

REPORT TO EXECUTIVE

Date of Meeting: 14 January 2020

REPORT TO COUNCIL

Date of Meeting: 21 January 2020

Report of: Chief Finance Officer

Title: 2020/21 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 2020/21 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 by the Executive.

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 next year. However the impact of the proposed Business Rates reset and the ending of the New Homes Bonus could have a significant and damaging 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 of business Rates in 2021/22 and the withdrawal of New Homes Bonus beginning the same year.

5. Section 151 Officer comments:

- 5.1 Subject to the outcome of the settlement from Government, the Council is in a position to propose a balanced and funded budget for 2020/21. The assumptions are set out below and include an assumed £5 increase in Council Tax. Very significant and difficult decisions will be required in order to reduce the gap between likely resources and current expenditure in the following three years where reductions of around £3.7 million seem likely based on the latest consultations and the Spending review 2019. Councillors will have to make some very difficult decisions over the next year to identify areas which they are willing to consider for reduction.

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 Any issues of concern will be raised at the meeting.

8. Report details:

8.1 Local Government Provisional Finance Settlement 2020-21

8.1.1 1 year Settlement

The Government confirmed in the Spending Review that the changes proposed to the Business Rates Retention scheme were being delayed for a year and that a 1 year settlement would follow.

The provisional settlement for 2020/21 was announced in December and the figures in the Medium Term Financial Plan have been updated.

8.1.2 New Homes Bonus

The Government have indicated that whilst New Homes Bonus will be payable again this year, the 2020-21 element of the allocation will be for one year only. This indicates that New Homes Bonus is coming to an end. Whilst this is expected to lead to an award of approximately £2.417 million for 2020/21, this will roughly halve in 2021/22 and then reduce by a further 50% in 2022/23 before ending the following year. As the Council requires £1.9 million to meet its current obligations, this will require significant reductions over the next three years.

8.2 Business Rates

8.2.1 The Government have delayed the implementation of the Business Rates retention reform and the review of the formula that underpins it. This has meant that the reset, expected in 2020/21 has been put back a year. This is positive news for Exeter as we benefit from being significantly above our baseline needs. The review is expected to be implemented in 2021/22, which will have a significant, negative impact on our resources, as set out in section 8.5

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. The Government have consulted on maintaining the £5 option. 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 £109,657 and increase in the taxbase will raise an extra £255,863.

8.4 Other Budgetary Assumptions

8.4.1 An overall allowance of £470,490 has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	2.0%
Pay – Increments	0.5%
Electricity	0%
Gas	0%
Oil	2.5%
Water	0.0%
Insurance	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 2020/21 has not yet been agreed. An estimate of 2% has been included within budgets.

8.4.3 The medium term financial plan includes the impact on interest earned from the Council borrowing, long term, £49.5 million. This has had a positive impact on the Council and should provide sufficient cash to deliver projects currently in the capital programme.

8.5 Likely Revenue Resources 2019/20 To 2023/24

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.

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
RSG	365	387	642	0	0
Council Tax	5,831	6,087	6,226	6,479	6,736
Business Rates	6,239	6,411	4,221	4,304	4,387
Resources	12,435	12,885	11,089	11,456	11,829
Increase/(decrease)		450	(1,796)	367	373
Annual % change		3.6%	(13.9%)	3.3%	3.3%

8.6 Additional Spending Pressures

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

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Additional Pressures	1,083	1,481	70	271	174

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 2021/22. The reduction required by 2023-24 totals £3.7 million or 29% of the net budget of the Council. This reduction is in addition to the savings already identified and set out below:-

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Savings identified	(1,963)	(2,270)	(424)	0	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.

	2020/21 £'000	2021/22 £'000	2022/23 £'000
New Bids	0	0	0
Pre-approved	27,025	5,227	1,374
Total	27,025	5,227	1,374

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 Governments review of the future funding formula for Local Government, including a business rates rest, coupled with the potential loss of New Homes Bonus, leaves a significant gap in funding over the Medium Term Financial Plan. The overall impact of both streams of funding stopping in the next four years would require reductions of around £3.7 million.

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. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because: because

11.4.1 **The report determines the taxbase for the whole City.**

12. Are there any other options?

12.1 Not applicable

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

Background papers used in compiling this report:-

None

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