

**Report to:** Cabinet  
**Date of Meeting:** 2 January 2019  
**Public Document:** Yes  
**Exemption:** None  
**Review date for release** None



**Agenda item:** 14

**Subject:**

**Draft Revenue and Capital Budgets 2019/20**

**Purpose of report:**

This report presents the draft revenue and capital budgets for 2019/20 for adoption by the Cabinet before consideration by a joint meeting of the Overview and Scrutiny Committees and the Housing Review Board.

Recommendations from these meetings will be presented back to the Cabinet on 6 February 2019 when members will finalise budget proposals to be recommended to Council.

**Recommendation:**

**That the draft revenue and capital estimates are adopted before forwarding to a joint meeting of the Overview and Scrutiny Committees and Housing Review Board for consideration.**

**Reason for recommendation:**

There is a requirement to set balanced budgets and to levy a Council Tax for 2019/20

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**Financial implications:**

Financial details are contained within the report

**Legal implications:**

No legal observations are required

**Equalities impact:**

Low Impact

**Risk:**

Low Risk

Risks have been considered in preparing the budgets and the financial implications have been assessed at the point of preparation. Various budget assumptions have been made including the treatment of inflation and interest rates; estimates on the level and timing of capital receipts; the treatment of demand led pressures; the treatment of planned efficiency savings/productivity gains; levels of income; financial risks inherent in any new arrangements; capital developments; the availability of funds to deal with major contingencies and the need for any provisions. In each of these areas the Council's financial standing, management and track record have been considered in order to prepare robust budget proposals.

Other specific areas of risk have been highlighted where appropriate within the report and within the budget book at service level.

The risks associated with Brexit were highlighted and considered in the Financial Plan 2019-2029 linked to this report. There is also a Strategic Risk included in the Council risk register. The risks have been assessed under the operational parameters of this Council.

**Links to background information:**

- [2019/20 Draft Revenue and Capital Budget Book](#)
- [Cranbrook Parish Council request for funding](#)

**Link to Council Plan:** Budgets and related service plans link back to the Council Plan

## **1. Process**

- 1.1 The Constitution requires Cabinet to approve the draft revenue and capital budget prior to consideration by the Overview and Scrutiny Committees. The Housing Review Board will undertake the same function in relation to the Housing Revenue Account budgets.
- 1.2 Recommendations from these two meetings will be reported back to Cabinet at its meeting on 6<sup>th</sup> February, along with any comments from the business community. At this meeting members will be required to recommend to Council a budget and the Council Tax requirement for 2019/20.
- 1.3 At the same time as preparing the draft budget, draft service plans have been prepared for member consideration. Service plans and budgets are aligned and link back to the Council Plan.

## **2. General Fund Budget**

### **The Overall Financial Picture**

- 2.1 Under the four year financial settlement arrangement the Council will not receive any Revenue Support Grant (RSG) for the first time in 2019/20; £0.127m is currently received in 2018/19. RSG has in the past been the main grant to local authorities to fund core service delivery; funding is now to be provided through Business Rate income, New Homes Bonus, Council Tax and the Councils' own income raising activities.
- 2.2 The Local Government Provisional Financial Settlement was published on 13<sup>th</sup> December 2018 which confirmed the position of no RSG for EDDC as stated above, other aspects of the settlement have been reflected in the draft budget.
- 2.3 With the expected reduction in RSG and other budget pressures the Council's Medium Term Financial Plan (MTFP), contained within the Council's Financial Plan, predicted a budget deficit of £0.665m in 2019/20, rising to £2.6m by 2020/21 and to £4.6m by 2028/29 if no action was taken to reduce expenditure and/or increase income. A reminder of this position is given below showing the shortfall in each year in isolation:

General Fund	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Budget Shortfall</b>	665	1,952	279	159	112	125	632	137	309	276

