact of inflation and growth in demand for services, with no increase in the borough's proportion of the council tax for the sixth year running and increased spending in a number of priority areas.

***54.22 Resolved (budget and policy framework):** That full council, at their meeting on 18 February 2015, be recommended to approve the following:

(a) A general fund budget for 2014/15 (revised) and 2015/16 (original) as set out in appendix 1 to the report, including growth and savings proposals for 2015/16 as set out in appendix 2 to the report.
(b) No increase in the council tax for Eastbourne Borough Council resulting in an unaltered 'Band D' charge of £224.19 for 2015/16.
(c) A general fund capital programme and financing 2014/18 as set out in appendix 3 to the report.

Meeting: **Cabinet**
Date: **4 February 2015**

## 56 * Housing Revenue Account (HRA) Revenue Budget and Rent Setting 2015/16 and HRA Capital Programme 2014/17

56.1 Cabinet considered the report of the senior head of community and deputy chief executive and chief finance officer in respect of the rents, service and other charges to be set for all of the council's housing tenants. The report outlined the revenue account budget proposals for 2015/16 and housing capital programme 2014/17 and arrangements for agreeing Eastbourne Homes Limited's (EHL) management fee and delivery plan.

56.2 From the 1 April 2012 the way that council social housing was financed was changed and the HRA became self financing. This meant that expenditure had to be entirely supported from rental and other income. The main tool for the future financial management of the HRA was the 30 year business plan which had been approved by cabinet on 8 February 2012. The introduction of HRA self financing did not end the requirement to maintain a statutory ring fenced HRA and the council was still required to maintain a separate account for the income and expenditure on council housing. The report reflected the recommendations made by Eastbourne Homes in relation to the increases in rent levels, service and other charges.

56.3 The HRA revenue budget (appendix 1 to the report) had been produced based on the policies set out in the HRA 30 year business plan and showed an overall surplus of (£296,130) for 2015/16. This was mainly due to a number of favourable factors including the rent and service charge review, the change in requirement for the provision of bad debts and the savings from treasury management activities on borrowing.

56.4 The council had been following the government's guidance for rents for social housing since December 2001. Under the HRA self-financing settlement the government had assumed that rent convergence would be achieved in 2015/16. In May 2014, the government issued new guidance setting out its policy on rents for social housing from April 2015. The new guidance simplified the approach to setting the rent for each property. The government recognised that some properties would not have reached their formula rent by April 2015 and recommended that rent only moves up to formula rent when the property was re-let following vacancy. It was noted that most the council's properties had reached convergence; those remaining properties below would now achieve convergence at a slower rate. The new guidance suggested an increase of 2.2%. In order to reduce the number of properties trying to reach their formula rent, it was recommended that council rents were set at a slightly higher level with an average increase of 2.28%. This would eave 5.87% of housing rents outstanding to converge.

56.5 Service charges, heating and water charges were fixed weekly amounts set at a level to recover the expected actual cost to be incurred for the respective properties in the forthcoming year. Garage rents were recommended to increase in line with the average increase in housing rents 2.28%.

56.6 Total budgeted expenditure on the HRA capital programme was planned at £9,668,512 for 2015/16. The major works element of the programme was in line with the asset management plan and the self financing business plan model with funding from the major repairs reserve. Cabinet had previously agreed a total budget of £12.1m for the housing and economic development programme (HEDP) out of the total allowance of £20m This had now been profiled to reflect the expected spending timetable and will be funded from borrowing and HCA grant.

56.7 The proposed Eastbourne Homes Ltd. base management fee was recommended to remain at the 2014/15 level of £6,714,000, however an additional £520,000 had been proposed to meet the current pressure on the maintenance budget. The fee of £140,000 to support the work of the HEDP team had now been amalgamated into the management fee. The total proposed fee for 2015/16 was £7,375,000.

56.8 Scrutiny committee, at their meeting on 2 February 2015, noted the report and asked for further information regarding opportunities to support local companies through investment and local labour agreements.

***56.9 Resolved (budget and policy framework):** That full council, at their meeting on 18 February 2015, be recommended to approve the following:

(a) The HRA budget 2015/16 and revised 2014/15, as set out in appendix 1 to the report;

(b) that rents are set in line with the rent convergence target of 2016 set by government resulting in an average increase in rents of 2.28%;

(c) that void HRA properties which are due for re-let are moved to target rent automatically;

(d) that service charges for general needs properties are increased by 2.31%;

(e) that service charges for older persons' sheltered accommodation currently available for let are increased by 2.57%;

(f) that heating costs are set at a level designed to recover the estimated actual cost;

(g) that water charges are set at a level designed to recover the estimated cost of metered consumption;

(e) that garage rents are set to increase by 2.28% in line with the average increase in housing rent;

(f) that delegated authority be granted to the senior head of community, in consultation with the lead cabinet members for community services and finance and the chief finance officer to finalise Eastbourne Homes' management fee and delivery plan; and

(i) the HRA capital programme as set out in appendix 2 to the report.

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