

EXETER CITY COUNCIL

EXECUTIVE
9 FEBRUARY 2010

GENERAL FUND REVENUE ESTIMATES AND CAPITAL PROGRAMME FOR 2010/11 TO 2012/13

1. PURPOSE OF THE REPORT

- 1.1 To approve the General Fund revenue estimates for 2010/11 and to recommend the Band D level of Council Tax for 2010/11. This report also includes the proposed Capital Programme for 2010/11 and future years, and a note of the proposals in respect of the Housing Revenue Account.

2. BACKGROUND

- 2.1 At its meeting of 8 December 2009, the Executive approved a budget strategy based upon key assumptions including the likely level of available resources and the proposed new revenue bids and other identified spending pressures. This strategy, including the revised medium term financial plan, indicated that the Council can afford to fund its proposed spending plan in the short term to medium term by utilising some of its balances and reserves. However the strategy indicated that there continued to be spending pressures that the Council needed be made aware of. In particular the impact of borrowing to fund the Council's future capital programme and the reduction of income in some service areas will add more pressure to the revenue budget in future years. There is also the real possibility that in the medium term the Council will be given a significantly reduced level of grant from the Government. Implicit within the budget strategy and medium term financial plan is the requirement to identify ongoing cashable efficiency savings.
- 2.2 Savings proposals to reduce the base budget by £1.008 million were identified in order to help alleviate the financial pressures facing the Council next year. These were reviewed by the all party Resources Member Working Group and were subsequently incorporated within the budget papers presented at the December meetings of Scrutiny Committees to consider next year's budget. Following these meetings further adjustments to the proposed savings were identified and were incorporated within the budget papers presented to the individual Scrutiny Committees. Appendix 1 summarises the proposed savings that were presented to the Scrutiny Committees. Members at Scrutiny Committee - Economy made a proposal to transfer £7,000 from the City Centre Activities budget to the Vibraphonic Festival. This would not increase the overall budget.
- 2.3 The Government has now announced the final local government finance settlement for 2010/11 and this was in line with previous forecasts. For Exeter the final figure is as follows:
- Formula Grant £12,089,847 (increase 0.8% against 2009/10 grant)

The final settlement now indicates that in cash terms our grant will only increase by £90,995 against the 2009/10 grant amount of £11,998,852.

3. KEY ASSUMPTIONS

- 3.1 In producing the Council's medium term financial plan and annual revenue budget a number of factors have to be taken into consideration. Economic factors outside of our control such as inflation, interest rates, and economic growth etc. can have a huge impact upon the

Council's overall financial position. Consequently it is necessary to make a number of assumptions on such issues so that a meaningful financial plan can be produced.

3.2 The following assumptions have been made with regard to the revenue budget for 2010/11:

Expenditure

- Pay award 1.0%
- Pay Increments 0.5%
- Utilities Nil
- Contracts 1.5%
- Insurance 3.0%
- Fuel 3.0%
- General Inflation Nil (see para 3.4 below)

Income

- Car Parks 2.5% (VAT only increase)
- Commercial Rent Nil percentage increase
- Other Income 2.0%

3.3 The pay settlement for the current year has been agreed at 1% for the majority of staff and a nil increase for senior staff. It is extremely likely that there will be pressure to limit public sector pay again next year and therefore it is felt prudent at this stage to budget next year for a pay increase of not more than 1.0%. The national negotiators for the Employees have proposed a nil increase for all staff in 2010/11. Until the matter is formally resolved it is considered prudent to leave the current provision within the budget.

3.4 As a means of finding efficiency savings many non-pay budgets will again not be fully increased for inflation. There will be some exceptions to this in particular where there are ongoing contractual arrangements in place and where the Council has to meet the full price increase e.g. insurance and fuel. Recently released figures show that UK inflation increased in December mainly reflecting changes in fuel prices, the cut in VAT and retail discounting. The Consumer Prices Index (CPI) measure rose to 2.9%, up from 1.9% in November. The Retail Prices Index (RPI), the alternative measure of inflation which includes housing costs, also rose to 2.4% from 0.3%. Although the Government no longer produce targets for the RPI it is still used to determine increases in pensions, benefits and pay negotiations. The government target for the CPI measure is 2%.

