

## **EXETER CITY COUNCIL**

**EXECUTIVE  
10 FEBRUARY 2009**

### **GENERAL FUND REVENUE ESTIMATES AND CAPITAL PROGRAMME FOR 2009/10 TO 2011/12**

#### **1. PURPOSE OF THE REPORT**

- 1.1 To approve the General Fund revenue estimates for 2008/09 and to recommend the Band D level of Council Tax for 2008/09. This report also includes the proposed Capital Programme for 2008/09 and future years, and a note of the proposals in respect of the Housing Revenue Account.

#### **2. BACKGROUND**

- 2.1 At its meeting of 9 December 2008, 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 there are a number of spending pressures that the Council needed to 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. Implicit within the budget strategy and medium term financial plan is the requirement to identify ongoing cashable efficiency savings.
- 2.2 The Government has now announced the provisional local government finance settlement for 2009/10 and this was in line with previous forecasts. For Exeter the guideline figure is as follows:

- Formula Grant £11,998,852 (increase 0.9% against 2008/09 grant )

The provisional settlement now indicates that in cash terms our grant will only increase by £105,936 against the 2008/09 grant amount of £11,892,916.

#### **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 2009/10:
- Pay award 1.5%
  - General Inflation Nil (see para 3.4 below)
  - Income 5.0% (2.8% where VAT is applicable)

- Interest on Investments 3.0%

- 3.3 An interim pay award for the current year has now been settled. The estimates include a provision for pay inflation of 1.5% for next year.
- 3.4 As a means of finding efficiency savings many non-pay budgets will 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, fuel and electricity. Recently released figures show that UK inflation fell again in December as oil, food and transport costs fell. The Consumer Prices Index (CPI) measure dropped to 3.1% from a peak of 5.2% in September. The Retail Prices Index (RPI), the alternative measure of inflation which includes housing costs, fell even more dramatically to 0.9%. Although the Government no longer produce targets for the RPI it is still used to determine increases in pensions, benefits and pay negotiations. With regard to next year, the Bank of England has said inflation could fall below its target of 2% and might drop as low as 1%. With regard to the RPI many economic forecasters are currently predicting that the UK's retail price index will turn negative next year.
- 3.5 In November the Bank of England reduced the base rate from 4.5% to 3% and has subsequently followed this up with further reductions to 1.5% bringing interest rates to their lowest level in the bank's 315 year history. This lowering of interest rates affects the City Council in a number of ways. On the negative side, the drop in interest rates combined with the lowering of confidence in the banking sector means that we have to significantly lower our investment returns on our cash deposit in comparison with previous years. 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 which is going to make use of borrowing in order to fund part of its capital programme.

#### **4. CONCESSIONARY TRAVEL**

- 4.1 The Government previously announced that an additional £212 million would be made available to local authorities to help fund the additional costs of the nationwide concessionary travel scheme that took effect from 1<sup>st</sup> April 2008. This additional funding would be paid as a specific grant rather than through the formula grant allocation. The Government consulted on four different options as a means of deciding how the grant will be allocated and in the final event they opted for a 'fifth option' that was not favourable for the City Council. Information received from Stagecoach and other smaller bus operators relating to usage of concessionary bus travel during the period April to September 2008, indicates that the new nationwide scheme has resulted in a significant increase in costs for the City Council. Current predictions are that the funding gap could be as much as £1.3 million in the current financial year. The grant allocations were initially set for the first 3 years of the new scheme so there is also potentially an ongoing revenue pressure beyond 2008/09. The Council is continuing to lobby the Government together with other similarly affected authorities to redress this funding gap and believes that it has a very strong case. It has though in recent weeks become increasingly apparent that any additional funding towards the cost of concessionary bus travel is very unlikely. Accordingly the revenue budget proposals contained in this report therefore now include the potential funding shortfall for concessionary travel for 2009/10 and 2010/11. As a direct consequence of this it has been necessary to carry out a further review of all budgets in order to find compensating savings and this would be in addition to the £1.031 million of savings that have previously been identified and reported to members.