- 2.4 In considering 2019/20 projected deficit of £0.665m it is worth recapping on the main external factors which drive this position in the MTFP; Reduction in Government funding alongside rising costs through the national pay award, effect of inflation and areas such as new homelessness legislation and other increasing demands on our services.
- 2.5 The Council has an adopted Transformation Strategy which sits alongside the Financial Plan. The Transformation Strategy outlines how transforming the way the Council works will deliver our purpose despite significant reductions in government funding and the predicted budget gap. This is a dynamic Strategy which will require continuous update and review so that progress can be tracked to ensure future savings give the Council a balanced budget position.
- 2.6 The preparatory work in developing the latest Financial Plan and Transformation Strategy were considered by the Budget Working Party on 5<sup>th</sup> September 2018, the overall direction of these documents were endorsed including proposals required to prepare a budget for 2019/20.
- 2.7 The finalised [Financial Plan 2019 - 2029](#) and [Transformation Strategy 2019 - 2029](#) were agreed by Cabinet on 31 October 2018. They were debated by the Overview Committee on 15 November and details were forwarded to the Scrutiny Committee for their awareness. The draft budget has been prepared in line with these agreed documents.
- 2.8 The actions identified in the Transformation Strategy for 2019/20 bridged the predicted budget deficit to within £0.280m of a balanced budget, this included a savings target of £0.250m under the heading of “fit for purpose”. Additional initiatives were required to meet the remaining shortfall and the fit for purpose target needed to be achieved. The actions included in the Strategy for 2019/20 are given below and compared with the position now being presented in the draft budget as being achievable.

Transformation Savings Target compared with draft 2019/20 budget	Target in Transformation Strategy £000	2019/20 Draft Budget position £000	Comments
Print & Post Planning	7	7	
Fit for Purpose	250	250	Currently Short by £126k in terms of identified posts to make up this saving total – SMT will find this sum in year so the full saving figure is included in the draft budget. This is a risk and if not found the amount will have to be met from General Fund Balance.

Property charge for Waste Containers from developers	28	67	Better than target
Street Scene potential to increase event income for existing assets.	15	0	This target was on the basis of event management being in place. Specific events are now to be trialled under a proposed management arrangement (Gate to Plate & Queens Drive). Other areas will be incorporated in 2020/21 to achieve the target and future savings
Property Investment (£300k commercial + £150k District Benefits)	50	50	
East Devon Business Centre - full occupancy & remodelling	10	10	
Rent reviews for commercial properties to ensure up to date	15	15	
Rent reviews for commercial properties to ensure up to date	10	10	
To be identified in budget preparation	280	-	No new items of Transformation have come forward. Although budget managers have worked to hold or reduce existing budget areas.
<b>Total</b>	<b>£665</b>	<b>£409</b>	<b>£0.256m short of savings target based on MTFP assumptions</b>

- 2.9 The above position compares the MTFP and the **savings/income generation through the Transformation Strategy which are now included in the draft budget**, this gives a shortfall projected of £0.256m.
- 2.10 Now turning to the position in the draft budget as this will inevitably be different to the MTFP which was prepared at an earlier stage and at a much higher level. The final position with the draft budget is remarkable close to the expected position with the **draft budget showing a deficit of £0.156m**.

### **Draft Revenue Budget 2019/20**

- 2.11 A summary position of the General Fund draft budget is given below. Further details are contained in the Budget Book linked to the agenda showing the current budget, the draft budget proposed for 2019/20 alongside notes on variation between years and other points of detail to inform members.

The Budget Book provides a summary of the services we operate, the assets and resources involved in each area. For a better understanding of the draft budget and the resources allocated members are recommend to study these pages along with the service plan proposals.