3.5 With regard to interest rates the Bank of England has put the base rate of interest on hold at only 0.5% since March 2009. Although many analysts are predicting that interest rates could start to increase next year, in the short term they are likely to remain at their historically low levels. The low levels of interest rates affect the City Council in a number of ways. On the negative side the Council has to assume lower investment returns on cash deposits in comparison with previous years. This has also been exacerbated by the continuing lack of confidence within some parts of the banking sector. The likelihood is that investment returns will be no more than 3% in comparison with returns in excess of 6% that we have achieved in recent years. Conversely, on the positive side, the lowering of interest rates also means that the cost of borrowing is now also cheaper. This is particularly important to the City Council now that it has to make use of borrowing in order to fund part of its capital programme.

4. CONCESSIONARY TRAVEL

- 4.1 After many weeks of strong lobbying, the Government issued a consultation paper which sets out their proposals for the funding of concessionary travel in 2010/11 and seeks responses from authorities, which needed to be submitted by 30 December. If the proposals are endorsed they will give the Council an additional £1.65 million of special grant. Whilst this additional grant is very welcome, it has still been necessary for the Council to find revenue savings of about £1 million next year. If this additional grant is not forthcoming, then further cuts of more than £1.5 million would need to be identified. From April 2011 onwards responsibility for the administration of the concessionary fares will be passed to county councils. However, it is not yet known what the potential funding implications of this transfer are likely to be.

5. LOCAL GOVERNMENT FINANCE SETTLEMENT 2010/11

- 5.1 As indicated above the final settlement includes a notification of our formula grant for next year. The City Council's grant settlement for 2010/11 is £12.090 million and this represents an overall cash increase of £0.091 million (0.8%) compared to the current year (£11.999 million). The attached Appendix 2 shows as a comparison the grant settlement figures for all Devon authorities covering the current spending review period. The final settlement figures will be announced later this month but at this stage it is not expected that they will be significantly different from the provisional announcement.

6. MONITORING OF REVENUE SAVINGS – 2009/10

- 6.1 The revenue budget for the current financial year incorporated proposed savings of £2.5 million. If these are not achieved during the year then this may also have an adverse impact upon next year's budget. Apart from a few exceptions, the Council is on target to deliver the proposed savings in the current financial year and in some instances the target will be exceeded for some of the proposed savings. These are as follows:-

Service Area	Budgeted Savings 2009/10 £	Comment
Housing Benefits	150,000	Latest qtr 2 stewardship report indicated that this target would be exceeded by £116,000.
Printing	33,700	A delay in the implementation of the printing review will mean that the savings will only be partly achieved this year.

Service Area	Budgeted Savings 2009/10 £	Comment
Housing Advisory Services	£120,800	The latest qtr 2 stewardship report indicated that this target would not be achieved with a predicted overspend of £117,950. This is mainly due to increased costs of Private Sector Leasing and Serviced Accommodation. It is anticipated that most of this extra cost will be reduced next year due to housing benefit changes taking effect from 1 April 2010.
Pay Award Provision at 1.5%	£225,000	This proposed saving has been exceeded by about £110,000. The pay settlement for 2009/10 has now been agreed at 1% for most staff and a nil pay increase for senior staff.

6.2 The overall revenue savings target of £2.5 million is therefore currently forecast to be achieved and this was also reflected in the most recent overview of the general fund revenue budget reported to Executive on 8 December 2009. This indicated that the estimated withdrawal from the general fund working balance would be £265,410 less than had been budgeted for.

7. FURTHER ISSUES TO BE CONSIDERED

7.1 Before the Council can finally consider the appropriate level of Council Tax to be levied next year, there are a number of issues that require further consideration as follows: -

- Budget Consultation
- Central Government advice on the level of Council Tax
- Future spending pressures and review of the medium term financial planning process
- The level of reserves and balances

8. BUDGET CONSULTATION

8.1 This is the first year that the Council has undertaken a full public consultation specifically on the budget. In previous years consultation was undertaken on the Exeter Vision priorities and as they were linked to the Council's corporate objectives this enabled public priorities to be reflected. A programme of public consultation has been conducted with associated publicity which included a Wavelength survey, an online budget simulator and a public engagement event. In each of method of consultation some background information was provided and the Council's budget was broken down into ten service blocks.