## **5. FURTHER REVENUE SAVINGS**

- 5.1 The all party Resources Members Working Group met on 2 February 2009 to consider further proposed base budget reductions totalling £1,521,800 for 2009/10. Members reviewed and noted the proposed savings. In addition to these savings, the Resources Members Working Group also highlighted the need to review the budget for Members Allowances in the light of the current budget savings exercise.
- 5.2 These further proposed budget savings have been incorporated within the overall revenue estimates presented in this report are attached separately in Appendix 1.

## **6. LOCAL GOVERNMENT FINANCE SETTLEMENT 2009/10**

- 6.1 As indicated above the final grant settlement includes a notification of our likely grant for next year. The City Council's final grant settlement for 2009/10 is £11.999 million and this represents an overall cash increase of £0.106 million (0.9%) compared to the current year (£11.893 million).
- 6.2 This final grant settlement is the same as we were originally forecasting and also included the provisional settlement figures for 2010/11. The indicated grant increase for 2010/11 is even less at only 0.8%. The attached Appendix 2 shows as a comparison the grant settlement figures for all Devon authorities covering the current spending review period.

## **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: -
- 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. COUNCIL TAX**

- 8.1 Council tax in England increased by an average of 3.9% in 2008/09 compared to 4.2% in 2007/08. By way of a comparison, in 2008/09 Exeter City Council increased its band D council tax from £110.03 to £114.98; an increase of £4.95 (4.5%). This meant that Exeter had set the 5<sup>th</sup> lowest council tax out of all the other (238) English District Councils
- 8.2 The Government has already stated its intention of keeping council tax increases to low single figures and therefore they have previously used their capping powers to restrict local authorities' budgets. This has been previously taken into account when formulating the Council's Medium Term Financial Plan. The latest Budget Strategy noted by Executive in December 2008 included an assumption that council tax would increase by 2.9% for next year and by no more than 4.5% for the next 2 financial years.

## **9. FUTURE SPENDING PRESSURES AND REVIEW OF THE MEDIUM TERM FINANCIAL PLANNING PROCESS**

- 9.1 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 2011/12)
  - 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
- 9.2 An updated revenue financial plan covering the period 2008/09 to 2011/12 is attached in Appendix 3.
- 9.3 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. In the medium term, assuming that there are no major changes in service delivery, the Council will need to identify significant ongoing efficiency savings in order to deliver a balanced budget within its overall available resources. The revised plan indicates that as well as the £2.553 million of savings to be delivered for next year, further cash efficiency savings of £1.9 million will need to be identified and delivered in order to have an overall balanced budget position in the medium term. This level of further budget reductions will be very challenging to achieve.
- 9.4 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 have to be met from compensating savings.

## **10. BALANCES AND RESERVES**

- 10.1 Previous advice to members has indicated that the General Fund Balance should equate to at least 15% of Exeter's revenue budget. This policy, although reviewed annually, has not been changed for a number of years. The Council's net revenue budget has also increased over this period of time and therefore it is now considered appropriate to revise the policy for the General Fund Balance 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 £4.647 million as at 31 March 2009, equivalent to 28.7% of Exeter's net revenue budget. The council's revised medium-term financial plan (Appendix 2) indicates that the General Fund Balance will be reduced to £2.001 million (11.7%) by the end of 2011/12.
- 10.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2009/10 makes use of £932,000 from the following earmarked reserves: -

Transfer from/ (to) reserves

	£
Transport Initiative	5,000
AIM	500,000
Planning Delivery Grant	155,520
Tree Management	81,920
Licensing	(14,380)
Empty Homes Initiative	18,940
Other	45,000
Leisure Contract	<u>140,000</u>
	<b>932,000</b>

## **11. ASSET IMPROVEMENT AND MAINTENANCE (AIM)**

- 11.1 The General Fund budget for 2009/10 includes an overall allowance of £1,526,510 for AIM expenditure in order to maintain and service the Council's non-housing properties. Of this amount £1,273,260 will be allocated to meet on-going revenue commitments and £253,250 for high priority service requirements.

