

Leader's Half-Year report to Resources Scrutiny

22 June 2011

Exeter City Council faces unprecedented cuts in its financial support from this Conservative-led government. Our experience since September is the front-loading of cuts has meant that some services to the public have been reduced, though we took a political decision to protect grants to community organisations, where services are coming under increasing pressure from the most vulnerable residents in Exeter. Local government has been under sustained political attack from Conservative ministers, assisted by the tabloid press. What I set out below is the impact of Tory cuts on our budgets and an outline of the restructure of the council.

The Council's Current Financial Standing

The Local Government Finance Settlement for Exeter has meant a cut in formula grant of almost 23% between 2010/11 and 2012/13 with expectations of further cuts in grant beyond that. In cash terms formula grant has reduced from £10.7 million in 2010/11 to £8.3 million in 2012/13.

The Council's budget proposals for 2011/12 included a package of measures to save some £2.4 million which has resulted in an overall reduction of the revenue budget requirement from £16.8 million in 2010/11 to £14.1 million for the current year. The Council's Medium Term Financial Plan also indicated that in addition to these savings the Council will need to reduce its revenue budget by a further £711,000 in 2012/13, £537,000 in 2013/14 and by a further £1,041,000 in 2014/15.

This amounts to a cumulative reduction of £4,710,000 over the next four years.

In the last year, although the shortfall in funding of the Concessionary Fares Scheme had been substantially mitigated by additional grant, additional pressures from a poor grant settlement and the continuing downturn of the economy meant that a substantial reduction in the General Fund balance was forecast in the budget. However, a successful vacancy management policy, the re-letting of the Leisure Contract and the ability to capitalise redundancy payments combined with other savings has enabled the Council to add back money to its General Fund balance during the year.

We do, of course, have other sources of income, of which council tax (at about £4.7 million per year) is the most significant, but this has been frozen for the current year and thereafter will prove difficult to significantly increase. Additionally, in comparison with most other district councils Exeter has a very low council tax; it currently has the 5th lowest district band D council tax. This means therefore that the council is also less able to generate additional revenue from council tax payers in comparison with most other councils. Whilst other sources of revenue, such as car parking income and property income, are relatively substantial in Exeter, they are both largely dependent on the health of the economy and cannot be expected to significantly increase from current levels in the short term.

With regard to the Council's revenue reserves significant use has already been made of them in recent years as part of the overall budget strategy. The Council's revenue reserves at the end of 2007/08 were some £10.1 million, comprised of £7.5 million of unallocated General Fund balances and £2.6 million of earmarked reserves. By contrast, the Council's reserves position as at 31 March 2011 shows total revenue reserves of only £5.4 million, of which £4.3 million are in respect of the unallocated General Fund balance. The Council has already planned to use its reserves so that the General Fund Balance reduces to the prudential minimum level of £2 million by the end of 2014/15.

All of this leads to the inescapable conclusion that Exeter City Council will have to continue to reduce its cost base in the medium term if it is to meet its legal duty to have a balanced budget whilst providing a wide range of mandatory services to the public. In recent years the Council has been able to save very significant sums from budgets through greater efficiency, service reductions and reduced staffing. This is why the Council has already been adopting a policy of tightly restricting recruitment for the last two years in order to minimise potential impacts on existing staff and the costs of terminating contracts. However, the current financial situation is a step up in gear and we therefore need to take a closer look at the fabric of the council itself.

Update on the Council's Financial Standing

- The Council is on course to deliver most of the £2.4 million of savings that were identified in this year's budget. The budget overview report being presented on this agenda shows that after the first 6 months of this year we are on track to deliver £2.2 million of those savings.
- We have received a good report from our external auditors indicating sound financial performance and an unqualified opinion on the Council's annual accounts.
- The Council has been successful in its application to capitalise redundancy costs in respect of the management restructure helping to spread the costs over more than one year.
- On 28 October 2011, Iceland's Supreme Court ruled on the status of a number of local authorities who had brought a test case to confirm their preferred creditor status. The ruling confirmed preferred creditor status for the individual Councils in the test case, meaning that they should receive a full pay out before any other creditor. On the basis of this judgement, and subject to the court ruling applying to non-test cases it is anticipated that Exeter City Council will make a full recovery of £2 million invested with Glitnir, and a recovery of some 95% of the initial investment of £3 million with Landsbanki, plus interest.
- The Council has started preparing for next year's budget. At this stage it is anticipated that we can deliver the required savings through the current management restructure which will save the Council more than £0.5 million each year together with other already identified savings of about another £0.5 million.

Management Restructure and Review of Services

The council is undertaking a wide-ranging programme of structural change and service rationalisation.

This has started with a restructure of senior management. The aim is to ensure that by April next year, we have a cost effective and efficient structure to address the council's priorities. Affected staff will of course be engaged in this process as will their trade unions. There will of course be concern among the staff and there will be measures in place to support those who are directly affected by the restructure. Whilst it is still too early to accurately predict the eventual number of actual job losses and any consequential redundancy costs; the costs of the review are likely to be significant. The council is therefore currently seeking to capitalise these costs so that they can be spread over a longer period.

We know that we have a sound record as a successful council providing the public with good value for money. However, our structure is more than a decade old and cuts in budgets have left some areas unbalanced in delivering the best service to the public.

I have already had agreement from the other group leaders to undertake a systemic review of the council's services. We will start with two to three services so that we understand how the process

works and what it can deliver for us. The success of this work will rely on all input from the managers and staff of the services as well as councillors being involved and so I hope I can count on your support for this.

The work over this year will allow us to be clear about our priorities and what type of council we need to be to continue to deliver high quality and cost effective services for our residents and continued growth for Exeter as a whole.

It will be challenging time, but we have a history of success as Exeter City Council under Labour control and I am confident that this will continue into the future.

Update on Progress in the Systemic Review of the Council's Services

Our systems review work has started positively. All members were given the opportunity to attend an overview session and hopefully members of this committee were able to attend and are as confident as I am about the benefits to the Council of this approach. Over the past few months, senior officers have been looking at our services to understand what residents are asking us for and how we respond to this. I am sure that this has already provided information about improvements that can be made. The result of this work has been shared with the representatives to the two opposition groups. The next stage is to look at three areas in more depth so that we can test new ways of working, sometimes across existing service areas.

The three areas that we will begin to look at in December are:

- Customer Services/Housing Advice/Revenues & Benefits
- Housing and Commercial Repairs
- Planning

We will also be looking at work to establish what the overall purposes of the Council are. I look forward to updating the Committee on progress in this important area of work for the Council.

Update on Senior Management Restructure

I am pleased that the changes to our senior management structure have received all-party support and are progressing extremely well, and according to the timetable we had set out. In fact we are currently in the process of interviewing candidates for the new posts. I am confident that we will be in a position to fully implement the new arrangements by 1 April next year, as we had always intended.

These changes will save around £1½million a year, as well as providing a fit for purpose structure appropriate for the new challenges which face us.

New Priority: Localism Bill

We expect this Bill to gain Royal Assent shortly. We will need to be prepared as a Council to respond to the implications of this Bill to be clear about possible challenges and opportunities for the Council and our residents. I will be asking officers to ensure that all members are kept up to date.