

Budget for 2015/16

Cabinet Member: Cllr Peter Hare-Scott
Responsible Officer: Head of Finance

Reason for Report: This report provides the proposals for the General Fund and the Housing Revenue Account for the year 2015/16.

RECOMMENDATIONS:

That the Cabinet recommend to full Council that:

1. **Council Tax is frozen at the 2014/15 level - £182.15.**
2. **General Fund budget for 2015/16 is approved (which includes the acceptance of the Council Tax freeze grant – shown in Appendix 1).**
3. **The 2015/16 budget requires no transfer from the General Fund Balance.**
4. **HRA budget for 2015/16 be approved – Appendix 3.**
5. **HRA rents to be increased by an average of 3.4%.**
6. **Other HRA fees/charges are approved based on the attached schedule shown as Appendix 4.**
7. **That work on strategic planning for delivering balanced budgets in the future be commenced with a new Corporate Plan once the new Council is formed after the District elections in May.**

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 2013/14.
2. 2014/15 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. Medium Term Financial Plan.

1.0 Introduction

- 1.1 Preparing the 2015/16 budget was always going to be a difficult challenge. All Councils had been given a provisional grant settlement for 2015/16 which for Mid Devon included another funding reduction of £656k or 15.3%. So after accounting for other inescapable costs (pay and price inflation), reductions in levels of income from some services. other grant funding changes to Housing Benefit and Council Tax the Council was looking for budget savings in excess of £1m to balance the 2015/16 budget. The Council's Formula Grant has now been reduced from £6.2m in 2010/11 down to £3.7m for 2015/16 an overall reduction of **£2.5m or 40.3%**.
- 1.2 At this juncture it is worth remembering that the Council has already secured significant savings during the past 4 years in order to "balance the books" and maintain service delivery. Therefore, to secure further savings from 2016/17 onwards it will not be possible without making some difficult decisions that will alter the shape/quantity/frequency of services in the future.
- 1.3 Due to the predicted further reduction in grant funding we again repeated the savings review exercise, which involved, the Chief Executive, Heads of Service, Service Managers and the Finance Team. This exercise (where we task service managers to find significant savings without reducing service delivery) is becoming a more difficult challenge and therefore a new more strategic process will be required in order to match service provision to available funding will be required from 2016/17 onwards.
- 1.4 The aforementioned savings exercise, carried out during the summer, identified saving proposals of £983k for 2015/16, £541k for 2016/17 and nothing for 2017/18 onwards, which again reflects the difficulties faced by service managers trying to provide "business as usual" with an ever diminishing budget. These saving proposals were all considered at PDG and Cabinet meetings in November/December. These meetings considered a draft budget gap of £650k based upon a number of key assumptions (e.g. inflation rates, pay award, Council Tax level, use of balances/reserves, etc.).

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 (see Appendix 2). This accounted for a number of additional changes to service costs/incomes and provided an update on the Formula Grant. This also included confirmation on the Council Tax Freeze Grant and the new Referendum Limit. In addition to this update the Head of Finance has managed to secure some further service and corporate savings in order to deliver a balanced General Fund and Capital Budget, so it is now possible to accept the Council Tax Freeze Grant – this will deliver the 5th consecutive freeze on Council Tax at £182.15 per band D property.

3.0 Budget Consultation

- 3.1 All budget decisions are clearly linked to our Corporate Plan priorities. In addition to this the budget PDG and Cabinet meetings receive an update from the annual Budget Consultation exercise (including residents, Town & Parishes and Local Organisations).
- 3.2 The law also requires consultation with the Business Ratepayers. This meeting was held on the 20 January 2015, where the current financial issues facing the Council will be outlined to a group of our commercial ratepayers. This will look at the proposed budget for 2015/16 and talk 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 five key aims: thriving economy, better homes, empowering our community, caring for our environment and managing our resources. All decisions made whilst compiling the draft 2015/16 budget had regard to the main aims and priorities of the Corporate Plan. Clearly this document will be refreshed once the new Council is appointed in May 2015 which may well reprioritise certain aspects of our service delivery. But whatever decisions are made will need to be matched against our ongoing reduction in funding.

