

**Budget for 2018/19**

**Cabinet Member:** Cllr Peter Hare-Scott  
**Responsible Officer:** Andrew Jarrett, Director of Finance, Assets and Resources

**Reason for Report:** This report provides the proposals for the General Fund and the Housing Revenue Account for the year 2018/19.

**RECOMMENDATIONS:**

**That the Cabinet recommend to full Council that:**

1. **Council Tax is increased by 2.998% (£5.76) to £197.91.**
2. **General Fund budget for 2018/19 is approved.**
3. **The 2018/19 budget requires no transfer from the General Fund Balance.**
4. **The General Fund Budget requires a transfer of £222k from New Homes Bonus.**
5. **HRA budget for 2018/19 be approved – Appendix 5.**
6. **HRA fees/charges are approved based on the attached schedule shown as Appendix 5a.**
7. **Work on strategic planning for delivering balanced budgets in the future is commenced in the spring based on the funding levels contained in the fixed 4 year Government grant settlement & the major changes announced to Business Rates & New Homes Bonus.**
8. **Continue to maintain a 25% General Fund Balance of our net operational expenditure as referred to in para 5.1**

**Relationship to Corporate Plan:** This report is driven by the key priorities contained within the current Corporate Plan, which seeks to deliver a wide range of cost effective services. All budget decisions have taken account of these priorities and pledges.

**Financial Implications:** Sound financial management underpins the entire report.

**Legal Implications:** It is a legal requirement to set a balanced budget under the Local Government Act 2003.

**Risk Assessment:** The production of the budget has taken full account of the following:

1. The outturn for 2016/17.
2. The 2017/18 monitoring and forecasted outturns.
3. Inflation levels.
4. Changes in legislation.
5. Major income flows have been prudently estimated.
6. Risk assessments of all significant budgets have been incorporated into the budget setting process.
7. Reserves will be maintained above minimum recommended levels.
8. The Medium Term Financial Plan.

**Equality Impact Assessment:** The impact of this report on equality related issues has been considered in section 3.0 Budget Consultation.

## **1.0 Introduction**

- 1.1 Preparing the 2018/19 budget after 8 years of austerity measures was always going to be a difficult challenge. The Council's overall Formula Grant (which includes a Business Rate retention amount) has now been reduced from £6.2m in 2010/11 down to circa £2.7m for 2018/19 an overall reduction of **£3.5m or 56.5%**. However this calculation is further complicated by additional Business Rate revenues secured from: an increase in district based businesses, benefit from the Devon wide Pool and now the 1 year only 100% Business Rate Pilot status.
- 1.2 At this juncture it is worth remembering that the Council has already secured significant savings during the past 8 years in order to "balance the books" and maintain service delivery. Therefore, to secure further savings from 2019/20 onwards will not be possible without making some difficult decisions that will alter the shape/quality/quantity/frequency of services in the future.
- 1.3 Senior Management, Service Managers and the Finance Team have been involved in discussions to secure significant savings, without reducing service delivery. However it is now becoming a more difficult challenge year on year and therefore looking to the future a new more strategic process will be required to match service provision to available funding.
- 1.4 The draft budget considered at PDG and Cabinet meetings in October and November showed a budget deficit of £617k, based upon a number of key assumptions (e.g. Government funding, inflation rates, pay award, Council Tax level, use of balances/reserves, etc.), and embraced a number of savings/income increases totalling circa £497k offset by cost pressure together with funding reductions in excess of £1m.

## **2.0 January PDGs and Cabinet – Budget Update**

- 2.1 The subsequent PDG and Cabinet meetings in January received an update report on the draft budget position which highlighted a reduced budget gap of £195k. This accounted for a number of additional changes to service costs/incomes and provided an update on the Formula Grant, the 100% Business Rate Pilot, the increased referendum limit and confirmed the changes to NHB.
- 2.2 After this update report the Finance Team has been revisiting provisional budgets to secure further savings and managed to model the overall salary impact of the recently announced National Employers pay offer of 2% and higher increases to specific grades. Unfortunately this has resulted in an overall budget gap of £222k which will be funded by a temporary transfer from NHB.