8.2 The methods and results from the consultation exercises are outlined in the separately attached report (Appendix 9). In total there have been 924 interactions with the various methods. This is not the same as 924 unique individuals as there may be some crossover

between methods (a Wavelength panellist could also complete the online budget simulator and attend the public event). However, this still represents a good level of participation.

8.3 The results for these three exercises do not point to a neat and simple answer to the problem of reducing the 2010/11 budget. In general there was broad agreement between the three exercises as to where the public would be prepared to see savings made. Waste collection and street cleaning were the two areas where people were least prepared to see savings made and Corporate & Democratic and Other Central Services the areas where people were most prepared to see savings.

8.4 It is also noted that there are four areas where there are clear age differences:

- People aged 25-44 are less likely to choose leisure and recreation
- People aged 35-44 are less likely to choose museums, heritage and tourism for savings
- People aged over 55 are less likely to choose to make savings in Corporate and Democratic Services and Other central services

This is likely to be linked to their use of the services. People under 44 are more likely to have children who would use leisure and recreation and museums, heritage and tourism services whereas older people may be more likely to use services such as benefits payments, community information and engagement.

9. COUNCIL TAX

9.1 Council tax in England increased by an average of 3.0% in 2009/10, its lowest increase for 15 years. By way of a comparison, in 2009/10 Exeter City Council increased its band D council tax from £114.98 to £119.46; an increase of £4.48 (3.9%). This meant that Exeter had set the 4th lowest council tax out of all the other (201) English District Councils.

9.2 The Government has already stated that they anticipate that council tax increases will fall further again next year and that they are again prepared to take capping action against excessive increases by authorities. The latest Budget Strategy noted by Executive in December 2009 included an assumption that council tax would increase by 4.5% for next year and by no more than 4.5% for the next 2 financial years.

10. FUTURE SPENDING PRESSURES AND REVIEW OF THE MEDIUM TERM FINANCIAL PLANNING PROCESS

10.1 The Council has a medium term financial strategy that forms an integral part of its formal financial planning processes. The key elements of this strategy form part of the overall Budget Strategy that is approved by Council each year. As a brief reminder the Medium Term Financial Strategy contains the following key points:

- It sets out a 4 year revenue financial plan (covering the period to 2012/13)
- It identifies the likely level of grant support from the government
- Sets out the likely level of future council tax increases
- Identifies future service cost variations
- Identifies level of future investment income
- Takes into account the revenue consequences of our Capital Strategy
- Identifies the future amount of efficiency savings/cost reductions required for a balanced budget

10.2 An updated medium term financial plan covering the period 2009/10 to 2012/13 is attached in Appendix 3 and Appendix 4. Appendix 3 assumes that the level of formula grant is the

same for each of the years 2010/11 to 2012/13 whereas Appendix 4 is based upon a grant reduction of 3% after 2010/11.

- 10.3 Although the Council is required to approve an annual revenue budget it does also need to take into account future spending pressures and the likely level of available resources covered by its medium term financial plan. Both Appendix 3 and Appendix 4, show that in the medium term the Council will need to identify further additional revenue savings in order to deliver a balanced budget within the overall available resources. In the worst case scenario indicated in Appendix 4, the medium term financial plan indicates that as well as the £1.082 million of savings identified for next year, further revenue savings of at least £1.7 million will need to be identified and delivered in the following two years.
- 10.4 Looking to the longer term there are a number of uncertainties and factors that could affect the future financial position. These include: the amount of grant support from central government, the level of future years' pension contributions, potential costs arising from the review of service plans, the cost of any new statutory functions, and additional borrowing and revenue costs in respect of any new capital programme commitments. Any additional revenue costs that are not currently identified within the medium term financial plan will now have to be met from further savings.

