Body:	**Cabinet**
Date:	**8th February 2017**
Subject:	**General Fund Revenue Budget 2017/18 and Capital Programme 2016/21**
Report Of:	**Deputy Chief Executive (Chief Finance Officer)**
Ward(s)	All
Purpose	To agree the detailed General Fund budget proposals for 2017/2018 and Capital Programme 2016/2021.
Decision Type:	Key Decisions requiring approval of Full Council
Recommendation:	Members are asked to recommend the following proposals to Full Council:

(i) General Fund budget for 2016/17 (Revised) and 2017/18 (original) **Appendix 1** including growth and savings proposals for 2016/17 as set out in **Appendix 2**.

(ii) 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.

(iii) General Fund capital programme 2016/21 as set out in **Appendix 3**.

iv) Notes the section s151 Officers sign off as outlined in 1.6

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1.0 Introduction

1.1 This report sets out the general fund revenue budget proposals for 2017/18 and a rolling three year capital programme 2016/21.

1.2 The Housing Revenue Account 2017/18 and associated capital programme, together with rent setting for 2017/18 is subject of a separate report elsewhere on this agenda.

1.3 The Council revised its medium term financial strategy (MTFS) in July 2016 and the Cabinet recommended a resulting draft 2017/18 budget proposal in December 2015 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:

- The MTFS
- Asset Management Plans
- The Corporate Plan
- Workforce Strategy
- Treasury Management Strategy
- Service Plans
- HRA business plan
- Joint transformation programme with Lewes DC

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.

The only area to note is that part of the increased budget for income from investment property (c£1m) is still subject to contract. Any further actions arising from this risk will be reported to Cabinet as part of the normal corporate performance monitoring.

2.0 Summary of recommended budget proposals

2.1 The budget proposals include:

- An increase in the Council Tax in 2017/ 18 of 1.9%, the second increase in six 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 resources of £0.5m invested in new capital schemes

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

- 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

3.0 2017/18 General Fund Resources

3.1 Government Funding

3.2 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

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

- 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 will receive the second largest reduction nationally in "spending power" in the 4 year period to 2020
- The Government headline figure is a reduction of 16.4%, however this takes 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 is therefore over 40% over the period to 2020

3.5 The NNDR business rate base has remained static largely as a result of the continued provision for appeals and resulting collection fund deficit, despite an inflationary increase which is linked to the September 2016 RPI and an overall increase of 11% in the gross rateable values. The government has revalued the business rates base and overall this has little effect on the retained business rates for EBC. As part of the review into 100% retention of business rates the Government will reassess the "needs formula" to reflect demand for services and adjust redistribution accordingly.

3.6 The Government has announced that Eastbourne will receive £0.840m in total of new homes bonus due to the growth in housing in the area (a reduction of £200k on the projection) The settlement consultation reduces the period from 6 to 5 years that NHB is payable as well as a minimum threshold of 0.4% increase in Band D equivalents before qualifying.

3.7 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

3.8 The proposal is for an increase in council tax of 1.9% for 2017/18 which results in a Band D rate of £232.92 for Council services. This is the second increase in 6 years.

3.9 The Council has to give an indication of likely future council tax rises, it is still expected that council tax will rise by less 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 up to a £5 per year increase on a Band D (an additional £30k per annum)

3.10 Within this context, for 2017/18, the Council will raise £7.9m 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 £232.92. This is unchanged from the December tax base setting report.

3.11 In addition, there is a distribution of £0.130m payable to EBC to the collection fund due to a collection fund surplus.

3.12 **Summary – 2017/18 Resources**

A summary of the resources available is shown below:

Source:	**£'m**
Government formula grant	(1.0)
Other grants	(0.3)
Retained business rates	(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	**(14.5)**

3.14 In order to achieve a balanced budget without using reserves for recurring expenditure, the Council needs to set a net recurring budget for 2017/18 of £14.5m. In addition the Council will fund non-recurring investments of £0.5m from reserves as well as £0.7m from the Specific Devonshire Park reserve.

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	2017/ 18 £'m
Housing Benefit Subsidy	(50)*
H B Administration (5% reduction from 2016/17)	(0.5)
* 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 maintained its good performance in recent years.

The system of universal credit is due to be completed by 2019 which will see the caseload moved to the Department for Work and Pensions. Currently only new applicants are put on universal credit. The main rollout of UC in Eastbourne is due in 2017

The admin grant has been reduced by c5% per annum for the last 6 years from £0.8m to £0.5m. The caseload has reduced only marginally in that time, and additional complexity has been introduced as part of the welfare reform programme.

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. The government did announce a special grant for homelessness prevention during 2016/17. Homelessness presents a significant financial risk to the Council as not all costs are funded by Housing Benefit.

4.5. New Homes Bonus:

This was introduced in 2011/12 (£187,000) and grew to £1.040m in 2016/17 awards are currently guaranteed for five 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 £400k per annum are expected by 2020.

5.0 Budget movements 2016/17 to 2017/18

5.1 The detailed budget proposals are set out in **(Appendix 1)** show in detail the movement from the 2016/17 budget to the 2017/18 proposed budget. The movements are summarised below:-

5.2 **Movement from 2016/17 Base Budget:**

		£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	0.3	0.7
Savings:		
Efficiency savings	(0.5)	
Increased Income/other changes	(1.5)	(2.0)
		0

5.3 If Cabinet approves the proposals set out in the report it will be able to recommend to Council on 22nd 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 2017/18. 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 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 closedown.

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 2017/18 budget are:-

- 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

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 2017/18.

6.3 Contingencies

The 2017/18 budget includes a corporate contingency budget of £0.120m 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 and reserves.

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	0.4
Significant financial overruns e.g. prior year negative Housing Benefits subsidy adjustments/homelessness and costs of welfare reform.	0.6
Exceptional fluctuations in income that have a major corporate impact e.g. loss of major sponsor close to an event (2% of income)	0.6
Cost of providing priority services during an incident or emergency in excess of insurance cover	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 albeit with some revision to the categories. 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 reserves is projected at over £4m by March 2018 **(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 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).

6.7 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 2016-2021

7.1 The principles for formulating the capital programme were set out in the draft budget report submitted to Cabinet on 13th December 2016. The proposed new schemes to be financed are shown in **bold** in at **(Appendix 3)**. All other schemes have been agreed by the Council previously.

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 £0.5m 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 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.

8.0 Consultation

8.1 The Council's medium term financial strategy and the resulting draft budget proposal for 2017/18 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 meetings in December and 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 Conclusion

The Council is reasonably well 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.

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 2015

- Council Tax Base for 2016/17
- Draft Budget Proposals 2016/17
- Consultations on Council priorities

July 2015 – Medium Term Financial Strategy

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