

EXETER CITY COUNCIL

REPORT TO: CORPORATE SCRUTINY COMMITTEE
DATE OF MEETING: 25 JANUARY 2018

REPORT OF: CHIEF FINANCE OFFICER
TITLE: REVENUE BUDGET PROPOSALS 2018/19

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

- 1.1 To outline the strategic framework within which the estimates have been prepared and highlight the issues that will affect the actual setting of the overall level of council tax.
- 1.2 This report also summarises the overall budget position arising from the current cycle of Scrutiny Committee meetings.

2. Recommendations:

- 2.1 That Corporate Scrutiny Committee notes the report and comments accordingly.

3. Reasons for the recommendation:

- 3.1 To ensure that the Council is in a position to set a budget and determine the Council Tax for the City of Exeter in line with the statutory timeframe.

4. What are the resource implications including non-financial resources

- 4.1 The report sets out the proposed budget for 2018/19. Details of the resource implications are set out in section 8.

5. Section 151 Officer comments:

- 5.1 The proposed budget will achieve the requirement to maintain a minimum balance in excess of £3 million. The Medium Term Financial Plan is reliant on substantial savings being delivered over the next three years in order to maintain and strengthen the Working Balance to ensure the Council is able to cope with any issues arising from 100% Business Rate retention.

6. What are the legal aspects?

- 6.1 The Council is required by the Local Government Act 1992 to determine the Council Tax for the following year. In order to do this, a balanced budget is prepared.

7. Monitoring Officer's comments:

7.1 The Monitoring Officer has no issues of concern regarding the report content.

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 4 year 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.

8.1.2 The provisional settlement for 2018-19 therefore reflects the figures in the Medium Term Financial Plan, with the only change being that the revenue support grant has been rolled up into business rates as a result of the business rates pilot (see 8.3 for further details).

8.1.3 Appendix 1 shows as a comparison the formula funding settlement figures for all Devon authorities. The final settlement figures will be announced later this month but at this stage it is not expected that they will be significantly different from the provisional announcement. The figures show that the most rural of authorities have fared better this year in percentage terms of formula funding reduction.

8.1.4 Core spending power is a new definition used by the Government, which encompasses an individual authority's:

- Council Tax Requirement including estimates of Council Tax increases and increases in the Taxbase;
- Social Care Precept (not applicable for district councils);
- Formula Grant;
- New Homes Bonus;
- Rural Services Delivery Grant and
- Better Care Fund (not applicable for district councils).

Appendix 2 shows a comparison of Devon authorities using this definition of revenue spending power. Using this measure Exeter's core spending power reduces by 15.9% over the period.

8.2 COUNCIL TAX

8.2.1 The Government has announced in respect of the local authority tax referendum threshold, that Shire District councils will be allowed increases of less than 3% 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 2.99% increase they may make for other services but can total no more than 6% over a three year period, which began in 2017-18. 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 £139,900 and increase in the taxbase will raise an extra £285,850.

8.3 BUSINESS RATES PILOT

8.3.1 Local Authorities in Devon have been successful in applying to be a 100% Business Rate pilot for 2018/19. This means that 100% of the growth generated in the County will be kept and split according to the percentages agreed between the Councils (40% for Districts, 59% for the County and 1% for Fire). The Government have included a no detriment clause in the agreement, which means that no Council will be worse off than

they would have been under the 50% retention scheme. Potentially this could be worth at least £300,000 to the City Council on a one-off basis.

8.4 **KEY 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 **FURTHER ISSUES TO BE CONSIDERED**

8.5.1 Before the Council can finalise its revenue budget for next year there are a number of issues that require further consideration as follows: -

- Equality Impact Assessment
- New Homes Bonus
- Future spending pressures and review of the medium term financial planning process
- The level of reserves and balances

8.6 EQUALITY IMPACT ASSESSMENT

8.6.1 Equality Impact Assessments (EQIA) form part of the Council's decision making process and are a tool to help the Council identify what effect or possible effects its work may have on different groups of people. All local authorities have a legal responsibility to assess their policies and functions, and to set out how they will monitor any possible negative impact on equality target groups. The Council needs to consider the impact on equalities of all new and reviewed Council strategies, policies, projects, services or functions, budget decisions and restructures. By anticipating the consequences of its actions on equality groups the Council can make sure that, as far as possible, any negative consequences are eliminated, minimised or counterbalanced by other measures, and opportunities for promoting equality are maximised. As part of this process any revenue savings proposals are assessed for any potential equality issues and EQIA's are undertaken as appropriate with the results available on the council's web site.

8.7 NEW HOMES BONUS

8.7.1 The Government have deferred any further changes to the New Homes Bonus in 2018/19. As members will remember the Government has removed £800 million from New Homes Bonus in order to fund Adult Social Care and have completed the reduction to four years payment for 2018-19. Additionally, no payment has been made on housing growth below 0.4%. This has resulted in Exeter being awarded £2.591 million for 2018-19.

