EASTBOURNE Borough Council
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Appendix 1
to the council budget and setting of the council tax for 2016/17 report (item 7

Minute extracts

Meeting: **Cabinet**
Date: **3 February 2016**

*61 General fund revenue budget 2016/17 and capital programme 2014/17

61.1 Councillors Ungar and Di Cara addressed the cabinet. Councillor Ungar said he was pleased to see the inclusion in the proposed 2016/17 capital programme of 2 schemes in Old Town; £25,000 for Old Town recreation ground to achieve 'Green Flag Award' status and £50,000 for the Green Street public conveniences. Councillor Di Cara queried the figure given in the report for reserves. The chief finance officer said that the £4m figure included other reserves such as that for the Devonshire Park project.

61.2 Cabinet considered the report of the deputy chief executive and chief finance officer setting out the general fund revenue budget proposals for 2016/17 and a 3-year capital programme 2015/19. The medium term financial strategy (MTFS) had been revised in July 2015 and the cabinet had agreed a draft 2016/17 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.

61.3 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
- 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

61.4 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.

61.5 The budget proposals included:

- An increase in the council tax in 2016/ 17 of 1.9%; the first increase for five years.
- Overall savings/new income totalling £0.6m (4% of the net budget).
- Efficiency savings of £0.5 (5% of the net budget).
- Inflation and unavoidable costs of £0.8m (5% of the net budget).
- Other recurring service growth of £0.1m.
- Non recurring service investments of £0.6m.
- General reserves averaging in excess of £4m (against a minimum recommended of £2m).
- Capital receipts of £0.4m invested in new capital schemes.

61.6 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 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.

61.7 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

61.8 For Eastbourne the headline figures of the government settlement were:

- A further reduction in revenue support grant of £0.9m (30%) to £1.8m (reduced from £10.4m in 2010).
- Partially offset by new homes bonus and section 31 grants (additional £0.2m in 2016/17).
- Eastbourne would receive the second largest reduction in "spending power" of all local authorities 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.

61.9 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 2015 RPI at 0.78%. In addition to the formula grant the government was currently proposing to add the council tax freeze grant for the current year 2015/16 (£85,400) by way of a section 31 grant.

61.10 The government had announced that the council would receive £1.2m in total of new homes bonus (NHB) due to the growth in housing in the area. The grant was paid in tranches for six years. The 2016/17 figure included all 6 tranches. The funding was not guaranteed beyond the 6 year horizon for each tranche. The government was financing the additional NHB from reductions in rate support grant (RSG), therefore, whilst volatile, it was currently the preferred method of distribution of resources. A further proposal to limit future awards to 4 years was currently under consideration. At the time of writing, retention of an element NHB/RSG had been made that could equate to £100,000 for the council.

61.11 The government had asked local authorities to say whether they wished to have a four year settlement from 2016/17. There was a requirement to publish a four year efficiency statement that could only be varied by the full council. Current advice was that the efficiency target element of the MTFS would suffice in this respect and cabinet was recommended to accept the proposal.

61.12 It was proposed that council tax increase by 1.9% for 2016/17; which would result in a band D rate of £228.51 (an increase of £4.32 over the whole year). This would be the first increase for 5 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. Within this context, for 2016/17, the council would raise £7.7m 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 £228.51. This was unchanged from the tax base setting report submitted to cabinet on 9 December last. In addition, there would be a distribution of £180,000 payable by the council to the collection fund due to a small collection fund surplus.

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

	£'m
Government formula grant	(1.8)
Retained business rates (normal)	(3.9)
Retained business rates (East Sussex pool)	(0.2)
New homes bonus	(1.2)
Section 31 grants	(0.2)
Collection fund surplus	(0.2)
Council tax	(7.7)
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 2016/17 of £15.2m.

61.14 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.40.0)
Housing benefit administration	(0.6)

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 improved its 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. The administration grant had been reduced by 5% per annum for the last 5 years. 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.

61.15 The detailed budget proposals were set out in appendix 1 to the report. Movement from the 2015/16 budget to the 2016/17 proposed budget were summarised as follows:

Movement from 2015/16 base budget:	**£m**	**£m total**
Change in resources:		
Government grants	0.5	
Council tax surplus	(0.2)	
Council tax	(0.4)	
		(0.1)
Cost increases:		
Inflation and unavoidable costs	0.7	
Other growth and changes in income	0.1	
		0.8
Savings:		
Efficiency savings	(0.5)	
Increased income/other changes	(0.2)	
		0

61.16 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 17 February to approve a balanced budget in line with available resources and without the need to use reserves.