11. BALANCES AND RESERVES

- 11.1 The Council's current policy is such that the minimum level of the General Fund Balance will now be £2 million. This is considered a sufficient level taking into account the potential level of financial risk facing the Council in the medium term. The latest estimated position of the General Fund Balance is that it will be about £3.395 million as at 31 March 2010, equivalent to 20.5% of Exeter's net revenue budget. The Council's revised medium-term financial plans (Appendix 3 and Appendix 4) indicate that the General Fund Balance will be reduced to the minimum recommended level of £2 million by the end of 2012/13.
- 11.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2010/11 makes use of £487,500 from the following earmarked reserves: -

Transfer from/ (to) reserves

	£
Isca Bowls	10,000
Planning Delivery Grant	(487,500)
Transport Initiatives	(5,000)
Licensing	3,950
Habitat Assessments	<u>(9,000)</u>
	(487,500)

12. ASSET IMPROVEMENT AND MAINTENANCE (AIM)

- 12.1 The General Fund budget for 2010/11 includes an overall allowance of £1,515,000 for AIM expenditure in order to maintain and service the Council's non-housing properties. Of this amount £1,323,500 will be allocated to meet on-going revenue commitments and £191,500 for high priority service requirements.

13. DEBT RECOVERY

- 13.1 The City Council is responsible for collecting substantial amounts of money each year through council tax, business rates, council house rents and sundry debtors. There are

robust and efficient recovery processes in place to ensure that the Council maximises the collection of all its debt. Performance is also measured and monitored against in-year collection performance indicators. During 2008/09 (the last complete financial year), the in-year collection rates were 97.4% for council tax, 98.1% for business rates and 98.5% for housing rents. There is no in-year collection target in respect of sundry debt. The Council eventually collects more than 99% of all the income that it is due. The total amount of debt that was written-off during 2008/09 was £641,369 (£678,940 2007/08) of which £33,522 was for housing rents, £55,214 was in respect of sundry debt, £393,439 was for business rates and £159,194 was in respect of council tax. The total amount of debt that was due for all these areas in 2008/09 was £137.477 million and the write-offs are equivalent to 0.5% of this amount. There are no significant budgetary implications in respect of these write-offs as the Council has previously made adequate provision for bad debts.

14. REVENUE ESTIMATES 2010/11 (APPENDIX 5)

14.1 In total, Service Committee Expenditure for 2010/11 is £17,204,200 which is £2,152,430 less than the current year. A summarised breakdown of this decrease is shown below: -

	£000's
Service Committee Expenditure 2009/10	19,357
Reduction of LGR costs etc. from base	(1,000)
Net reduction in cost of concessionary travel	(1,300)
Inflation allocation	301
Further reduction in income re car parks and planning	250
Archaeological Field Unit	109
Proposed new revenue bids – recurring	34
Proposed new revenue bids – non-recurring	65
Revenue Costs arising from New Capital Bids	21
Other budgetary adjustments	449
Proposed revenue savings	<u>(1,082)</u>
Service Committee Expenditure 2010/11	17,204

14.2 In addition there are other items to be taken into account referred to as 'below the line' as they do not form part of the individual service controllable budgets. These include an estimate of £100,000 for net interest in respect of our overall positive cash balances, and transfers in respect of balances and reserves. The Council's total General Fund Expenditure budget requirement for 2010/11 is planned to be £16,820,509, an increase of £293,133 (1.8%) compared to 2009/10.

15. COUNCIL TAX BUDGET REQUIREMENT 2010/11 (APPENDIX 6)

15.1 When the Formula Grant of £12,089,847 is taken into account the resultant net expenditure to be financed from council tax is £4,730,662 (as indicated in Appendix 6), an increase of £202,138 (4.5%) compared to 2009/10.

15.2 Each year the Council must estimate the likely surplus or deficit position on its Collection Fund and any such amounts must be taken into account when determining the band D Council Tax amount for 2010/11. For next year the amount that must be taken into account by the City Council is a surplus of £8,322.

15.3 As indicated above it is proposed that the net expenditure to be funded by council tax for 2010/11 is £4,730,662. The surplus of £8,322 must be deducted from this amount to give a revised amount to be funded of £4,722,340. When the tax base of 37,827 divides this

amount, the proposed band D council tax for 2010/11 will be £124.84, an increase of £5.38 (4.5%) compared with the 2009/10 band D amount of £119.46.