### **3.0 Budget Consultation**

- 3.1 All budget decisions are clearly linked to our Corporate Plan priorities and are set against the context of annual budget consultation exercises, which have included residents, Town & Parish Councils and Local Organisations.
- 3.2 The law also requires consultation with Business Ratepayers. This meeting was held on the 18 January 2018, where the current financial issues facing the Council were outlined to a group of our commercial ratepayers. This looked at the proposed budget for 2018/19 and talked through a number of assumptions which had been made in order to deliver a “balanced” budget.

### **4.0 The Corporate Plan**

- 4.1 The most recent update of the Corporate Plan still maintains the Councils commitment to four key aims: economy, homes, empowering our community, the environment. All decisions made whilst compiling the draft 2018/19 budget had regard to the main aims and priorities of the Corporate Plan.

### **5.0 Key Assumptions for the 2018/19 Budget**

- 5.1 The Council has carefully scrutinised all existing budgets and the service risks associated with delivering them. It has also examined all material income sources, especially the ones which are most at risk, due to the continuing fluctuations in demand and price movements e.g. recycling products, planning and leisure services income. In addition to the above, regard has been made to our existing and future level of balances which are required. We have a number of ongoing commitments made against this balance (e.g. future capital contributions, economic development and building projects, “spend to save” projects, business transformation, town centre regeneration, future grant settlements). It is strongly recommended that our General Fund Balance should be maintained at 25% of operational expenditure (circa £2.217m (£8,867,780 \*25%)) which was last agreed by Full Council on the 22 February 2017.
- 5.2 With regard to all items of expenditure and income, Service Managers in conjunction with the Finance Team, review all areas for known increases/decreases based on both prevailing and predicted changes in demand, price inflation, contractual obligations, etc., when proposing the 2018/19 budget. More volatile budgets are subject to sensitivity analysis and a reasonably prudent assessment is made.

### **6.0 Local Government Finance Settlement**

- 6.1 The 2018/19 final Formula Grant Settlement was received on the 19 December 2017.
- 6.2 The settlement awarded Mid Devon an overall funding level of £2.7m which notionally includes RSG £179k, RSDG £375k with the remainder attributed to the Districts share of Local Business Rates.

## **7.0 Requirements for Council Tax Setting**

- 7.1 In recent years the Government (via the DCLG) has become far more prescriptive with regard to acceptable levels of Council Tax increase. The implementation of the Localism Act has effectively replaced Government set “capping limits” and replaced them with principles that allow the local electorate to call for a referendum if the Council is planning to increase its Council Tax above an acceptable level. The level for District Councils announced as part of the settlement was set at a maximum of the greater of 3% or £5 for the 2018/19 budget year.
- 7.2 The Council Tax income included in the proposed budget includes a £5.76 (2.998%) increase. This equates to a band D charge of £197.91. (A further 1% variation to our Council Tax changes the income generated by approximately £56k).

## **8.0 General Fund Budget 2018/19**

- 8.1 The proposals contained in this report result in a balanced budget for the General Fund (see Appendix 1). After the updated budget report was considered by the PDGs and Cabinet in January there was still an outstanding budget gap of £195k. Since that time we have considered a number of budget savings, produced an additional month’s budget monitoring information and have also reviewed our existing level of earmarked reserves and fully quantified the budget implications of the current pay offer. Following this additional work to balance the budget for 2018/19 we will have a requirement to take an additional £222k from New Homes Bonus.

## **9.0 Future Funding Concerns/Cost Pressures**

- 9.1 As the existing range/quality of service provision will be financially undeliverable from 2019/20 onwards the Council will need to reassess its overall corporate priorities and therefore where it allocates future budgets, it will also need to consider:
- Statutory vs Discretionary service provision
  - Reaffirm resident priorities
  - How it can work more closely with Towns/Parishes
  - Take on more commercial opportunities (but be aware of risks)
  - Continue to consider any partnership possibilities
  - Review Treasury options
  - Maximise all income possibilities
  - Impact of changes to New Homes Bonus
- 9.2 Recent announcements on NHB will see our annual receipt fall from £1.7m in 2017/18 to £1.1m in 18/19 and then to circa £0.95m from 2019/20 onwards. Clearly this will have a major funding impact on the size of future capital programmes and the amounts we can use to fund one off Revenue projects. Recent Central Government advice has stated that calculations could also be revisited from 19/20 onwards; any changes will need to be factored into our future MTFP.