61.17 The council now followed a rolling 3-year financial planning cycle and the service and financial plans had been set out in detail for 2016/17. 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 transformation programme (DRIVE) and sustainable service delivery strategy (SSDS). 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.

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

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

61.19 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 2016/17 financial year. A corporate contingency budget of £140,000 (1% of the overall net budget requirement) 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.

61.20 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 2017. 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).

61.21 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 2015/16 of £21.915; a total budget for 2016/17 of £12.822m; £15.884m for 2017/18; £19.855m for 2018/19; £6.555m for 2019/20 and £1.355 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 £400,000 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. The housing revenue account capital programme was set out in another report on the agenda (see minute 62 below) and was financed entirely from HRA resources. Once approved it would be amalgamated with the general fund programme.

*** 61.22 Resolved (budget and policy framework):** That full council, at their meeting on 17 February 2016, be recommended to approve the following:

(a) A general fund budget for 2015/16 (revised) and 2016/17 (original) as set out in appendix 1 to the report including growth and savings proposals for 2016/17 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 £228.51 for 2016/17.

(c) A general fund capital programme and financing 2015/19 as set out in appendix 3 to the report.

(d) That with regard to the government's offer of a 4-year settlement, as outlined in paragraph 61.11 above, the council be minded to accept the offer subject to the receipt of further detail and that the decision on whether or not to accept be delegated to the chief finance officer in consultation with the lead cabinet member for finance.

Meeting: **Scrutiny**
Date: **1 February 2016**

xx	**General fund revenue budget 2016/17 and capital programme 2014/17**

Part extract only:

It was noted that the programme was dynamic and regularly reviewed with quarterly reports to Scrutiny in year; new items are added to the programme annually with any substantive schemes subject to specific reports to Cabinet. It was agreed to circulate the assumptions on available capital receipts to the Committee.

Members discussed the Homelessness Grant and the effect of recent Government cuts. The committee was advised that the process for reducing homelessness was robust and that were possible every effort was made to prevent homelessness. The committee also considered the Capital programme and the use of capital receipts, Future Model phase 2, and Eastbourne Homes Investment Company.

The Chairman queried the absence of a draft Housing Revenue Account (HRA) budget for presentation to the Scrutiny Committee. It was agreed that although it had not been presented in the past it would be appropriate to do so. The omission could not be corrected for this meeting but that the 2016/17 draft HRA budget would be circulated to members of the committee as it would be in future years. The Chairman also requested a further breakdown of the headings contained within the capital programme of projects to help better understand the detail and the Chief Finance Officer confirmed that this would be done.

NOTED.

Meeting: **Cabinet**
Date: **3 February 2016**

***63**	**Housing revenue account (HRA) revenue budget and rent setting 2016/17 and HRA capital programme 2015/19**

63.1 Cabinet considered the report of the senior head of community and chief finance officer in respect of the rents, service charges and heating costs to be set for all of the council's housing tenants. The report outlined the revenue account budget proposals for 2016/17 and housing capital programme 2015/19 and arrangements for agreeing Eastbourne

Homes Limited’s (EHL) management fee and delivery plan.

63.2 From 1 April 2012 the way that council social housing was financed had been changed and the HRA had become 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. A report had been submitted to the December cabinet meeting outlining the implications of the changes being introduced in the Housing and Planning and the Welfare Reform and Work Bills. Work is ongoing on updating the HRA 30-year business plan so that a long term sustainable plan could be set. The proposals included in this report were based on this ongoing work. The report reflected the recommendations made by EHL in relation to the increases in rent levels, service and other charges.

63.3 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 £293,000 for 2016/17. The budget was performing better than expected due to various initiatives to control expenditure, including a reduction in the management fee payable to EHL, lower than anticipated interest rates, and efficiencies achieved through the council’s restructuring programme: Future Model 2. The reduction on income earnings from rents and service charges were in line with the updated business plan. The plan provided for a contribution into the housing regeneration and investment reserve of £784,000 for 2015/16 and £924,200 for 2016/17 to meet future major works demands and other strategic housing related outcomes.

