

REPORT TO EXECUTIVE

Date of Meeting: 15 January 2019

REPORT TO COUNCIL

Date of Meeting: 26 February 2019

Report of: Chief Finance Officer

Title: 2019/20 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 2019/20 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 2019/20. The assumptions are set out below and include an assumed £5 increase in Council Tax. Significant and difficult decisions will be required in order to reduce the gap between likely resources and current expenditure in 2020-21.

6. What are the legal aspects?

6.1 As part of the budget and the Council Tax fixing process, the Council is required by the Local Government Finance Act 1992 to make various specific calculations and decisions:-

- (a) it must calculate its budget requirement in accordance with Section 32 of the Act;
- (b) it must calculate the City Council element of the Council Tax - first for Band D and then for all bands - in accordance with Sections 33 to 36;
- (c) it must set the overall Council Tax for each band in accordance with Section 30.

7. Monitoring Officer's comments:

7.1 The Monitoring officers comments are intended to assist all members of the Council in consideration of the complex legal background to their budgetary and Council Tax decisions and in particular to set out the legal factors and requirements which Members of the City Council need to consider in reaching decisions on the budget and Council Tax.

Council's legal duties

In coming to a decision in relation to the revenue budget and the council tax, the City Council and Councillors have the following legal duties:

- a. To act in accordance with their statutory duties and responsibilities;
- b. To act reasonably; and
- c. To have careful regard to their fiduciary duty to its rate payers and Council tax payers.

The City Council has a clear legal duty to set a balanced budget. A resolution not to set a Council tax would be unlawful so would be a resolution to set a Council tax which deliberately did not balance the budget.

When making a decision, councillors are reminded of the obligation to act reasonably and in accordance in accordance with the principals set down in the Wednesbury case. this means that councillors are required to take into account all relevant considerations and ignore any irrelevant considerations. Put simply, it would be unlawful for the Council to come to a view which is unreasonable in the sense that it is so irrational that no reasonable authority could have reached it.

the emaning of fiducaiaary duty is more difficult to define but can be summarised as a duty to conduct administration in a business-like manner with reasonable care, skill and caution and with due regards to the council's rate payers. when discharging their fiduciary duties councillors will need to consider the following:

- a. Prudent use of the council's resources, including the raising of income and the control of expenditure.
- b. Financial prudence both long and short term
- c. Striking a fair balance between the interest of the council tax payers on the one hand and the community interest and adequate and efficient services on the other hand.

- e. Acting in good faith with a view to complying with statutory duties and exercising its statutory powers for the benefit of the community.

Restriction on voting

Members' attention is drawn to the provisions of S.106 of the Local Government Finance Act 1992 which applies to members where:

- a. they are present at a meeting of Full Council, The Executive or Committee and at the time of the meeting an amount of Council tax and has remained unpaid for at least 2 months and
- b. Any budget or Council tax calculation or recommendation or decision which might affect the making of any such calculation, is the subject of consideration at the meeting.

In these circumstances, any such members shall at the meeting and as soon as practical after its commencement disclose the fact that S.106 applies to them and shall **not vote** on any question concerning budget setting.

Failure to comply with these requirements is a criminal offence unless such member can prove that they did not know S.106 applied to them at the time of the meeting or that the matter in question was the subject of consideration at that meeting.

8. Report details:

8.1 Local Government Provisional Finance Settlement 2019-20

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 2019-20 was announced in December and the figures in the Medium Term Financial Plan have been updated.

8.1.2 New Homes Bonus

Last year, the Government 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 £2.518 million for 2019-20.

8.2 Business Rates

- 8.2.1 All authorities in Devon have taken part in the Business Rate pilot for the 100% retention of Business Rates during 2018-19. They have also applied to be a 75% pilot during 2019-20, but unfortunately have been unsuccessful. The aim therefore is to revert to acting as a pool.

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 3% 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 £96,331 and increase in the taxbase will raise an extra £208,000.

8.4 Other Budgetary Assumptions

8.4.1 An overall allowance of £602,380 has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	2.0%
Pay – Increments	0.5%
Electricity	25%
Gas	6%
Oil	2.5%
Water	0.0%
Insurance	8%
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 2019/20 has been included as a two year settlement was agreed for 2018/19.

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 2018/19 To 2022/23

8.5.1 Resources remain broadly similar to 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.

	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
RSG	0	365	0	0	0
Council Tax	5,624	5,831	5,979	6,228	6,480
Business Rates	6,804	5,846	4,426	4,515	4,605
Resources	12,428	12,042	10,405	10,743	11,085
Increase/(decrease)		(386)		338	342
Annual % change		(3.1%)	(13.6%)	3.2%	3.2%

8.6 Additional Spending Pressures

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

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Additional Pressures	568	1,083	135	(43)	135

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 2020/21. The reduction required by 2020-21 totals £2.4 million or 20% of the net budget of the Council. The EX1 project is already in place to support the process of reducing the budget. This reduction is in addition to the savings already identified and set out below:-

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
Savings identified	(945)	(1,963)	(210)	(293)	0

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.

	2019/20 £'000	2020/21 £'000	2021/22 £'000
New Bids	3,285	0	0
Pre-approved	30,979	16,547	1,218
Total	34,264	16,547	1,218

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

Chief Finance Officer

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

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 2.3
01392 265275