

REPORT TO EXECUTIVE

Date of Meeting: 10 January 2023

REPORT TO COUNCIL

Date of Meeting: 21 February 2023

Report of: Director Finance

Title: 2023/24 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?

1.1 To provide a strategic overview of the budgetary position for the 2023/24 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 next year. The cost of living crisis, pay award and additional spending commitments have put a considerable pressure on the Council's financial position. Proposals for reductions / additional income total £3.835 million in order to balance the budget.

4.2 Across the four years of the medium term financial plan, further proposals have been identified totalling £2.137 million, which will still leave a further £3.7 million to be identified over the following three years. Owing to the uncertainty over funding in the next year, the timing of the reductions may change.

5. Section 151 Officer comments:

5.1 Whilst the settlement this year has again provided more income than expected, the challenges faced by the Council remain significant over the medium term. To ensure that

the Council is on a firm financial footing in the future a mix of additional income, cost reductions and prioritisation is required. In addition to the reductions required, there is a need to ensure sufficient funding is available to maintain our extensive property portfolio.

5.2 The Government have confirmed that the reform of Local Government Finance will not occur during this Parliament, but have confirmed their commitment to it. The timing is uncertain and the impact has been removed from the MTFP.

5.3 The medium term financial plan and the reductions profile is based on bringing our reserves down to the minimum recommended level. Therefore financial discipline is vital to maintain our financial position and ensure that Council is not required to make in year reductions. Council will need to be ready to act quickly to ensure that minimum levels of reserves are maintained in the case of any unexpected pressures.

6. What are the legal aspects?

6.1 As part of the budget and the Council Tax setting 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 Sections 31A 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 31B and 34 to 36 of the Act; 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 Section 151 officer to report on the adequacy of the Council's financial resource.

The Monitoring Officer's 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 their obligation to act reasonably and in accordance with the principles set down in the *Wednesbury case (Associated Provincial Picture Houses Ltd v Wednesbury Corporation [1948])*. 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 regard to the Council's rate payers. When discharging their fiduciary duty 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 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 practicable 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.

Simon Copper – Deputy Monitoring Officer

8. Report details:

8.1 Local Government Provisional Finance Settlement 2023-24

8.1.1 1 year Settlement with a hint towards the following year

In terms of the settlement, whilst the figures announced were for one year only some information was provided in respect of 2024/25, however, this is not enough to provide absolute certainty. The Lower Tier Services Grant has been abolished and replaced by a Funding Guarantee Grant of which Exeter has received £0.849 million. In addition, the Services Grant has also been included and Exeter has been awarded £0.160m, with the funding to offset the increase in National Insurance contributions as part of the

introduction of the new Health & Social Care Levy removed following the abolition of the increase.

8.1.2 *New Homes Bonus*

The payment provided this year is for one year only and gives an award of approximately £0.672 million for 2023/24. A new proposal to replace New Homes Bonus has been promised in the New Year.

8.2 **Business Rates**

8.2.1 The Government have confirmed that the implementation of the Business Rates retention reform and the review of the formula that underpins it will not take place in this Parliament and it has therefore been removed from the medium term financial plan. This is positive news for Exeter as we benefit from being significantly above our baseline needs. The review is now not expected to be implemented until 2026/27 at the earliest, although given the complexity involved there is a strong chance that this will be optimistic.

8.3 **Council Tax**

8.3.1 The referendum threshold has been increased this year to the higher of a less than 3% or £5 increase for District Councils. The medium term financial plan has been updated to reflect this change. As a result, Exeter's budget strategy for next year assumes that Council tax will increase by 2.99%, which, along with the estimated surplus on the collection fund of £86,793 and increase in the taxbase will raise an extra £369,622.

8.4 **Other Budgetary Assumptions**

8.4.1 An overall allowance of £4.415m has been set aside for inflation. This includes a catch up to reflect the higher pay award in 2022-23 and the significant increase in energy prices for next year. The inflationary increases allowed in the budget are:

Pay Award	3.0%
Pay – Increments	0.5%
Electricity	98.0%
Gas	158.0%
Oil	2.5%
Water	0.0%
Insurance	12.0%
Rates	2.5%
Fuel	3.0%
General Inflation	0.0%
Income (excluding Car Parks)	10.0%

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. Pay has been increased to 3% although there is a risk that this again may be lower than the actual amount agreed.

8.4.3 Interest is based on the existing loans that have been taken out and the amounts available for investment. Future borrowing requirements are based on rates of around 3.5% and the Council will seek to internally finance borrowing until rates stabilise.

8.5 **Likely Revenue Resources 2022/23 to 2026/27**

8.5.1 The main resources are set out below. The significant increase in 2023/24 is partially offset by the loss of over £700,000 of New Home Bonus funding. The reduction in 2024/25 is also uncertain and reflects the fact that the other grants received in 2023/24 (Funding Guarantee and Services Grant) have not been confirmed beyond this year.

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
RSG*	855	1,572	902	920	938
Council Tax	6,416	6,785	6,968	7,248	7,539
Business Rates	7,404	7,557	7,956	7,909	7,951
Resources	14,675	15,914	15,826	16,077	16,429
Increase/(decrease)		1,803	(88)	251	352
Annual % change		8.4%	(0.6%)	1.6%	2.2%

* Including other Government grant where applicable

8.6 Additional Spending Pressures

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

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Additional Pressures	1,658	396	166	221	260

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 a funding gap of £5.8 million of which proposals of £2.1 million have been identified. This leaves a further £3.7 million to be identified if Members agree the proposals in place.

The reductions / additional income proposals identified are set out below:-

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
Savings proposals identified	(2,914)	(3,835)	(743)	(1,007)	(387)

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. As members have been informed, owing to the significant increase in borrowing costs, the Capital Programme has been reviewed and reduced substantially. The programme will deliver the highest priority schemes only (principally for Health & Safety purposes) and will not enable work to be carried out on all properties owned. This will result in further degradation in the quality of the buildings and risk closures if something was to deteriorate quickly.

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 level of Central Government support over the next couple of years. There is uncertainty over whether the one-off grants will continue or be replaced;
- 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. There is a risk that this would add up to a further £3 million gap in funding; and
- The Council is reliant on a strong economy for much of its funding. Business Rates Growth, Car Park income and Commercial Property income provide support, not just for our discretionary services, but increasingly support our statutory services and corporate costs. A recession may affect these income streams negatively.

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?

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 the report sets out the MTFP for the whole Council.

12. Carbon Footprint (Environmental) Implications:

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

13. Are there any other options?

13.1 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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