16. HOUSING REVENUE ACCOUNT (HRA)

- 16.1 Exeter's average rent collected over 52 weeks has increased by £1.79 from £57.74 to £59.53 (3.1%). The increase reflects a general decrease of 0.9% together with the continuation of the phased implementation of the Government's rent restructuring policy, which will converge the rents of all social landlords by 2012/13.
- 16.2 The rent is calculated using a formula linked to 1999 property values in the area relative to the national average, local earnings relative to the national average and the number of bedrooms in the property.
- 16.3 The Exeter City Council HRA Subsidy determination for 2010/11 has been increased by the following in line with the number and types of dwellings as at 1st April 2010:
- Maintenance 4.06%
 - Management 2.83%
 - Major Repairs Allowance 2.30%
 - Rent (average) 2.06%

In net terms, the subsidy payment to the Department of Communities and Local Government has decreased by some £220,000 to £4.006 million. In 2008/09 an additional £4 per dwelling per year was built into the Management allowance per dwelling to fund the production of the Energy Performance certificates for local authority stock. The Government's intention is that this was not a one-off allowance but will form a continuing constituent part of the allowance until at least 2018/09, as certificates will be valid for 10 years.

17. CAPITAL PROGRAMME RESOURCES (APPENDIX 7)

- 17.1 In previous years the annual capital programme has been financed from Government allocated grants together with money from the Council's own capital receipts and capital reserves. However the funding from these sources has now reduced and as a result the Council has to use borrowing instead to fund a significant part of its proposed capital programme. This also has an ongoing impact on the Council's revenue budget. The Council must ensure that any borrowing decisions remain affordable and to this end, has to adopt a number of prudential indicators, which are set out in the Prudential Code for Capital Finance in Local Authorities developed by CIPFA. A separate report to this meeting of the Executive sets out the Council's Prudential Indicators for approval by members.
- 17.2 The available capital resources for General Fund and Housing for 2010/11 are £8.162 million. An estimated spend of £13.804 million is required in respect of the General Fund and £7.538 million for the HRA and the new Council House Building Programme. The total spend on capital will be £21.342 million of which £12.123 million will have to be funded from borrowing. Appendix 7 sets out the forecast use of the resources available for the General Fund, the Housing Revenue Account and the new Council House Building Programme and the likely amounts of borrowing that will be necessary to fund the capital programme.

18. GENERAL FUND CAPITAL PROGRAMME (APPENDIX 8)

- 18.1 The proposed capital programme is set out in Appendix 8. The new / previously approved schemes total £11.387 million in 2010/11. The capital programme has been set out in line with the Council's strategic objectives, in order to demonstrate how the Council's capital priorities help to contribute towards their achievement. Although a number of schemes

contribute to the achievement of more than one strategic objective, they have been placed under the objective to which it is considered the scheme contributes the most.

- 18.2 In order to help improve overall delivery and monitoring of the capital programme, schemes have been placed within two categories, C1 and C2. Category C1 is for those schemes that the Council is committed to and reasonably certain of being able to deliver within the planned timescales. Conversely, Category C2 is for those schemes that the Council is committed to but is less certain of being able to deliver due primarily to factors outside of the control of the Council. It is also acknowledged that some schemes would have elements within both categories.

19. HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME (APPENDIX 8)

- 19.1 For 2010/11 the medium term financial strategy provides for a HRA capital programme of £5.208 million. This is funded from:
- Major Repairs Allowance £3.343 million
 - Revenue Contributions to Capital £1.765 million
 - Capital Receipts £0.1 million

20. COUNCIL HOUSE BUILDING PROGRAMME (APPENDIX 8)

- 20.1 The expected programme for 2010/11 is £2,330,790.

21. RISK ASSESSMENT

- 21.1 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. In addition there are a number of uncertainties that could affect the financial position either now or in the future. These include the level of future years' pension contributions, potential costs arising from the review of service plans, and the cost of any new statutory functions.

- 21.2 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 stewardship 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

- 21.3 As part of the general budget-setting process the Council needs to also consider the risks inherent in the budgets set and the adequacy of the measures put in place to manage the potential risks. A risk assessment has been undertaken of the main volatile budget areas and this formed part of the budget strategy paper presented to Executive in December.

