

## **REPORT TO EXECUTIVE**

**Date of Meeting: 12 December 2017**

## **REPORT TO COUNCIL**

**Date of Meeting: 19 December 2017**

**Report of: Chief Finance Officer**

**Title: 2018/19 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 2018/19 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 proposed Business Rates reset 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 based on the worst case scenario of a full reset in 2020-21.

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

5.1 Subject to the outcome of the final settlement from Government (which should not vary significantly as we have an agreed four year settlement in place), the Council is in a position to propose a balanced and funded budget for 2018/19. 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 for the Deputy Monitoring Officer.

## **8. Report details:**

### **8.1 Local Government Provisional Finance Settlement 2018-19**

#### *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 2018-19 will be announced in December and should reflect the figures in the Medium Term Financial Plan.

#### *8.1.2 New Homes Bonus*

The Government have removed £800 million from New Homes Bonus in order to fund Adult Social Care. The Government will reduce the payment to four years from 2018-19 and additionally, no payment will be made on housing growth below 0.4%. This is expected to lead to an award of approximately £2.730 million for 2018-19.

### **8.2 Business Rates**

8.2.1 All authorities in Devon have applied to take part in the Business Rate pilot for the 100% retention of Business Rates. At this stage the outcome is unknown, but potentially could benefit the Council by between £300,000 and £500,000 for 2018-19 only. As the outcome is uncertain, this has not been built into the medium term financial plan at this stage.

### **8.3 Council Tax**

8.3.1 The medium term financial plan is based upon an assumption that under the council tax referendum threshold, Shire District councils will be allowed increases of less than 2% or up to and including £5, whichever is higher. 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 £138,900 and increase in the taxbase will raise an extra £286,000.

## 8.4 Other Budgetary Assumptions

8.4.1 An overall allowance of £500,000 has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	2.0%
Pay – Increments	0.5%
Electricity	2.5%
Gas	2.5%
Oil	2.5%
Water	0.0%
Insurance	10.0%
Rates	2.5%
Fuel	3.0%
General Inflation	0.0%
Income (excluding Car Parks)	3.0%

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 2018/19 has yet to be agreed and may result in a higher settlement than the level at which the budget has been set.

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 2017/18 To 2021/22

8.5.1 Resources remain as per the medium term financial plan as the Government has agreed the four year settlement, however at the end of the four year settlement a significant reduction is anticipated when the Government implement the business rates reset.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
RSG	1,320	869	365	0	0
Council Tax	5,338	5,624	5,723	5,967	6,215
Business Rates	4,873	5,360	5,561	4,289	4,396
<b>Resources</b>	<b>11,531</b>	<b>11,853</b>	<b>11,649</b>	<b>10,256</b>	<b>10,611</b>
Increase/(decrease)		322	(204)	(1,393)	355
Annual % change		2.8%	(1.7%)	(12.0%)	3.6%

## 8.6 Additional Spending Pressures

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

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Additional Pressures	1,458	417	(244)	75	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 a gap in resources from 2019/20. It is proposed that the Directors be given a period of 10 months to review their Service areas and identify savings / transformation opportunities to address the shortfall in resources. This is possible as the Council is able to set a balanced budget in 2018-19 and enables proper assessment and planning to take place. This plan is in addition to the savings already set out below:-

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Savings identified	(1,265)	(915)	(64)	(214)	(140)

## 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.

	2018/19 £'000	2019/20 £'000	2020/21 £'000
New Bids	1,467	913	324
Pre-approved	23,106	14,315	1,004
<b>Total</b>	<b>24,572</b>	<b>15,228</b>	<b>1,328</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 Business Rates reset, which could have a significant, negative impact on the Council's finances. The Council may lose up to £1.5 million in funding and this has been taken into account in the Medium Term Financial Plan.

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 Board 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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