Cabinet **Agenda Item**

2 February 2017

Budget for 2017/18

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 2017/18.

RECOMMENDATIONS:
That the Cabinet recommend to full Council that:

1. **Council Tax is increased by £5 to £192.15.**
2. **General Fund budget for 2017/18 is approved.**
3. **The 2017/18 budget requires no transfer from the General Fund Balance.**
4. **The General Fund Budget requires a transfer of £89k from New Homes Bonus.**
5. **HRA budget for 2017/18 be approved – Appendix 5.**
6. **HRA fees/charges are approved based on the attached schedule shown as Appendix 5a.**
7. **That work on strategic planning for delivering balanced budgets in the future be commenced in the Spring based on the funding levels contained in the fixed 4 year Government grant settlement.**

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 2015/16.
2. The 2016/17 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.

1.0 Introduction

1.1 Preparing the 2017/18 budget after 7 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 £3.0m for 2017/18 an overall reduction of **£3.2m or 51.6%**.

1.2 At this juncture it is worth remembering that the Council has already secured significant savings during the past 7 years in order to "balance the books" and maintain service delivery. Therefore, to secure further savings from 2018/19 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. It is 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 November/December showed a budget deficit of £419k, 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 totalling circa £621k offset by costs pressures 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 £231k. This accounted for a number of additional changes to service costs/incomes and provided an update on the Formula Grant.

2.2 After this update report was produced the Director of Finance, Assets and Resources has managed to secure further service and corporate savings of £142k for the General Fund Budget. This has resulted in the Council only requiring £89k of New Homes Bonus in order to deliver a balanced budget.

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 26 January 2017, where the current financial issues facing the Council were outlined to a group of our commercial ratepayers. This looked at the proposed budget for 2017/18 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 2017/18 budget had regard to the main aims and priorities of the Corporate Plan.

5.0 Key Assumptions for the 2017/18 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 £2.142m) which was last 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 2017/18 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 2017/18 final Formula Grant Settlement was received on the 15th of December 2016.

6.2 The settlement awarded Mid Devon a provisional Revenue Support Grant figure of £498k, which is in agreement to the level of funding, and cuts, which we accepted earlier in the year.

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 was again set at the lower of £5 or 2.0% for the 2017/18 budget year.

7.2 The Council Tax income included in the proposed budget includes a £5 increase. This equates to a band D charge of £192.15. (a 1% variation to our Council Tax changes the income generated by approximately £51k).

8.0 General Fund Budget 2017/18

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 £231k. Since that time we have considered a number of budget savings, produced an additional month's budget monitoring information and have also reviewed a number of short term earmarked reserves that are no longer required. To balance the budget for 2017/18 after this additional work we will have a requirement to take an additional £89k 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 2018/19 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
- Revise Treasury options
- Maximise all income possibilities
- Impact of changes to New Homes Bonus – (From 2018/19 onwards we will lose over half of our New Homes Bonus, which will remove over £1m from the funding of our capital programme.)

10.0 Overall General Fund (GF) position at 31 March 2017

10.1 The monthly monitoring report tabled to this Cabinet meeting shows an estimated GF overspend of circa £80k at the end of 2016/17. This will result in the Council ending this financial year below its minimum level of £2.142m agreed by Full Council in February 2016.

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 2017/18, including significant amounts to fund the future purchase of vehicles for street cleansing and trade waste collection. Appendix 4 shows which amounts are expected to be taken from earmarked reserves in 2017/18, the largest of which is £294k to be used to fund activity in Development Control.

12.0 General Fund Budget Summary

12.1 The final budget summary for the 2017/18 General Fund is as follows:

- To provide a balanced budget without any transfer from the General Fund Balance
- To increase Council Tax by £5
- 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 2017/18

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 has resulted in a balanced draft budget for the Housing Revenue Account for 2017/18 as shown at Appendix 3.

13.3 The main proposals for the 2017/18 budget can be summarised as follows:

- Legislation requires a 1% decrease in social housing rents for four years
- Freeze alarm charges at current rates, except for those where a 30p increase will enable harmonisation
- Increase garage rents by 10p per week
- 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 that shows that the average housing rent will decrease to £79.05 on a 52 week basis, an average decrease of 1%. The other income changes are detailed in Appendix 5.

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 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. The full digital service will be rolled out in the area covered by the Tiverton Job Centre Plus (JCP) with effect from April 2018 and in the area covered by the Exeter JCP with effect from June 2018. 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 Members will recall that Universal Credit has been introduced to replace a number of other benefits including Job Seekers Allowance and Housing Benefit. It is paid four-weekly in arrears direct to the claimant. The new arrangements are there to support people of working age. Pensioners will not be affected. This aspect of welfare reform is significant for the Council because up until now our tenants have been receiving Housing Benefit which is rebated to their rent accounts every Monday. With Universal Credit, there is usually a six week delay before the claim goes into payment and housing costs are not payable for the first week of the claim. Once the full digital service has been rolled out, claimants will be expected to manage their claims and also their interaction with the JCP online. On 16 January 2017, Sophie Barnes, writing in Inside Housing magazine, reported on some recent research undertaken by the National Federation of Arm's Length Management Organisations (NFA) and the Association of Retained Council Housing (ARCH) amongst tenants in Council homes on Universal Credit. This showed that the percentage of Council tenants on Universal Credit in rent arrears has increased to 86% over the past year. The research also revealed that 59% of Universal Credit claimants living in Council houses have arrears which equate to more than one month's rent.

14.5 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.

14.6 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
- 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

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 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.

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 Prudence would dictate that the HRA reserves should not fall below £1.5m. The HRA reserve is estimated to increase to circa £10.5m at the end of 2016/17.

18.2 Any balance held against the MRA will be reported to Members at the end of 2016/17 and targeted towards key stock improvement work in 2018/19. This will be reported to the Cabinet and Decent and Affordable Homes PDG in the 2016/17 outturn report.

18.3 In addition, the Renewable Energy Fund is expected to stand at £436k at the end of 2016/17. 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 2017/18 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 2017/18

20.1 This is discussed in a separate agenda item which shows that the 2017/18 programme totals £13.175m – the most significant funding source required to support this programme is the £5.114m of borrowing from the Public Works Loan Board in relation to the development work planned in the centre of Tiverton.

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 the next two 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 rent decrease was discussed at a recent meeting of Tenants Together. In addition, there is a concern that the roll out of the full digital 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 7 consecutive years of cuts to Public Sector funding. We have now agreed to the three year funding cuts proposed by the government and so we will have no Revenue support Grant by 2019/20. We will face a further loss of circa £1m in New Homes Bonus annually after 2018/19.

21.3 Now we have more certainty over two of our main three funding resource, but there is still uncertainty of what 100% business rates collection will result in for Mid Devon. 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 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. Indeed with the loss of circa £1m 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.

App 1 2017/18 PDG General Fund Budget Summary
App 2 PDG Budget Service Movements

App 3	Transfers into Earmarked Reserves
App 4	Transfers from Earmarked Reserves
App 5	HRA Budget Summary
App 5a	HRA Fees and Charges

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

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