9.3 It's important to highlight how much New Homes Bonus is being used to help fund our General Fund and Capital Budgets in 2018/19, appendix 4 shows a total transfer of £891k to contribute towards various General Fund projects, this includes £335k towards additional work required in 18/19 to finalise our Local Plan and also the £222k transfer referred to in recommendation 4 of this report. The NHB used to fund the Capital Programme amounts to £828k, (please see individual report also on this agenda) which gives a total of £1,719k (£891k + £828k) to be utilised in 2018/19. As referred to in 9.2 above our allocation for 2018/19 is £1.121k and with this reducing from 2019/20 onwards the Council will need to be mindful of the future funding available and agree service level changes accordingly.

## **10.0 Overall General Fund (GF) position at 31 March 2018**

10.1 The monthly monitoring report to the end of December tabled to this Cabinet meeting shows an estimated GF overspend of £182k by the end of 2017/18. This will result in the Council ending this financial year near its minimum level of circa £2.142m (25% of 2017/18 operational expenditure) agreed by Full Council in February 2017.

## **11.0 Transfers to and from earmarked reserves**

11.1 Appendix 3 shows in detail which amounts are being contributed to various earmarked reserves in 2018/19, including significant amounts to fund the future purchase of vehicles for refuse and recycling and ICT equipment replacement. Appendix 4 shows which amounts are expected to be taken from earmarked reserves in 2018/19, the largest of which is £335k to be used to finalise the Local Plan process and £190k to provide for the sinking fund to replace ICT equipment.

## **12.0 General Fund Budget Summary**

12.1 The final budget summary for the 2018/19 General Fund is as follows:

- To provide a balanced budget without any transfer from the General Fund Balance
- To increase Council Tax by £5.76 or 2.998%
- To utilise New Homes Bonus receipts to balance the budget
- To continue to provide the current level of service provision

## **13.0 Housing Revenue Account Budget 2018/19**

13.1 The Housing Revenue Account (HRA) is ring fenced and accounts for the income and expenditure associated with the Council's statutory housing obligations to its tenants.

13.2 The recent budget proposals that went before the Homes PDG have resulted in a balanced draft budget for the Housing Revenue Account for 2018/19 as shown at Appendix 5.

- 13.3 The main proposals for the 2018/19 budget can be summarised as follows:
- Legislation requires a 1% decrease in social housing rents for four years (2018/19 will be the third of those four years)
  - Freeze alarm charges at current rates
  - Freeze garage rents
  - Freeze garage plot ground rents at current rates
- 13.4 A more detailed analysis of the proposed rent **decrease** can be found in Appendix 5a & 5b that shows that the average housing rent will decrease to £78.26 on a 52 week basis.
- 13.5 The overall HRA budget has been constructed on a detailed line by line examination of expenditure and income, having regard to last year's outturn, this year's forecast position and the on-going improvement of the housing service.
- 13.6 Some items of expenditure can be defined quite accurately whilst others require managers to exercise business judgement based upon their experience, particularly in the case of new commitments. Where such judgement has been applied the proposals before Members are based upon realistic assumptions.
- 13.7 The main factors influencing this year's budget are broken down between the key national and local issues that are pertinent to next year's housing business plan as detailed below.

#### **14.0 Key National Issues affecting the Housing Revenue Account**

- 14.1 The key issues affecting the budget for the HRA are detailed below:
- Formula Rent (FR) reducing by 1% each year for four years
  - Right to buy (RTB) enhanced discounts, resulting in higher sales volumes
  - Universal Credit
- 14.2 In the Government budget announcement made in July 2015, we learnt that FR will reduce by 1% each year for the next four years. Until that point, we had expected it to increase by CPI + 1% each year for the next nine years. Since dwelling rent is the largest number in the HRA, the impact this has is obviously significant.
- 14.3 The single biggest issue facing social housing is welfare reform. There was a recent announcement concerning the roll-out of Universal Credit in Mid Devon. Some tenants in the District are already receiving Universal Credit but as the roll out gathers pace we can anticipate that it will have significant implications for the income stream into the HRA.
- 14.4 Current legislation on Right to Buy means that we're likely to sell many properties in future years. This will have an impact on our rent income, which in turn affects our ability to fund property maintenance and development as well as servicing any existing or new debt.