## General Fund Revenue Budgets 2019/20

Portfolio Budget - Net Expenditure	2018/19	2019/20	Variation	%age Change	Notes
Corporate Business	129,270	142,800	13,530	10%	
Corporate Services	1,696,130	1,995,945	299,815	18%	1
Economy And Regenrtn Portfolio	557,690	358,020	-199,670	-36%	2
Environment Portfolio	1,540,630	1,516,220	-24,410	-2%	
Finance	1,524,770	1,771,980	247,210	16%	3
Strategic Development & P'Ship	2,466,010	2,303,430	-162,580	-7%	4
Street Scene Portfolio	9,172,930	9,137,525	-35,405	0%	
Sustainable Homes & Communitie	436,350	557,400	121,050	28%	5
<b>Portfolio Totals</b>	<b>17,523,780</b>	<b>17,783,320</b>	<b>259,540</b>	<b>1%</b>	
Reversal of Capital Charges (Depreciation)	-2,550,620	-2,550,620	0	0%	
<b>Portfolio Totals Net of Capital Charges</b>	<b>14,973,160</b>	<b>15,232,700</b>	<b>259,540</b>	<b>2%</b>	
Interest Receipts (Net of investment management fees)	-624,680	-635,180	-10,500		
Interest Payable	200	4,470	4,270		
PWLB Interest & Principal Repayments	222,710	565,980	343,270		
<b>Net Expenditure</b>	<b>14,571,390</b>	<b>15,167,970</b>	<b>596,580</b>	<b>4%</b>	
<b>Government Grants</b>					
New Homes Bonus contribution	-1,500,000	-1,500,000	0		
Rural Services Delivery Grant	-225,590	-225,590	0		
Savings Target	-70,000	-70,000	0		
<b>Use of Reserves</b>					
Use of Collection fund surplus	-137,840	-123,000	14,840		
Earmarked Reserves	-704,700	-683,510	21,190		
Use of General Fund Balance for elections	-143,610	-80,160	63,450		
Use of General Fund Balance		-156,020			
<b>Budget Requirement</b>	<b>11,789,650</b>	<b>12,329,690</b>	<b>696,060</b>	<b>6%</b>	
Revenue Support Grant	-126,670	0	126,670		
Business Rate Baseline Funding	-2,571,060	-2,624,550	-53,490		
Business Rate Retention Inflation Uplift	-1,100,000	-1,300,000	-200,000		
Council Tax Support Grant paid to Parishes	32,830	0	-32,830		
Parish Support Reserve	0	0	0		
<b>Council Tax Requirement</b>	<b>8,024,750</b>	<b>8,405,140</b>	<b>536,410</b>	<b>7%</b>	

*High level notes to main variations above – see budget book for detailed analysis.*

- 1      £80k increase for District election to be met from General Fund Balance, £253k implementation of Firmstep (Customer Service IT software) to be met from specific reserve.*
- 2      £50k new income stream - investment property, Exmouth Town Hall now fully recharged to services £50k, other property maintenance & running cost savings on corporate buildings £97k which includes the difference between a new build Blackdown House compared with the Knowle*
- 3      £279k additional net costs on Housing Benefit Payments mainly as a result of reduction in HB overpayment income, offset by £114k saving from administration costs and income generation.*
- 4      Reduction in Growth Point budget as £100k included in 2018/19 for Cranbrook Expansion Masterplan, Exeter City Council funding for Growth Point £80k now ceased but this has been offset by additional income and savings.*  
  
*£57k reduction in technical and consultants fees as not required in 2019/20 in planning policy*
- 5      £112k additional net cost for Homesafeguard – increased costs including new IT system and reduced income (commercial contracts).*

