

Cabinet

11 February 2016

Budget for 2016/17

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 2016/17.

RECOMMENDATIONS:

That the Cabinet recommend to full Council that:

1. **Council Tax is increased by 1.99% to £185.78.**
2. **General Fund budget for 2016/17 is approved.**
3. **The 2016/17 budget requires no transfer from the General Fund Balance.**
4. **The General Fund Budget requires a transfer of £743k from New Homes Bonus.**
5. **HRA budget for 2016/17 be approved – Appendix 3.**
6. **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 the new draft Corporate Plan.**

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 2014/15.
2. 2015/16 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 2016/17 budget was always going to be a difficult challenge. 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 5 years in order to "balance the books" and maintain service delivery. Therefore, to secure further savings from 2017/18 onwards 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 2017/18 onwards.
- 1.4 The aforementioned savings exercise, carried out during the summer, identified savings proposals of £1,067k for 2016/17, £271k for 2017/18 and £295k for 2018/19, 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 were looking at a draft budget gap of £827k 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. 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.

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 & Parish Councils and Local Organisations).
- 3.2 The law also requires consultation with Business Ratepayers. This meeting was held on the 25 January 2016, where the current financial issues facing the Council was outlined to a group of our commercial ratepayers. This looked at the proposed budget for 2016/17 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 2016/17 budget had regard to the main aims and priorities of the Corporate Plan.

5.0 Key Assumptions for the 2016/17 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. 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 and the delayed roll out of the Universal Tax Credit it is strongly recommended that our General Fund Balance should be maintained at 25% of operational expenditure (circa £2.041m) which was first 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 2016/17 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 2016/17 final Formula Grant Settlement was received on the 17 December 2015.
- 6.2 The settlement awarded Mid Devon a provisional settlement figure of £3.17m, although it is not expected to change a great deal. This was £130k worse than what we had previously forecast, a reduction of £543k from the current year.
- 6.3 The “Core Funding” statement attached to the settlement also provided provisional figures for the years 2017/18 to 2019/20 inclusive. This shows the complete loss of our Revenue Support Grant by 2019/20. (In the current year we receive £1.7m). This reduced settlement has been very much front loaded – i.e. heavy cuts in 16/17 and 17/18 and far less in 18/19 and 19/20
- 6.4 Details of the much publicised retention of Business rates by Councils in the future were not provided coupled with the announcement that the government is consulting on the future of New Homes Bonus.

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 2016/17 budget year.
- 7.2 The Council Tax income included in the proposed budget includes a 1.99% increase (a 1.0% variation to our Council Tax changes the income generated by approximately £51k). This equates to a band D charge of £185.78.

8.0 General Fund Budget 2016/17

- 8.1 The proposals contained in this report result in a balanced budget for the General Fund (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 £405k. Since that time we have produced an additional month's budget monitoring information, reviewed a number of short term earmarked reserves that are no longer required, finalised the level of recharges between the General Fund and the HRA and decided to remove the Locality Fund Budget. Therefore, to balance the budget for 2016/17 we will have a requirement to take £743k from new Homes Bonus (See appendix 1)

9.0 Future Funding Concerns/Cost Pressures

- 9.1 Clearly, the biggest financial challenge in the future is the abolition long term of the 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. To find additional savings of £1.7m on top of the £2.5m already found since 2010/11 will place a very significant challenge on the Council.
- 9.2 As the existing range/quality of service provision will be financially undeliverable from 2017/18 onwards the new 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
- Revise Treasury options
- Maximise all income possibilities

10.0 Overall General Fund (GF) position at 31 March 2016

- 10.1 The monthly monitoring report tabled to this Cabinet meeting shows an estimated GF overspend of circa £395k at the end of 2015/16. This will result in

the Council ending this financial year below its minimum level of £2.04m agreed by Full Council in February 2014.

11.0 General Fund Budget Summary

11.1 The final budget summary for the 2016/17 General Fund is as follows:

- To provide a balanced budget without any transfer from the General Fund Balance
- To increase Council Tax by 1.99%, the first rise for five years
- To utilise New Homes Bonus receipts to balance the budget
- To continue to provide the current level of service provision

12.0 Housing Revenue Account Budget 2016/17

12.1 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.