63.4 The HRA debt outstanding at 31 March 2015 was £40.3m, rising to £43.0m by 31 March 2018, the majority of which would be external debt and at fixed interest rates. The increase in borrowing was expected to be undertaken to support the housing and economic development programme (HEDP) programme. Under the self-financing settlement the government set a cap on total HRA borrowing of £42.96m, additional borrowing permission was given for £322,400 during 2014/15 and 2015/16 increasing the cap to £43.3m. The original 30-year business plan had assumed that from 2016/17 to 2028/29 an average debt repayment of £2.8m per annum would be funded from the HRA. This was no longer viable due the rent decrease and other government housing initiatives, however, if possible when opportunities arose consideration would be given to using any surplus funds for the repayment of debt or to be used to reinvest in housing properties in lieu of new borrowing.

63.5 The HRA outturn for 2015/16 was expected to deliver a £399,000 surplus, a positive variance of £104,000 over the original budget. This was mainly as a result of the decrease in the take up of the under occupation scheme and a reduction in the provision required for bad debts.

63.6 The government's summer budget review had announced that rents on social housing properties would be reduced by 1% a year for each of the four years from 2016/17.

63.7 For properties in shared blocks these charges covered common services such as communal heating, lighting, equipment maintenance contracts, cleaning and grounds maintenance. In older persons sheltered accommodation the charges additionally included on-site co-ordinators, lift maintenance contracts, communal furniture and carpets maintenance and internal redecorations. These costs were charged separately from the rent. For general needs properties in blocks the proposed average service charge increase was 1.06% to ensure that costs relating to communal areas are fully recovered.

63.8 Service charges for older persons sheltered accommodation would be subject to a further review dependent on the outcome of the East Sussex County Council decision in February regarding a proposal to withdraw Supporting People funding from sheltered housing in East Sussex. If funding was withdrawn, this was likely to come into effect from May 2016. EHL was consulting with residents on the impact of withdrawal of funding and meetings would be held at all schemes during February 2016. Any recommendations for any further change to the service charge as a result of the consultation would come to Cabinet in March 2016 for consideration. Until further recommendations were made, the average decrease would be 7.14% to ensure that charges reflected expenditure. Heating costs for older persons sheltered accommodation were set in line with known price decreases predicted by the Department of Energy and Climate Control. An average decrease of 0.85% (equivalent to 6p per week) was recommended. Water charges were also set in this way and the average charge decrease would be 0.81% (or 37p per week).

63.9 Following the previous year's rent increases, garage void debt was slowly increasing and the number of garage voids had started to increase. In order to ensure that garage rents were fully self-sufficient, an increase by CPI plus 1% would result in covering the costs of day to day repairs but the major works would still not be covered. It was therefore recommended that garage rents be increased in line with RPI (as at September 2015) plus 1% at an average increase of 1.8% and a scheme to move new garage tenancies to market rent values for the 2017/18 financial year be examined.

63.10 Total budgeted expenditure on the HRA capital programme was planned at £7,712,285 for 2016/17. 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 £14.4m 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 Housing and Communities Agency (HCA) grant.

63.11 The EHL management fee covered both operational and administration costs as well as cyclical maintenance. The fee for 2015/16 had been set at £7,375,000. EHL had proposed a reduction of £55,500 to reflect the efficiency savings achieved following the implementation of the Future Model structure and processes less an allowance for the changes expected from the supporting people funding. The proposed fee for 2016/17 was therefore £7,319,500.

63.12 The council was obliged to ensure that all tenants were given 28 days notice of any changes to their tenancy including changes to the rent they pay. In addition the information in the report would be sent to the tenant area panels following this meeting.

***63.13 Resolved (budget and policy framework):** That full council, at their meeting on 17 February 2016, be recommended to approve the following:

(a) The HRA budget 2016/17 and revised 2015/16, as set out in appendix 1 to the report;

(b) that social and affordable rents be decreased by 1% in line with the change in government policy;

(d) that service charges for general needs properties are increased by 1.06%;

(e) that service charges for older persons' sheltered accommodation are decreased by 7.14% to reflect a reduction in actual costs as well as notification of a reduction in heating and water costs;

(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 increased in line with RPI (as at September 2015) plus 1% at an average increase of 1.8%;

(f) a scheme to move new garage tenancies to market rent values for the 2017/18 financial year is examined;

(g) 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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