- 2.12 The Financial Plan made an allowance of £0.050m to cover one off items of expenditure previously referred to as special items, these service requests have been prioritised and included in the draft budget. Items classified as priority 1 (health & safety essential maintenance) have been included, but any other items have had to be excluded to keep within the allowance.
- 2.13 The budget requires £0.156m to be met from the General Fund Balance (in addition to a sum for the District election £0.080m), this is not ideal but is financial acceptable.
- 2.14 The budget has been prepared on the basis of continuing to provide existing services without any reductions which considering the financial pressures is a significant achievement. Service areas are under pressure to deliver existing services at reduced costs and in cases meet an increase in demand/workload, this is particularly true within the StreetScene area but they are not alone. StreetScene had flagged the need for additional resources but this has not been possible within this budget and they are to manage with the existing resources. Careful consideration has been given to the budget setting and services need to continue to work more efficiently in order to give them the capacity to meet additional demands, this will need to be monitored carefully through budget monitoring and performance reports.
- 2.15 The Council agreed to consider during its budget process a request from Cranbrook Town Council to support the funding of a Deputy Town Clerk. A report prepared by the Town Council is linked to this report. The request is seeking total funding of £112,222 over a five year period (costs in first year being £21,306). This sum is not included in the draft budget and members are reminded that requests for additional resources from our own teams have not been possible in this budget.

## **2.16 Council Tax**

The draft budget, in line with the agreed Financial Plan, assumes the Council will increase the Council Tax for 2019/20 by £5 a year. This gives a precept for the Council of £8,405,140 raising the current annual council tax charge from £136.78 to £141.78 for a band D property a year, a 3.7% increase.

Details have been released on what level Council Tax increases would trigger a referendum, in that the Government believe they would be excessive. This has been deemed for shire districts to be an increase of £5 a year or 3% whichever is the greater, this is the level the Government have calculated in their assumptions as income available to these Councils.

## **2.17 General Fund Balance**

The Council has an adopted range for the General Fund Balance of between £2.8m to £3.6m which is considered still to be appropriate; the draft budget maintains the Balance within that range. The draft budget assumes using £0.236m of the General Fund balance in 2019/20.

The current prediction for the year end position for 2018/19 is that the General Fund Balance will be at the top end of this range at £3.2m, therefore using £0.236m in 2019/20 would still leave the Balance at the required level. This report highlights the saving target within the budget for “fit for purpose” currently has savings of £0.126m yet to be identified and if not achieved would also have to be met from the General Fund Balance.

This is an estimated position and factors will affect this sum before year end. Based on previous years' experience the year end position is likely to generate a surplus position which can then be used to offset the costs in this draft budget to leave the General Fund Balance at the higher limit of £3.6m. Decisions will be taken at the 2018/19 Outturn stage concerning the Council's balances when the final position is known.

## **2.18 Business Rates**

The 2019/20 budget uses the Government's funding calculation at £2.664m as the income to be derived from Business Rates; to this an additional £1.3m has been added to reflect the Council's own rate estimate which is higher. The Council does hold a Rates Volatility Fund of £0.639m accumulated from previous Business Rate surplus to mitigate the risk if Rates do not achieve this full level and it helps smooth out year on year fluctuations.

The Council was successful in a Devon bid to Government to become a 100% business rates Pilot area for 2018/19. Although Devon applied to be 75% pilot for 2019/20 this was not successful and the budget reflects the Council will revert back to a 50% retention scheme for 2019/20. A 75% retention scheme will be introduced in 2020/21 and proposals of how this will work are still being determined by Government.

The Council still holds £0.5m to £0.6m (depending on final year end calculation) of monies obtained in the current year under the 100% scheme - this income is required to be directed to the promotion of financial sustainability across economic areas and for the investment in encouraging further growth.

## 2.19 **New Homes Bonus (NHB)**

The Council's policy is to retain £1.5m of NHB annually to fund the General Fund with the balance in the main being used to support the Council's Capital Programme. Therefore the risk of reduced sums is mitigated through the capital programme.

The draft Budget includes HNB grant to be received in 2019/20 of £3.897m, this is based on additional net growth in the Council Tax Base of 901 dwellings relating to the NHB grant calculation which includes 220 additional affordable units.

### **Budget Strategy for future years**

- 2.20 The Council has a good record of tackling and managing budget deficit projections and dealing with issues at an early stage, the Council has an agreed Transformation Strategy which will continually be monitored and reviewed to ensure the Council continues to balance its budget. More initiatives need to be delivered going forward, the Council does have a minimal budget gap in the proposed draft budget which is manageable and can be met from the General Fund Balance.
- 2.21 The Budget Working Party will meet in June 2019 to start considering plans in balancing the 2020/21 budget which has a significant budget deficit projected (in year deficit alone of nearly £2m). This will be under a new Council who will need to consider a new Council Plan which will help steer the work of the Party.

