

## **REPORT TO EXECUTIVE**

**Date of Meeting: 10 January 2017**

## **REPORT TO COUNCIL**

**Date of Meeting: 21 February 2017**

**Report of: Assistant Director Finance**

**Title: 2016/17 BUDGET STRATEGY AND MEDIUM TERM FINANCIAL PLAN**

### **Is this a Key Decision?**

No

\* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

### **Is this an Executive or Council Function?**

Council

#### **1. What is the report about?**

1.1 To provide a strategic overview of the budgetary position for the 2017/18 financial year and beyond including an indication of the likely level of available resources and the known demand for resources and the proposals to ensure that a balanced budget is achieved.

#### **2. Recommendations:**

2.1 It is recommended that the contents of the report are noted and that the proposals to establish a balanced revenue budget and capital programme are approved.

#### **3. Reasons for the recommendation:**

3.1 The Council is required to set a balanced budget and Council Tax prior to the start of the financial year.

#### **4. What are the resource implications including non financial resources.**

4.1 The Council has a Medium Term Financial Plan that contains proposals to ensure it is balanced over the next four years. However the impact of the 100% Business Rates retention could have a significant effect on the Council's finances. The report notes the potential resources available to the Council over the medium term and the demand for those resources.

#### **5. Section 151 Officer comments:**

5.1 Subject to the outcome of the final settlement from Government, the Council is in a position to propose a balanced and funded budget for 2017/18. The assumptions are set out below and include an assumed £5 increase in Council Tax.

#### **6. What are the legal aspects?**

6.1 The requirement to set a balanced budget and Council Tax requirement is set out in the Local Government Finance Act 1992.

#### **7. Monitoring Officer's comments:**

7.1 This report raises no issues of concern for the Monitoring officer.

## **8. Report details:**

### **8.1 Local Government Provisional Finance Settlement 2017-18**

#### **8.1.1 *4 year Settlement***

During the settlement for 2016-17, the Government offered Local Authorities the opportunity to apply for a 4year agreed settlement subject to producing an efficiency plan. The Council took up this offer and were notified in November that the Government had agreed the Settlement.

The provisional settlement for 2017-18 therefore reflects the figures in the Medium Term Financial Plan.

#### **8.1.2 *New Homes Bonus***

The Government have announced their response to the New Homes Bonus consultation. As members will remember the Government intends to remove £800 million from New Homes Bonus in order to fund Adult Social Care. The Government have therefore reduced the number of years to be paid from 6 years to five years in 2017-18 and will further reduce it to four years from 2018-19. Additionally, no payment will be made on housing growth below 0.4%. This has resulted in Exeter being awarded £3.597 million for 2017-18.

### **8.2 Business Rates Revaluation**

8.2.1 The draft valuation list has been released by the Valuation Office. Exeter's list has risen by 0.97% against a national increase of 9.6%. This means that on average bills in Exeter will reduce. The Government have adjusted the amount that Exeter has to pay over to the Government to ensure that the changes arising from the revaluation are cost neutral.

### **8.3 Council Tax**

8.3.1 The Government has announced in respect of the local authority tax referendum threshold, that Shire District councils will be allowed increases of less than 2% or up to and including £5, whichever is higher. Upper Tier Authorities may increase their Council Tax by up to three per cent above the threshold as long as the additional income is spent on Adult Social Care. This is on top of the 1.99% increase they may make for other services but can total no more than 6% over the next three years. Exeter's budget strategy for next year assumes that council tax will increase by £5, which, along with the estimated surplus on the collection fund of £87,500 and increase in the taxbase will raise an extra £308,000.

#### 8.4 Other Budgetary Assumptions

8.4.1 An overall allowance of £110,000 has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	1.0%
Pay – Increments	0.5%
Electricity	1.5%
Gas	1.5%
Oil	1.5%
Water	0.0%
Insurance	5.0%
Rates	1.2%
Fuel	0.0%
General Inflation	0.0%
Income (excluding Car Parks)	1.5%

8.4.2 General inflation has again been held at zero; however where there are contracts in place, inflation at around RPI has been added. The pay award for 2017/18 has been agreed at 1% which has been added to the budgets.

8.4.3 In respect of interest rates, next year's budget reflects the likelihood that whilst base rate may remain low, borrowing for cashflow purposes will increase and the Council may begin to take out borrowing over a longer timeframe as a result.

#### 8.5 Likely Revenue Resources 2016/17 To 2020/21

8.5.1 Resources remain as per the medium term financial plan as the Government has agreed the four year settlement.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
RSG	2,022	1,320	869	365	0
Council Tax	5,030	5,338	5,472	5,697	5,925
Business Rates	4,830	5,207	5,360	5,499	5,460
<b>Resources</b>	<b>11,882</b>	<b>11,865</b>	<b>11,701</b>	<b>11,561</b>	<b>11,385</b>
Increase/(decrease)		(17)	(164)	(140)	(176)
Annual % change		(0.1%)	(1.4%)	(1.2%)	(1.5%)

## 8.6 Additional Spending Pressures

8.6.1 Additional Spending Pressures over the period are set out in Appendix 1 and total:

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Additional Pressures	847	1,658	(223)	(45)	75

## 8.7 Revenue Savings And Other Budgetary Reductions

8.7.1 The updated Medium Term Financial Plan (MTFP) is set out in Appendix 2. The MTFP has identified savings to effectively balance the budget, subject to the changes from Government support to Business Rates self financing. In addition to the savings set out below, the Council has restructured its Minimum Revenue Provision and will use £1 million of New Homes Bonus a year to deliver a balanced budget:-

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Savings identified	(975)	(1,407)	(555)	(642)	(439)

## 8.8 General Fund Capital Programme

8.8.1 Attached at appendix 3 is the proposed general fund capital programme for the next three years.

	2017/18 £'000	2018/19 £'000	2019/20 £'000
New Bids	987	0	0
Pre-approved	22,265	7,556	989
<b>Total</b>	<b>23,252</b>	<b>7,556</b>	<b>989</b>

## 8.9 Risk Assessment

8.9.1 It has already been mentioned above in this report that our financial forecasts are based on a number of assumptions including the level of inflation, interest rates, income levels, support from the government and general prevailing economic conditions. The main risk to the Council's financial position is as follows:

- The implementation of the 100% Business Rates scheme, which could have a significant impact on the Council's finances. There is every chance that this may be positive rather than negative.

Although the Council faces risks from the assumptions and uncertainties outlined above these have been mitigated by the following:

- Adopting a prudent approach to financial forecasting which involves obtaining information from external professional sources
- Continuous monitoring and review of the key factors together with regular reports to Members on any key issues
- Regular budget monitoring meetings with budget managers to ensure that budget pressures are identified at the earliest opportunity
- The adoption of robust financial management arrangements including option appraisal, risk assessment and financial monitoring
- Retaining a prudent level of reserves and balances

**9. How does the decision contribute to the Council's Corporate Plan?**

9.1 This is the strategic overview of the financial position of the Council

**10. What risks are there and how can they be reduced?**

10.1 The risks relate to failing to set a balanced Council budget and are mitigated by regular reporting to the Strategic Management Team and Members.

**11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?**

11.1 Not applicable

**12. Are there any other options?**

12.1 Not applicable

**Assistant Director Finance**

**Local Government (Access to Information) Act 1972 (as amended)**

**Background papers used in compiling this report:-**

None

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