## **12. DEBT RECOVERY**

- 12.1 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 2007/08 (the last complete financial year), the in-year collection rates were 97.3% for council tax, 98.8% for business rates and 98.4% for housing rents. There is no in-year collection target in respect 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 2007/08 was £678,940 (£722,906 2006/07) of which £9,524 was for housing rents, £110,690 was in respect of sundry debt, £244,952 was for business rates and £313,774 was in respect of council tax. The total amount of debt that was due for all these areas in 2007/08 was £129.7 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.

## **13. REVENUE ESTIMATES 2009/10 (APPENDIX 4)**

- 13.1 In total, Service Committee Expenditure for 2009/10 is £19,356,630, which is £954,800 more than the current year. A summarised breakdown of this increase is shown below: -

	£000's
Service Committee Expenditure 2008/09	18,402
Inflation allocation	490
Funding Shortfall Concessionary Travel	1,320
Local Government Reorganisation including mobile working	1,000
Other Increases in costs of services	698
Identified Savings	<u>(2,553)</u>
Service Committee Expenditure 2009/10	<b>19,357</b>

- 13.2 In addition there are other items to 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 £300,000 for net interest in respect of our overall positive cash balances, a £500,000 provision for redundancy costs and transfers in respect of balances and reserves. The Council's total General Fund Expenditure budget requirement for 2009/10 is planned to be £16,484,021, an increase of £268,848 (1.7%) compared to 2008/09.

#### **14. COUNCIL TAX BUDGET REQUIREMENT 2009/10 (APPENDIX 5)**

- 14.1 When the Formula Grant of £11,998,852 is taken into account the resultant net expenditure to be financed from the council tax payers is £4,485,169 (as indicated in Appendix 4), an increase of £162,912 (3.8%) compared to 2008/09.
- 14.2 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 2009/10. For next year the amount that must be taken into account by the City Council is a surplus of £24,858.
- 14.3 As indicated above it is proposed that the net expenditure to be funded by council tax payers for 2009/10 is £4,485,169. The surplus of £24,858 must be deducted from this amount to give a revised amount to be funded of £4,460,311. When the tax base of 37,700 divides this amount, the proposed band D council tax for 2009/10 will be £118.31, an increase of £3.33 (2.9%) compared with the 2008/09 band D amount of £114.98.

#### **15. HOUSING REVENUE ACCOUNT (HRA)**

- 15.1 Exeter's average rent collected over 52 weeks has increased by £3.91 from £56.15 to £60.06 (7.0%). The increase reflects a general increase of 5.0% 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 2024/25.
- 15.2 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. The full effect of the rent convergence is being phased in over the period to 2024/25 in order to reduce the impact on individual tenants.
- 15.3 The Exeter City Council HRA Subsidy determination for 2009/10 has been increased by the following in line with the number and types of dwellings as at 1<sup>st</sup> April 2009:

•	Maintenance	5.87%
•	Management	2.58%
•	Major Repairs Allowance	4.83%
•	Rent (average)	5.97%

In net terms, the subsidy payment to the Department of Communities and Local Government has increased by some £324,000 to £4.738 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.

## **16. CAPITAL PROGRAMME RESOURCES (APPENDIX 6)**

- 16.1 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 reduced such that from 2008/09 onwards the Council will have to use borrowing instead to fund part of its proposed capital programme. This will also have 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.
- 16.2 The available capital resources for General Fund and Housing for 2009/10 are £12.117 million. An estimated spend of £15.241 million is required in respect of the General Fund and £5.06 million for the Housing Capital Programme. The total spend for both the General fund and Housing will be £20.301 million of which £8.185 million will have to be funded from borrowing. Appendix 6 sets out the forecast use of the resources available for both the General Fund and the Housing Revenue Account and the likely amounts of borrowing that will be necessary to fund part of the capital programme.