5.0 Key Assumptions for the 2015/16 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 recession. 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, “spend to save” projects, potential depot relocation, town centre regeneration, future grant settlements.) With the Government’s ongoing commitment to continue the deficit reduction programme, the delayed introduction of the Universal Tax Credit it is strongly recommended that our General Fund Balance should be maintained at 25% of operational expenditure (circa £2.3m) which was agreed by Full Council on the 26 February 2014.
- 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 2015/16 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 2015/16 Formula Grant Settlement, received on the 18/12/14, was very slightly improved on the provisional sum announced 12 months earlier. The provisional figure announced was a reduction of £573k an improvement of £83k over the original provisional figure provided in last year's settlement.
- 6.2 The December settlement did not provide a provisional grant figure for 2016/17 which will obviously make future budget planning an even greater challenge moving forward. However, we do know that the Chancellor in his Autumn statement did announce that further public sector budget reductions would be expected at least up to 2017/18 in order to "balance" the Country's finances.
- 6.3 With this last comment in mind some local authority commentators/experts are now even begin to model future funding budgets without **any** Formula Grant from 2018/19.

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, introduced on the 15 November 2011, 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 was again set at 2.0% for the 2015/16 budget year. However there have been attempts by the Secretary of State to reduce this limit over the last two financial years.
- 7.2 The Council Tax income included in the proposed budget includes a nil increase – a 1.0% variation to our Council Tax would change the income generated by approximately £49k. This has only been an affordable option due to the Government's recent announcement to provide yet another "one-off" additional grant which equates to an approximate 1.0% increase. The Government has also announced that this additional funding will be included in the 2016/17 funding base if any Council accepts the grant.
- 7.4 On the basis of the above comments/guidance it is proposed to freeze the level of Council Tax for the 5th consecutive year. This equates to a band D property charge of £182.15 for 2015/16.

8.0 Other legislative changes implemented/proposed by Central Government

- 8.1 Central Government continues to issue new legislation with regard to business rates, planning performance, referendum limits, etc. which only serve to make budget planning and service delivery an even greater challenge. This year there was no provisional settlement grant figure provided for 2016/17.

9.0 General Fund Budget 2015/16

- 9.1 The proposals contained in this report result in a balanced budget for the General Fund with a proposed freeze in Council Tax after accepting the Council Tax freeze grant (see Appendix 1). Note - After the updated budget report was considered by the PDGs and Cabinet in January (Appendix 2) there was still an outstanding budget gap of £99k. Since that time we have produced an additional month's budget monitoring information and have also reviewed a number of short term ear marked reserves that are no longer required.

10.0 Future Funding Concerns/Cost Pressures

- 10.1 Clearly, the biggest financial challenge in the future is the continued reduction in Formula Grant. Reductions to the Council's grant by £2.5m since 2010/11 places a real challenge on the Council, especially considering the significant level of service related savings that have already been delivered over the same time period. Planning for the 2016/17 budget is already being discussed and without any announcement on a provisional settlement for this year, this process will be an even greater challenge.
- 10.2 Any future budget plans will need to be assessed by the new Council in May 2015 and will shape the new Corporate plan. Output will be reported, examined and challenged at PDGs, Scrutiny and Cabinet meetings during 2015/16.
- 10.3 As the existing range/quality of service provision will be financially undeliverable from 2016/17 onwards the new Council will need to reassess its overall Corporate priorities and therefore where its 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
 - Revise Treasury options

11.0 Overall General Fund (GF) position at 31 March 2015

- 11.1 The monthly monitoring report tabled to this Cabinet meeting shows an estimated GF overspend of circa £215k (check new monitoring report) at the end of 2015/16. This will result in the Council ending this financial year below its minimum level of £2.3m agreed by Full Council in February 2014.

12.0 General Fund Budget Summary

- 12.1 The final budget summary for the 2015/16 General Fund is as follows:

- To provide a balanced budget without any transfer from the General Fund Balance
- To freeze Council Tax for the fifth successive year
- To accept the one-off Council Tax freeze grant
- To continue to provide the current level of service provision

13.0 Housing Revenue Account Budget 2015/16

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 recommended at the Decent & Affordable Homes PDG (20/01/15) has resulted in a balanced draft budget for the Housing Revenue Account for 2015/16 as shown at Appendix 3.

13.3 The main proposals for the 2015/16 budget can be summarised as follows:

- Increase social housing rents by an average of 3.4% (as recommended at Decent & Affordable Homes PDG - see Appendix 3a)
- Increase affordable housing rents by 2.8%
- Freeze alarm charges at current rates
- Freeze garage rents at current rates
- Increase garage plot ground rents by 21.2%

13.4 A more detailed analysis of the proposed rent increase can be found in Appendix 3a that shows that the average housing rent will increase to £81.20 on a 52 week basis, an average increase of 3.4%. This increase is necessary to provide sufficient financial resources to ensure continued investment in the Council's Housing Stock. The other income changes are detailed in Appendix 4.

