

EXETER CITY COUNCIL

REPORT TO: CORPORATE SCRUTINY COMMITTEE
DATE OF MEETING: 24 JANUARY 2019

REPORT OF: CHIEF FINANCE OFFICER
TITLE: REVENUE BUDGET PROPOSALS 2019/20

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 balanced 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 2019/20. 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 both for the 2019/20 budget and also in the following year in order to maintain and strengthen the Working Balance to ensure the Council is able to cope with any issues arising from the fair funding review.

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 Legislation does not prescribe how much the minimum level of reserves should be. The Section 151 officer is tasked with recommending the minimum level of reserves required as part of the budget setting process having regard to elements of risk in the Council's finances. Section 25 of the Local Government Act 2003 requires the S151 officer to report on the adequacy of the Council's financial resource.

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.

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 meaning of fiduciary 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.

8.1.2 The provisional settlement for 2019-20 was announced in December and the figures in the Medium Term Financial Plan have been updated.

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 worse 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 15.2% 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 £96,331 and increase in the taxbase will raise an extra £208,000.

8.3 BUSINESS RATES PILOT

8.3.1 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 for all Devon Authorities to revert to acting as a pool.

8.4 KEY 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 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 2019/20. As members will remember the Government has removed £800 million from New Homes Bonus in order to fund Adult Social Care and completed the reduction to four years payment in 2018-19. Additionally, no payment has been made on housing growth below 0.4%. This has resulted in Exeter being awarded £2.518 million for 2019-20.

8.7.2 To date the Council has received New Homes Bonus of £20.644 million over the period 2011/12 to 2018/19 and has provisionally been notified that it will receive a further £2.518 million in 2019/20. 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
2019/20	25	150	1,000	149	1,194	2,518
Total	992	1,819	13,503	2,654	4,194	23,162

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 significant reductions are required in 2020-21. The reductions required total £2.400 million and partly 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 great uncertainty in the medium term over funding it is prudent to hold reserve levels at this level to offset sudden losses of income or unexpected expenditure. The latest estimated position of the General Fund Balance is that it will be £3.188 million as at 31 March 2020, equivalent to 21.8% of Exeter's net revenue budget. The Council's revised medium-term financial plan (Appendix 3) indicates that the General Fund Balance will increase slightly to £3.434 million by the end of 2022/23.
- 8.9.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2019/20 includes a net transfer from earmarked reserves of £169,000. This is broken down as shown below:-

Transfer (from)/ to reserves:

	2019/20 £'000
Transfers to Reserves	
New Homes Bonus	<u>2,518</u>
	2,518
Transfers from Reserves	
New Homes Bonus	(2,586)
Other	(45)
Sports	<u>(56)</u>
	(2,687)

8.10 REVENUE ESTIMATES 2019/20 (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 12 February 2019. In total, Service Committee Expenditure for 2019/20 is £12,696,930 which is £278,520 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 £216,000 for net borrowing in respect of the overall cash balances, £1,738,020 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 2019/20 is planned to be £11,137,700, an increase of £293,310 compared to 2018/19.

8.11 COUNCIL TAX BUDGET REQUIREMENT 2019/20

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 £5,831,320 (as indicated in Appendix 4), an increase of £207,590 compared to 2018/19.

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 2019/20. For next year it is estimated that the collection fund will have a surplus (£96,331), 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 36,988, the proposed band D council tax for 2018/19 is £155.05, which means that the council tax would increase annually by £5.00 or 3.33%. An increase of 2.99% would reduce the Council Tax requirement by £18,994, 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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