## **17. GENERAL FUND CAPITAL PROGRAMME (APPENDIX 7)**

- 17.1 The proposed capital programme is set out in Appendix 7. The new / previously approved schemes total £15.570 million in 2009/10. 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.
- 17.2 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.

## **18. HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME (APPENDIX 8)**

- 18.1 For 2008/09 the medium term financial strategy provides for a HRA capital programme of £5.060 million. This is funded from:
- Major Repairs Allowance £3.273 million
  - Revenue Contributions to Capital £1.562 million
  - Capital Receipts £0.225 million

## **19. RISK ASSESSMENT**

- 19.1 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.

19.2 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

19.3 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.

## **20. STATEMENT OF THE ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES**

20.1 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.

20.2 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 2009/10 that have been prepared are both robust and achievable.

20.3 With regard to the adequacy of reserves previous advice to members has indicated that the General Fund Balance should equate to at least 15% of Exeter's revenue budget. This policy, although reviewed annually, has not been changed for a number of years. The Council's net revenue budget has also increased over this period of time and therefore it is now considered appropriate to revise the policy for the General Fund Balance such that the minimum level of the General Fund Balance will now be £2 million. The latest estimated position of the General Fund Balance is that it will be about £4.647 million as at 31 March 2009. The revenue proposals for 2009/10 indicate that a contribution of £2.041 million can be made from the Council's General Fund Balance which would leave a balance of £2.606 million as at 31 March 2010.

20.4 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

20.5 The Council's estimated revenue Reserves are as follows: -

	31/03/2008 £'000	31/03/2009 £'000	31/03/2010 £'000
<b><u>Earmarked</u></b>			
Economic Regeneration	134	34	5
Property Maintenance	608	1,108	601
Planning Delivery	492	315	315
Other Earmarked Reserves	1,409	1,222	826
<b>Total Earmarked Reserves</b>	<b>2,643</b>	<b>2,679</b>	<b>1,747</b>

**Non-Earmarked**

General Fund Balance	7,452	4,647	2,606
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## 21. PRECEPTS

- 21.1 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. At this stage their precepts for Band D are recommendations and subject to final approval. The County Council, Police Authority and Fire Authority will meet on the 19th, 13th and 18th February respectively. The recommendations are:

	2008/09 £	2009/10 £	Change £ %	
Devon County Council	1,063.89	x,xxx.xx	xx.xx	x.xx
Devon and Cornwall Police	142.19	xxx.xx	xx.xx	x.xx
Devon and Somerset Fire Authority	66.58	xx.xx	x.xx	x.xx
<b>Total Precept</b>	<b>1,272.66</b>	<b>x,xxx.xx</b>	<b>xx.xx</b>	<b>x.xx</b>

## 22. FINAL POSITION

- 22.1 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 2009/10 of £x,xxx.xx per Band D property.

22.2 This is an overall increase of £xx.xx (x.xx%) on the amount of £1,387.64 levied for 2008/09.

22.3 The detailed figures are: -

Band	Exeter £	DCC £	Police £	Fire £	Total £
A	78.87				
B	92.02				
C	105.16				
D	118.31				
E	144.60				
F	170.89				
G	197.18				
H	236.62				

## 23. RECOMMENDATIONS

It is recommended that:

- 23.1 the Council's overall spending proposals in respect of both its revenue and capital budgets are approved;
- 23.2 the council tax for each Band be recommended to the Council as set out in section 21.3, subject to Devon County Council, Devon and Cornwall Police Authority and the Devon and Somerset Fire Authority confirming their Band D levels respectively;
- 23.3 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 24 February 2009 for approval;
- 23.4 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