22. STATEMENT OF THE ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

- 22.1 There is a requirement under Section 25 of the Local Government Act 2003 that requires the chief finance officer of a local authority to formally report to its members on the robustness of the estimates and the adequacy of its reserves when it is considering its budget and council tax.
- 22.2 I have already outlined above in this report the key assumptions that have been made in the budget proposals for next year including an assessment of the risks and mitigating factors. As the chief finance officer for this Council I therefore consider that the budget estimates for 2010/11 that have been prepared are both robust and achievable.
- 22.3 The Council's current policy is such that the minimum level of the General Fund Balance will now be £2 million. This is considered a sufficient level taking into account the potential level of financial risk facing the Council in the medium term. The latest estimated position of the General Fund Balance is that it will be £3.395 million as at 31 March 2010, equivalent to 20.5% of Exeter's net revenue budget. The Council's current medium-term financial plan indicates that the General Fund Balance will be reduced to the minimum recommended level of £2 million by the end of 2012/13.
- 22.4 The Council's financial strategy recognises the need to maintain a General Fund Balance to provide stability for both medium and longer term planning and to provide a contingency against unforeseen events. In setting this minimum amount of £2 million the following have been taken into account: -
- The size of the authority
 - The volatility of some income and expenditure budgets
 - The risks faced by the Council with regard to funding unforeseen events
 - The financial risks inherent in partnerships, outsourcing deals and as accountable body for external funding
- 22.5 The Council's estimated revenue Reserves are as follows: -

	31/03/2009 £'000	31/03/2010 £'000	31/03/2011 £'000
<u>Earmarked</u>			
Total Earmarked Reserves	1,622	815	327
<u>Non-Earmarked</u>			
General Fund Balance	5,583	3,395	2,832

23. PRECEPTS

- 23.1 Devon County Council, the Devon and Cornwall Police Authority and the Devon and Somerset Fire Authority will all precept separately upon the council tax payers in Exeter. The County Council, Police Authority and Fire Authority will meet on the 19th, 13th and 18th February respectively. The recommendations are:

	2009/10	2010/11	Change	
	£	£	£	%
Devon County Council	1,094.67	x,xxx.xx	xx.xx	x.xx
Devon and Cornwall Police	149.22	xxx.xx	x.xx	x.xx
Devon and Somerset Fire Authority	69.18	xx.xx	x.xx	x.xx
Total Precept	1,313.07	x,xxx.xx	xx.xx	x.xx

24. FINAL POSITION

- 24.1 Based upon the recommendations above the aggregate requirements of Exeter City Council, Devon County Council, Devon and Cornwall Police Authority and the Devon and Somerset Fire Authority will result in a council tax for the City of Exeter for 2010/11 of £x,xxx.xx per Band D property.

- 24.2 This is an overall increase of £xx.xx (x.xx%) on the amount of £1,432.53 levied for 2009/10.

- 24.3 The detailed figures are: -

Band	Exeter £	DCC £	Police £	Fire £	Total £
A	83.23				
B	97.10				
C	110.97				
D	124.84				
E	152.58				
F	180.32				
G	208.07				
H	249.69				

25. RECOMMENDATIONS

It is recommended that:

- 25.1 the Council's overall spending proposals in respect of both its revenue and capital budgets are approved;
- 25.2 the council tax for each Band be recommended to the Council as set out in section 24.3, subject to Devon County Council, Devon and Cornwall Police Authority and the Devon and Somerset Fire Authority confirming their Band D levels respectively;
- 25.3 when the actual council tax amounts for Devon County Council, Devon and Cornwall Police Authority, and the Devon and Somerset Fire Authority are set then the revised council tax levels be submitted to Council on 23 February 2010 for approval;

25.4 Members note the Statement given by the chief finance officer as required under Section 25 of the Local Government Act 2003.

HEAD OF TREASURY SERVICES

CORPORATE SERVICES DIRECTORATE

Local Government (Access to Information) Act 1985 (as amended)

Background papers used in compiling this report:

None