## 2 **Housing Revenue Account Budget**

### **The Overall Financial Picture**

- 3.1 The Housing Revenue Account (HRA) is underpinned and influenced by the business plan, this plan needs a refresh to consider:
- The implication of a new maintenance contractor,
  - to reflect additional work on asset management planning and to further develop management information from the Housing IT system,
  - the end of rent reductions,
  - implication of Universal Credit, and
  - a need to reconsider the debt level and use of Right to Buy Receipts linked to future development ambitions.

This will be done in 2019/20 for the 2020/21 budget, the picture for the draft 2019/20 budget is very much stand still in that; it provides an acceptable surplus to contribute to the purchase programme to counteract the impact of continuing Right to Buy (RTB) sales and ensures capital receipts are spent and not returned to government. The budget also continues to invest in our existing properties at a similar level.

- 3.2 The Governments Rent Reduction Policy of 1% continues with the final year being 2019/20, with an estimated reduced income of £0.152m. This results in an average weekly rent for



2019/20 of £79.09. Garage rents have been factored in at an increase of 3% taking this to an average weekly rent of £12.50.

- 3.3 The HRA currently has 4,204 dwellings and 738 garages, there has been 8 Right to Buy sales in 2018 to date (32 last full year) and we have added 12 new dwellings in the current year (22 last full year).

### **Draft Revenue Budget 2019/20**

- 3.4 The budget book details the draft estimates for 2019/20.
- 3.5 The budget has been prepared to maintain council homes to a high standard with a comprehensive planned programme of expenditure, adaptations and routine repairs. The 2019/20 draft budget maintains significant sums for:
- Major repairs totalling £4.4m covering new doors, boilers, kitchens and bathrooms, including change of tenancy expenditure, replacement of wooden fascias with uPVC and roof replacements.
  - Day to day repairs, programme maintenance and one off works totalling £4.5m.
- 3.6 Rents have been decreased by 1% in line with legislation giving an estimated rental income from dwellings of £17.1m, with other income including garage rents adding a further £1m in income.
- 3.7 The draft budget proposed generates a surplus of **£1.154m** in 2019/20. This sum is then used to help finance the purchase of properties, continuing with the £5m annual investment programme (£3.5m from reserves/surplus and £1.5m from RTB receipts).
- 3.8 The draft budget excludes a £1.9m principle loan repayment scheduled for 2019/20 and assumes this is refinanced allowing the generated surplus in 2019/20 to be used to support new acquisitions, this will leave the level of debt in the HRA at the same level of £80.6m.
- 3.9 The HRA Balance is maintained within the adopted range of £2.1m and £3.1m, being projected to be retained £3.1m level at the end of 2019/20. There is an additional £1.6m being held in the HRA debt Volatility Fund which remains unchanged.
- 3.10 The draft HRA budget will be reviewed by the Housing Review Board (HRB) on 24<sup>th</sup> January 2019.

### **Budget Strategy for future years**

- 3.11 The HRA Business plan needs refreshing as outlined in 3.1 above to ensure properties can be maintained at a high standard whilst investing in new properties and keeping the HRA Reserves within the adopted levels. This is currently being achieved.