8.7.2 To date the Council has received New Homes Bonus of £0.389 million in 2011/12, £1.323 million in 2012/13, £2.205 million in 2013/14, £2.778 million in 2014/15, £3.529 million in 2015/16, £4.232 million in 2016/17, £3.597 million in 2017/18 and provisionally been notified that it will receive a further £2.591 million in 2018/19. The methodology for using the New Homes Bonus has the following impact:-

Year	Top Slice (revenue)	Community Projects	Major Projects /Debt Reduction	Unused / Projects	Revenue	Total
	£000's	£000's	£000's	£000's	£000's	£000's
2011/12	-	-	-	389	-	389
2012/13	120	361	601	241	-	1,323
2013/14	120	286	1,757	42	-	2,205
2014/15	120	286	2,372	-	-	2,778
2015/16	120	286	3,123	-	-	3,529
2016/17	159	150	2,000	923	1,000	4,232
2017/18	164	150	1,500	783	1,000	3,597
2018/19	164	150	1,150	127	1,000	2,591
Total	967	1,669	12,503	2,505	3,000	20,644

8.8 REVISED MEDIUM TERM REVENUE PLAN (APPENDIX 3)

- 8.8.1 An updated Medium Term Financial Plan (MTFP) is set out in Appendix 3. The MTFP currently indicates that savings are required in both 2019-20 and 2020-21. £2.750 million is required to be saved; £1.250 million in 2019-20 and £1.500 million in 2020-21. The savings in 2020-21 result from a reset of the business rates, which will mean that all the growth that Exeter has benefitted from in its business rates baseline will be redistributed and is intended to coincide with the introduction of the new formula resulting from the fair funding review currently being undertaken and the move to 75% business rates retention.
- 8.8.2 The amount of savings required in 2020-21 could vary significantly based on the results of the fair funding review and any changes to the distribution of growth introduced in the move to 75% business rates retention. Additionally there are further uncertainties and factors that could affect the future financial position. These include: potential costs arising from the review of service plans, the cost of any new statutory functions, and additional borrowing and revenue costs in respect of any new capital programme commitments. Any additional revenue costs / reduced income streams that are not currently identified within the medium term financial plan will have to be met from further savings and will require careful consideration from members.

8.9 BALANCES AND RESERVES

- 8.9.1 The Council's current policy is such that the minimum level of the General Fund Balance will remain above £3 million. As the Council faces greater uncertainty in the medium term over funding it is prudent to hold reserve levels at a higher rate to offset sudden losses of income. The latest estimated position of the General Fund Balance is that it will be £3.732 million as at 31 March 2019, equivalent to 25.9% of Exeter's net revenue budget. The Council's revised medium-term financial plan (Appendix 3) indicates that the General Fund Balance will reduce slightly to £3.319 million by the end of 2020/21.
- 8.9.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2018/19 includes a net transfer from earmarked reserves of £428,000. This is broken down as shown below:-

Transfer (from)/ to reserves:

	2018/19 £'000
Transfers to Reserves	
New Homes Bonus	<u>2,591</u> 2,591
Transfers from Reserves	
New Homes Bonus	(2,864)
Events	(100)
Sports	<u>(55)</u>
	(3,019)

8.10 REVENUE ESTIMATES 2018/19 (APPENDIX 4)

8.10.1 The Council's revenue estimates for next year are being considered during the current cycle of Scrutiny Committee meetings for the final budget report to the Executive on 13 February 2018. In total, Service Committee Expenditure for 2016/17 is £12,975,450 which is £123,190 higher than the current year.

8.10.2 In addition there are other items to take into account referred to as 'below the line' as they do not form part of the individual service controllable budgets. These include an estimate of £100,000 for net borrowing in respect of the overall cash balances, £1,720,160 towards repaying debt in respect of the Council's capital programme, New Homes Bonus grant and transfers in respect of balances and reserves. The Council's total General Fund Expenditure budget requirement for 2018/19 is planned to be £11,844,390, a reduction of £20,419 compared to 2017/18.

8.11 COUNCIL TAX BUDGET REQUIREMENT 2018/19

8.11.1 As stated above, the Government is setting the referendum trigger for District Councils at above £5 or 3%, whichever is higher. The budget has been set on the basis of a £5 increase, although this is ultimately a Member decision. It should be noted that in the Government spending calculations, they have assumed that all District Councils will raise their Council Tax by £5 and have set the spending reductions accordingly.

8.11.2 When all the Government Grant funding is taken into account the resultant net expenditure to be financed from council tax is £5,623,730 (as indicated in Appendix 4), an increase of £285,921 compared to 2017/18.

8.11.3 Each year the Council must estimate the likely surplus or deficit position on its Collection Fund and any such amounts must be taken into account when determining the band D Council Tax amount for 2018/19. For next year it is estimated that the collection fund will have a surplus (£139,902), which will be used to fund part of the expenditure to be financed from Council Tax.

8.11.4 After taking into account the surplus and the taxbase of 36,547, the proposed band D council tax for 2018/19 is £150.05, which means that the council tax would increase annually by £5.00 or 3.45%. An increase of 2.99% would reduce the Council Tax requirement by £24,231, which would have to be taken from reserves.

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

9.1 The budget underpins the Corporate Plan by determining the amount of funds available to the Council to deliver its priorities.

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

10.1 The key risks revolve around ensuring that the Council has sufficient funds to both meet the financial plans set out in the report and to protect itself against any unexpected expenditure that occurs. The risk is mitigated by ensuring that there are sufficient reserves held to offset unexpected expenditure needs. Regular monitoring is undertaken and reported to both 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, Economy safety and the environment?

11.1 Not applicable.

12. Are there any other options?

12.1 Not applicable.

Dave Hodgson, Chief Finance Officer

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

Background papers used in compiling this report:

None

Contact for enquiries:

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