12.2 The recent budget proposals recommended at the Decent & Affordable Homes PDG (26/01/16) has resulted in a balanced draft budget for the Housing Revenue Account for 2016/17 as shown at Appendix 3.

12.3 The main proposals for the 2016/17 budget can be summarised as follows:

- Legislation requires a 1% decrease in social housing rents for four years
- Freeze alarm charges at current rates
- Freeze garage rents at current rates
- Increase garage plot ground rents by 21.2%

12.4 A more detailed analysis of the proposed rent **decrease** can be found in Appendix 3a that shows that the average housing rent will decrease to £79.85 on a 52 week basis, an average decrease of 1%. The other income changes are detailed in Appendix 4.

12.5 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.

12.6 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.

12.7 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.

12.8 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.

13.0 Key National Issues affecting the Housing Revenue Account

13.1 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
- Pay to Stay initiative – potential to increase cost of administration

13.2 In July's government budget announcement, we learnt that FR will reduce by 1% each year for the next four years, where we'd 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

13.3 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.

13.4 Once new arrangements have bedded in, it will be clearer what action MDDC needs to take. For instance, it is not completely clear how Universal Credit will be rolled out in our region or how it will be operated in practice.

13.5 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.

14.0 Key Local Issues affecting Mid Devon's HRA

14.1 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 the stock condition survey
- Demand for increased housing stock and funding to deliver it

14.2 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.

15.0 Capital Works and Planned Maintenance

15.1 The major repairs allowance has historically been based upon the number and class of property but 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 latest stock condition survey (2010) identified a need to spend £3.5m per annum more than the current level over the next 30 years, meaning any operating surpluses or savings generated by the new Self Financing system should be directed here.

16.0 Housing Benchmarking

16.1 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.

17.0 Overall Financial Position of the Housing Revenue Account

17.1 Prudence would dictate that the HRA reserves should not fall below £1.5m. The HRA reserve is estimated to increase to circa £2.19m at the end of 2015/16.

17.2 Any balance held against the MRA will be reported to Members at the end of 2015/16 and targeted towards key stock improvement work in 2016/17. This will be reported to the Cabinet and Decent and Affordable Homes PDG in the 2015/16 outturn report.

17.3 In addition, the Renewable Energy Fund is expected to stand at £333k at the end of 2015/16. It is intended that any expenditure funded from this money be used on renewable energy schemes.

18.0 Housing Revenue Account Budget Summary

18.1 The final budget summary for the 2016/17 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.

19.0 Capital Programme 2016/17

19.1 This is discussed in a separate agenda item. The main headlines from this report are the 2016/17 programme totals £8.04m – the 2 most material funding sources required to support this programme are £2.86m from the HRA and £1.09m from our New Homes Bonus receipts.

20.0 Conclusion

HRA

20.1 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 the next four years will reduce the available income to fund both revenue and capital expenditure. If the trend were to continue it would have the potential to affect the long term sustainability of the HRA. The draft budget was discussed at a meeting of Tenants Together on 12 November 2015.

General Fund

- 20.2 The General Fund budget has been set against a back drop of 6 consecutive years of cuts to Public Sector funding (i.e. cuts of circa £2.5m in Government funding). The provisional funding projections in the future confirm the gradual reduction and final elimination of the Revenue Support Grant (currently £1.7m received). There is a consultation at present on the future of the New Homes Bonus with the prospect of it being awarded to Councils over four rather than six years and with a lower percentage awarded to us. It is considering proposals to award upper tier authorities more to help support their care budgets.
- 20.3 Whilst we know the general trend of further budgetary cuts we are unsure of the future of two of our most important funding sources and the timing of any changes. 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

- 20.4 With few disposable assets and a great 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. The uncertainty around the future of New Homes Bonus places real concern over the future levels of the capital programme we can afford.

App 1 General Fund 2016/17 Budget Summary
App 1A Transfer to / from earmarked Reserves
App 2 GF PDG Report Jan 2016
App 3 HRA Budget
App 3a HRA Rent Decrease Impact
App 4 HRA Fees Charges

Contact for more information: Andrew Jarrett, Head of Finance
01884 234242 (ajarrett@middevon.gov.uk)

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