

REPORT TO EXECUTIVE

Date of Meeting: 12 January 2021

REPORT TO COUNCIL

Date of Meeting: 23 February 2021

Report of: Director Finance

Title: 2021/22 Budget Strategy and Medium Term Financial Plan

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To provide a strategic overview of the budgetary position for the 2021/22 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:

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:

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, there is significant uncertainty over the ability of the Council to deliver its income targets next year in such uncertain times. To this end proposals to protect the Council's financial position have been put forward.

4.2 The rest of the medium term financial plan is dominated by the impact of the proposed Business Rates reset and the ending of the New Homes Bonus, which will have a significant and damaging effect on the Council's finances. It remains the case that the Council will require £6.1 million of savings to balance the budget in the medium term, with £3.5 million required in 2022-23 if the reset finally materialises.

5. Section 151 Officer comments:

5.1 The delivery of the emergency budget early in 2020-21 has enabled the Council, to protect itself from significant savings in 2021-22, by setting aside the compensation funds made available by Government to balance the budget. This however is only a temporary respite and the savings requirement remains high over the medium term at £6.1 million.

5.2 There is also great uncertainty over income targets being achieved next year, and whilst the Government have extended the sales, fees and Charges compensation scheme for a further three months, it is essential that the Council has resources set aside to protect itself from the risk of a further emergency budget being required in 2021-22.

5.3 In order to maintain financial discipline and prepare for the reductions required, Council can no longer merely approve additional expenditure without identifying what will be cut to fund it. This is essential as Officers and Members prepare to identify ways to address the gap in funding early in the year.

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; and
- (c) it must set the overall Council Tax for each band in accordance with Section 30.

7. Monitoring Officer's comments:

7.1 Section 25 of the Local Government Act 2003 requires the S.151 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 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; and
- d. 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
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 2021-22

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 further year and that a 1 year settlement would follow.

The provisional settlement for 2021/22 was announced in December and the figures in the Medium-Term Financial Plan have been updated. A new Lower Tier Services Grant has been included and Exeter has received £0.228 million.

8.1.2 New Homes Bonus

The Government have indicated that whilst New Homes Bonus will be payable again this year, the 2021-22 element of the allocation will be for one year only and there will be no payment in respect of the 2020-21 allocation. This gives an award of approximately £1.941 million for 2021/22, which will reduce to £0.678 million in 2022-23. A new proposal to replace New Homes Bonus will be announced in the new year.

8.2 Business Rates

8.2.1 The Government have further 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 2021/22 has been put back another year at least. Although, this is positive news for Exeter as we benefit from being significantly above our baseline needs, the impact of Covid-19 means we will still see a drop in our business rates income next year as businesses fail. A drop of £0.7 million has been built into the MTFP. The review is currently expected to be implemented in 2022/23, and will have a further 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. 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 £92,205 and small increase in the taxbase will raise an extra £174,090. However, the Council is yet to finalise the impact of Covid on the Collection rate in 2020-21, which the Government will allow to be spread over three years. This will reduce the final amount from Council Tax.

8.4 Other Budgetary Assumptions

8.4.1 An overall allowance of £817,780 has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	2.0%
Pay – Increments	0.5%
2020/21 Pay Award in excess of 2% provision	0.8%
Electricity	5.8%
Gas	4.8%
Oil	2.5%
Water	0.0%
Insurance	5.0%
Rates	2.5%
Fuel	3.0%
General Inflation	0.0%
Income (excluding Car Parks)	2.5%

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 2021/22 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. The reduction in interest to be paid is dependent on Exeter City Living taking the loan for the Clifton Hill redevelopment at the start of the financial year.

8.5 Likely Revenue Resources 2020/21 to 2024/25

8.5.1

	2020/ 21 £'000	2021/ 2 £'000	2022/ 3 £'000	2023/ 4 £'000	2024/ 25 £'000
RSG	371	379	386	394	402
Council Tax	6,087	6,261	6,404	6,658	6,916
Business Rates	6,157	5,495	4,296	4,378	4,469
Resources	12,615	12,135	11,086	11,430	11,787
Increase/(decrease)		(480)	(1,049)	344	7
Annual % change		(3.8%)	(8.6%)	3.1%	357
					3.1%

8.6 Additional Spending Pressures

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

	2020/ 21 £'000	2021/ 2 £'000	2022/ 3 £'000	2023/ 4 £'000	2024/ 25 £'000
Additional Pressures	2,343	2,133	(679)	75	50

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 2022/23. The reduction required by 2024-25 totals £6.1 million or 46.5% of the net budget of the Council. This reduction is in addition to the savings already identified and set out below:-

	2020/ 21 £'000	2021/ 2 £'000	2022/ 3 £'000	2023/ 4 £'000	2024/ 25 £'000
Savings identified	(2,201)	(497)	(53)	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. This reflects the substantial condition survey results and uses up the Council's capital resources. Any further additions to this programme will require compensating reductions in revenue expenditure to cover the additional cost to the General Fund.

	2021/ 22 £'000	2022/2 3 £'000	2023/2 4 £'000	Future £'000
New Bids	0	0	0	0
Pre-approved	20,177	12,035	6,619	7,300
Total	20,177	12,035	6,619	7,300

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 risks to the Council's financial position are as follows:

- The continued response to the Covid-19 pandemic means that there is great uncertainty around income levels for the Council. This will affect not only sales, fees and charges, but business rates and Council tax income as well;
- 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 £6.1 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; and
- Retaining a prudent level of reserves and balances.

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

This is the strategic overview of the financial position of the Council

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

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)

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

11.4.1 The report sets out the MTFP for the whole Council.

12. Carbon Footprint (Environmental) Implications:

There are no direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

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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