

## **REPORT TO EXECUTIVE**

Date of Meeting: 14 January 2025

## **REPORT TO COUNCIL**

Date of Meeting: 18 February 2025

Report of: Strategic Director for Corporate Resources

Title: 2025/26 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 2025/26 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 That Executive recommends that Council notes the contents of the report and approves the proposals set out in this report to establish a balanced revenue budget and capital programme.

### **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 £2.3 million in order to balance the budget. This is in addition to changes made in respect of the assumed pay award for next year and the Government decision to retain Business Rates pools.

4.2 Across the four years of the medium-term financial plan, further proposals have been identified totalling £1.287 million, which will still leave a further £3.785 million to be identified over the following three years. The majority of this reduction is as a result of the Government promising to reset the Business Rates in 2026/27. Transitional arrangements may affect the timing of the reductions required but until further information is released the reductions have been placed in 2026/27.

## **5. Section 151 Officer comments:**

5.1 The settlement has confirmed the Government's announcement in the published Local Government Finance Policy that no Council will receive less than last year. As with previous years, the Council has had to rely on the funding floor grant to bring the funding up to the minimum level awarded to each Council. This is a clear indication that the Council does not score well against the formula used to allocate Government funding even after the small changes made by the new Government.

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 confirmed that the reform of Local Government Finance will take place in time for the 2026-27 financial settlement and this includes a business rates reset. This will have a significant detrimental impact on the Council's finances and has been built into the MTFP. If there are no transitional arrangements, similar reductions will be required next year.

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?**

6.1 The Council is required to set a balanced budget prior to the commencement of each financial year. Section 25 of the Local Government Act 2003 requires the Council's chief finance officer to report on the robustness of the estimates made for the purposes of calculation of the council tax requirements and the adequacy of its proposed financial reserves.

It is the responsibility of the full Council to approve the budget and the related council tax demand.

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:**

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 resources.

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 2025-26**

#### *8.1.1 1 year Settlement*

In terms of the settlement, the figures announced were for one year only. The underlying principle is that each Council will receive at least the same as last year and again Exeter has received the Funding Floor Grant totalling £0.290 million to ensure we reach the minimum allowed. In addition, the Council also received Recovery Grant of £0.271 million.

#### *8.1.2 New Homes Bonus*

The payment provided this year is for one year only and gives an award of approximately £0.872 million for 2025/26.

#### *8.1.3 National Insurance Increases*

The Government committed to fully funding directly employed Local Government staff in respect of the national insurance increases. The figure will not be known until the final settlement, but the methodology has been released. Early projections are that Exeter will receive around £138,000 against an actual increase of £669,000 for the General Fund and £91,000 for the HRA. This is woefully inadequate and we will respond to the consultation highlighting this.

### **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 time for the 2025-26 Settlement. However they have committed to resetting the Business Rates . The review is now expected to be implemented in 2026/27 and will have a significant, detrimental impact on the Council's finances as we are significantly above the business rates baseline.

### **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 £103,692 and increase in the taxbase will raise an extra £337,218.

## 8.4 Other Budgetary Assumptions

8.4.1 An overall allowance of £0.662m has been set aside for inflation. The inflationary increases allowed in the budget are:

Pay Award	3.0%
Pay – Increments	0.5%
Electricity	0.0%
Gas	0.0%
Water	0.0%
Insurance	10.0% - 15.0%
Rates	2.5%
Motor 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. Pay has been reduced 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 from the present highs of around 5.86%.

## 8.5 Likely Revenue Resources 2024/25 to 2028/29

8.5.1 The main resources are set out below. The reduction in 2026/27 is uncertain and reflects the fact that the Business Rates will be reset. Any transitional arrangement will reduce the reduction and spread it over future years. In addition, the Government are introducing the Extended Producer Responsibility, which will provide further income to the Council. The Government have guaranteed £1.410 million in the first year, part of which will be required to fund the shortfall in the National Insurance compensation and the rest has been placed in an earmarked reserve. Given the scale of reductions in 2026/27 Members should be cautious in allocating these funds until the reductions required for 2026/27 are identified.

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
RSG*	1,939	1,210	1,652	1,685	1,719
Council Tax	7,170	7,507	7,701	8,010	8,332
Business Rates	8,775	9,554	5,841	5,940	6,048
<b>Resources</b>	<b>17,884</b>	<b>18,271</b>	<b>15,194</b>	<b>15,635</b>	<b>16,098</b>
Increase/(decrease)		387	(3,077)	441	463
Annual % change		2.2%	(16.8%)	2.9%	3.0%

\* 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:

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Additional Pressures	1,816	516	210	85	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 £5.1 million of which proposals of £1.3 million have been identified. This leaves a further £3.8 million to be identified if Members agree the proposals in place. The proposals identified for 2025-26 will ensure a balanced budget can be presented.

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

	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	2028/29 £'000
Savings proposals identified	(1,402)	(2,300)	(887)	(400)	0
Further savings required			(2,900)	(500)	(385)

## 8.8 General Fund Capital Programme

8.8.1 At this stage there are no additional requests for Capital Expenditure. 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.

## 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;
- 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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