## **15.0 Key Local Issues affecting Mid Devon's HRA**

15.1 The key local issues facing the HRA are as follows:

- Building more stock
- Review our investment levels based on our 30 year Business Plan – in line with projected future demand
- Demand for increased housing stock and funding to deliver it

15.2 The prospect of building new social housing raises the issue of significant financing requirements. It means that reserves may need to be built up or additional debt taken on (subject to the cap on debt) in the near future, increasing the need to manage the impact on the revenue budget each year.

## **16.0 Capital Works and Planned Maintenance**

16.1 The major repairs allowance is determined by the level of depreciation charged on our properties. The latest stock condition survey (2010) identified a need to spend £3.5m per annum over the next 30 years, meaning any operating surpluses or savings generated by the new Self Financing system should be directed here.

## **17.0 Housing Benchmarking**

17.1 The Council continues to undertake valuable benchmarking work in conjunction with Housemark. These findings are then used to inform the budget setting process. In doing so, MDDC are able to better identify their position in relation to other authorities in the sector and identify areas for improved efficiency.

## **18.0 Overall Financial Position of the Housing Revenue Account**

18.1 It has been deemed as prudent to maintain the HRA reserve balance at £2.0m and it is expected to remain so throughout 2018/19. Other HRA reserves are expected to total £12.9m by the end of 2017/18.

18.2 This is made up of £12.4m in the Housing Maintenance Fund (HMF) and £0.5m in the Renewable Energy Fund (REF). It is intended that any expenditure funded from this money be used on renewable energy schemes.

## **19.0 Housing Revenue Account Budget Summary**

19.1 The final budget summary for the 2018/19 HRA is shown in Appendix 5. It will continue to provide for an enhanced housing service which will allow for more capital investment and additions to our existing stock.

## **20.0 Capital Programme 2018/19**

- 20.1 This is discussed in a separate agenda item which shows that the 2018/19 programme totals £10,004k – the most significant funding source required to support this programme is the £4,000k of borrowing from the Public Works Loan Board in relation to fund various asset transactions as part of the District Wide Redevelopment Project, this will be subject to a rigorous business case assessment and their cost will determine the amount of prudential borrowing required.

## **21.0 Conclusion**

### **HRA**

- 21.1 The HRA has an obligation to provide a high quality, value for money service for its tenants coupled with affordable rent levels. The government's legal requirement to cut housing rents by 1% for next year and the year after will reduce the available income to fund both revenue and capital expenditure. In addition, there is a concern that the roll out of the full service of Universal Credit will have a significant impact upon revenue into the HRA due to the expected rise in the level of rent arrears.

### **General Fund**

- 21.2 The General Fund budget has been set against a back drop of 8 consecutive years of cuts to Public Sector funding. Uncertainty is still the prevailing factor in Local Government funding. We have: the abolition of RSG in 2019/20, a 100% Business Rate Pilot (for 1 Year only) for the Devon Wide Pool, no confirmation of when or how much Business rates will be kept locally from 2019/20, the probable loss of circa £0.8m in NHB per annum (with the "threat" that the Government may still revisit the calculations behind this funding source) and no formal implementation date or mechanics of the Fairer Funding Review.
- 21.3 Nevertheless we need to prepare for the future in a timely manner and this is why we will continue to discuss how we can continue to provide a wide range of services in a much reduced funding envelope. The process will need to involve all staff, Members and our local residents/businesses.

### **Capital Programme**

- 21.4 With few disposable assets and a greater reliance on government grants our future capital programmes will come under greater pressure. If we continue to use a proportion of New Homes Bonus to help balance the General Fund there will be less available to help fund our annual capital programmes in the district. Indeed with the loss of circa £0.8m per annum of New Homes Bonus we will need to start planning the affordability of revenue contributions for capital, to maintain the level of our capital programme.



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**Circulation of the Report:** Management Team, Cllr Hare-Scott, Cllr Stanley

**Background Papers:** Oct, Nov & January Cabinet & PDG's (Budget Draft, MTFP and Budget Update reports)