## 4 Capital Programme

### **The Overall Financial Picture**

- 4.1 The draft Capital Programme for 2019/20 in isolation after using available resources has an overall surplus of £7.944m as a result of a significant capital receipt from the sale of the Knowle. This surplus is required to offset the significant underfunding of the current capital programme in 2018/19 of £12.357m, for Treasury Management this underfunding is likely to be held as internal borrowing rather than funding from external loan and will be made good from the receipt in the following year (2019/20).
- 4.2 There will however over these two years be a net shortfall in the region of £4.4m and this level of underfunded capital has been factored into the Council's Minimum Revenue Provision (MRP) calculation (the amount required to be charged to the revenue account for unfunded capital) in line with the Council MRP Policy. In addition there will either be interest on any external loans required to be factored in, or the loss of investment interest on any internal borrowing used. Again this has been factored into the 2019/20 draft budget. The higher the unfunded element of the capital programme the greater cost to the General Fund.
- 4.3 The preparation of the draft Capital Budget has been directed by the Capital Strategy & Allocation Group (CSAG) who met on 5<sup>th</sup> December 2018 to consider scheme proposals. The Group considered funding resources available, the capital appraisal process and then each scheme proposal in turn. Minutes of this meeting are contained on this agenda.
- 4.4 The capital appraisal process has been used to build a capital programme aimed at delivering the Council's stated priorities and ensuring schemes meet set outcomes. Each scheme is given a score against a set criteria such as how the project meets the Council Plan, the risk involved, any part funding, invest to save and service provision. This scoring is used to measure priority against the funding available.
- For each scheme proposed an Initial Project Proposal Form was completed as governed in the adopted "Guide to Project Management".

### **Draft Capital Budget 2019/20**

- 4.5 The attached booklet details the draft capital programme for 2018/19 to 2022/23; scoring information is included against the new capital bid items.
- 4.6 The draft capital budget for 2019/20, detailed in the attached budget book, shows a surplus of £7.944m but as explained this is required to offset the underfunded position in the current year of £12.357m. The greater the surplus in 2019/20 the less funding and cost to revenue in overall terms.
- 4.7 New Homes Bonus monies is helping to fund the capital programme in 2019/20 by £2.144m and going forward, although at reduced sum each year. The Government are reviewing this grant for changes in 2020/21 which could be a significant risk to the capital programme in future years but members will be updated as details are known.

## **5 Other Balances & Reserves available to the Council**

- 5.1 The Council holds a number of earmarked reserves set aside for specific purposes, the use of such reserves in the 2019/20 draft budget are detailed in the budget book for members' information.

## **6. Robustness of estimates and adequacy of reserves**

- 6.1 This part of the report deals with the requirement of Section 25 (2) of the Local Government Act 2003 in that the Council's Chief Finance Officer (CFO) must report on the robustness of the estimates included in the budget and the adequacy of reserves for which the budget provides.
- 6.2 In terms of the robustness of the estimates, all known factors have been considered and the financial implications have been assessed at the point of preparation. Various budget assumptions have been made including the treatment of inflation and interest rates, estimates on the level and timing of capital receipts, the treatment of demand led pressures, the treatment of planned efficiency savings/productivity gains and levels of income, financial risks inherent in any new arrangements and capital developments and the availability of funds to deal with major contingencies and the need for any provisions. In each of these areas the Council's financial standing, management and track record have been considered in order to prepare robust budget proposals.
- 6.3 The proposed draft budgets for 2019/20 maintain both the General Fund balance and the Housing Revenue Account balance at adopted levels provided actual net expenditure is at, or below, the level forecast. Continuous monitoring and reports to Cabinet will highlight and make recommendations on any corrective action necessary to achieve this during 2019/20.

## **7. Prudential Code**

- 7.1 The Local Government Act 2003 also requires under regulation for local authorities to have regard to the Prudential Code for Capital Finance in Local Authorities, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) when setting and reviewing their affordable borrowing limit.
- 7.2 The key objective of the Code is to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 7.3 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. These indicators will be presented to the next Cabinet meeting when a recommendation will be made on the budget for 2019/20, Council Tax levy and Council House Rents.
- 7.4 There is a new requirement to produce a Capital Strategy which extends the normal Treasury Management Strategy approved by Council annually to additionally consider any investment property the Council holds or likely to hold, what this means in terms of financial exposure and risk. This will be presented along with the documents above at the next Cabinet for onward approval by Council in February 2019.