

REPORT TO EXECUTIVE

Date of Meeting: 9 January 2024

REPORT TO COUNCIL

Date of Meeting: 20 February 2024

Report of: Director Finance

Title: 2024/25 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 2024/25 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 can set a balanced budget next year. In line with the planned use of reserves, proposals for reductions / additional income total £1.253 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 £1.472 million, which will still leave a further £4.150 million to be identified over the following three years. Owing to the uncertainty over funding in the next few years, the timing of the reductions may change.

5. Section 151 Officer comments:

5.1 Whilst the settlement has still to be announced at the time of writing this report, the published Local Government Finance Policy has indicated a similar increase to last year's settlement.

5.2 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.

5.3 The Government have re-affirmed that the reform of Local Government Finance will not occur during this Parliament but remain committed to it. The timing is uncertain, and the impact has been removed from the MTFP.

5.4 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?

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

7. Monitoring Officer's comments:

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 to set out the legal factors 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 taxpayers.

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 a resolution to set a Council tax which deliberately did not balance the budget.

When deciding, 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 consider and 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 taxpayers 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, 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.

8. Report details:

8.1 Local Government Provisional Finance Settlement 2024-25

8.1.1 1 year Settlement

In terms of the settlement, whilst the figures announced were for one year only. The underlying principle is that each Council will receive at least the minimum increase and again Exeter has received a Funding Guarantee Grant totalling £1.173 million to ensure we reach the minimum increase allowed. In addition, the Services Grant has also been included and Exeter has been awarded £0.026 million.

8.1.2 New Homes Bonus

The payment provided this year is for one year only and gives an award of approximately £0.485 million for 2024/25.

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 moved further back.

8.3 Council Tax

8.3.1 The referendum threshold has remained this year at the higher of a less than 3% or £5 increase for District Councils. This is in line with the medium term financial plan. 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 £127,014 and increase in the taxbase will raise an extra £384,393.

8.4 Other Budgetary Assumptions

8.4.1 An overall allowance of £0.735m has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	4.0%
Pay – Increments	0.5%
Electricity	0.0%
Gas	(50.0%)
Oil	2.5%
Water	0.0%
Insurance	10.0% - 20.0%
Rates	2.5%
Motor Fuel	3.0%
General Inflation	0.0%
Income (excluding Car Parks)	5.0%

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 4% 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 from the present highs of around 5.4%.

8.5 Likely Revenue Resources 2022/23 to 2026/27

8.5.1 The main resources are set out below. The reduction in 2025/26 is uncertain and reflects the fact that the Business Rates Pool is not confirmed after this year. This would add around a further £500,000 in income.

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
RSG*	1,572	1,799	1,761	1,796	1,832
Council Tax	6,785	7,170	7,326	7,620	7,926
Business Rates	8,480	8,791	7,909	7,951	8,046
Resources	16,837	17,760	16,996	17,368	17,804
Increase/(decrease)		923	(764)	372	436
Annual % change		5.4%	(4.3%)	2.2%	2.5%

* 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:

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Additional Pressures	561	1,808	171	210	85

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 £6.9 million of which proposals of £2.7 million have been identified. This leaves a further £4.25 million to be identified if Members agree the proposals in place. The proposals identified for 2024-25 will ensure a balanced budget can be presented.

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

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Savings proposals identified	(5,508)*	(1,253)	(1,085)	(387)	0
Further savings required			(2,800)	(1,000)	(450)

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 are aware, the higher interest rates mean that any further borrowing would require additional reductions, which on top of those set out above, risks the Council having insufficient funds to run its Services. The additional requests for IT investment have therefore been included as they are essential, but as with the recent MRF report, the report will seek delegated authority to only proceed when sufficient capital resources are available to cover the costs.

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 medium term. There will be a General Election, most likely before the next Financial Settlement;
- 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, would leave 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. Changes in work patterns are already impacting car park income and contributing to the financial challenges.

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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