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 Meetings have taken place with business managers who have been challenged where necessary to ensure the budget is as robust as possible, with the knowledge available to us at this point in time.

13.8 The main factors influencing this year's budget are broken down between the key national and local issues and those that are pertinent to next year's local 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:

- Welfare Reform, including the changes to Council Tax Benefit and introduction of the Universal Credit
- Changes to the Supported Housing service
- Properties lost through the Right to Buy scheme

Welfare Reform, Council Tax Benefit (CTB) and Universal Credit (UC)

14.2 The single biggest issue facing social housing is welfare reform. Great uncertainty exists about the details of new arrangements for the future. What is more, the implications of these changes are difficult to quantify.

14.3 Once new arrangements have bedded in, it will be clearer what action MDDC need to take. For instance, it is not clear when Universal Credit will be introduced in our region or how it will be operated in practice.

Warden Services

14.4 The Supported Housing service is changing hugely in 2015/16 in that the Warden service will cease to operate from April onwards. This will reduce both income and expenditure and will give MDDC more certainty about its future income and expenditure streams. The service will then comprise Community Alarms provided to tenants and non-tenants as well as a small Warden service provided to clients with Learning Disabilities.

Right to Buy Discounts

14.5 The latest legislation on Right to Buy means that we're likely to sell more 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
- Looking at special purpose vehicles – see para. 15.3
- Increasing our investment levels based on our 30 year Business Plan – in line with the stock condition survey
- 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.

- 15.3 Some local authorities around the country that are involved in new development have created separate entities known as Special Purpose Vehicles (SPVs) to deliver extra social housing projects. This has the potential benefit of opening up additional funding streams to the Council. MDDC intend to investigate the feasibility of creating an SPV and evaluate the implications of doing so.
- 15.4 The latest stock condition survey (2010) showed a shortfall of approximately £3.5m per annum over 30 years in order to maintain the existing housing stock. It is currently estimated that any savings generated by the new Self Financing system will be directed towards additional expenditure on the housing stock.

16.0 Capital Works and Planned Maintenance

- 16.1 The major repairs allowance has historically been based upon the number and class of property and as a result of right to buy sales our mix of properties varies slightly from year to year. The major repairs allowance is determined by the level of depreciation charged on our properties. The previously mentioned stock condition survey identified a need to spend £3.5m per annum more than the current level over the next 30 years, meaning any operating surpluses 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 for 2015/16. In doing so, MDDC are able to better identify their position in relation to other authorities in the sector and areas for improved efficiency.

18.0 Overall Financial Position of the Housing Revenue Account

- 18.1 Prudence would dictate that the HRA reserves should not fall below £1.5m. The HRA reserve is estimated to increase to circa £2.1m at the end of 2014/15. Any additional reserves will be prioritised to extra expenditure on the housing stock, which will be considered when the 2014/15 outturn report is considered by the Decent & Affordable Homes PDG.
- 18.2 Any balance held against the MRA will be reported to Members at the end of 2014/15 and targeted towards key stock improvement work in 2015/16. This will be reported to the Cabinet and Decent and Affordable Homes PDG in the 2014/15 outturn report.
- 18.3 In addition, the Renewable Energy Fund is expected to stand at £344k at the end of 2014/15. 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 2015/16 HRA is shown in Appendix 3. 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 2015/16

- 20.1 This is discussed in a separate agenda item. The main headlines from this report are the 2015/16 programme totals £11.9m – the 2 most material funding sources required to support this programme are £7.7m from the HRA and £1.9m from our New Homes Bonus receipts.

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.
- 21.2 Clearly the HRA is in a financially stronger and more stable position after the abolition of the previous subsidy system. Once the Council has accounted for the new debt repayments associated with this change it plans to invest any residual cash surpluses directly into improvements to the Housing stock.

General Fund

- 21.3 The General Fund budget has been set against a back drop of 5 consecutive years of cuts to Public Sector funding (i.e. cuts of circa £2.5m in Government funding). The Chancellor's recent Autumn Statement pledged an on-going commitment to the deficit reduction programme up to 2017/18 at least.
- 21.4 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. This process will need to involve all staff, Members and our local residents.

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