

EXETER CITY COUNCIL

EXECUTIVE
8 DECEMBER 2009

2010/11 BUDGET STRATEGY AND MEDIUM TERM FINANCIAL PLAN

1. PURPOSE OF THE REPORT

- 1.1 To provide a strategic overview of the budgetary position for the 2010/11 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. BACKGROUND

- 2.1 The Council is again faced with a very challenging financial position for next year particularly due to the low revenue grant settlement combined with other budgetary pressures. In the current year the revenue budget is under pressure in a number of areas due mainly to the continuing effect of the current economic recession.
- 2.2 The Government's Comprehensive Spending Review (CSR) that was scheduled to take place during 2009 has been postponed until after the next General Election. The CSR would have set out the Government's spending plans on all public services over the next 3 year period commencing from 2011/12. Although this decision to postpone does not impact upon the level of grant to be received next year, it does mean that planning for the medium term is made more difficult. Nevertheless, all the current indications are that after the next election, public services are likely to be set for their biggest spending cut in more than 30 years. Also, given that Health and Education are likely to remain as priority areas for government spending, the financial situation facing all district councils in particular is likely to be extremely challenging.
- 2.3 After many weeks of strong lobbying, the Government has finally issued a consultation paper which sets out their proposals for the funding of concessionary travel in 2010/11 and seeks responses from authorities, which need 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 will still be necessary for the Council to find revenue savings of about £1 million next year. In the event this additional grant is not forthcoming, then further cuts of more than £1.5 million would need to be identified after Christmas.
- 2.4 The City Council's final formula grant settlement for 2009/10 equated to a year-on-year cash increase of only £106,000 (0.9%). However, the provisional grant settlement figure for next year indicates an even tougher settlement with a yearly cash grant increase of only £91,000 (0.8%).

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 only 1.0%.

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 October mainly reflecting changes in fuel prices. The Consumer Prices Index (CPI) measure rose to 1.5%, up from 1.1% in September. The Retail Prices Index (RPI), the alternative measure of inflation which includes housing costs, also rose to -0.8% from -1.4%. Although the Government no longer produce targets for the RPI it is still used to determine increases in pensions, benefits and pay negotiations. The Bank of England has also said that inflation will probably go up after the temporary reduction in VAT expires in January, although inflation is then expected to fall back again. 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. COUNCIL TAX

4.1 No changes have been made to the existing assumptions regarding council tax. The budget strategy therefore still includes an assumption that council tax can increase by 4.5% for the next 3 years from 2010/11 to 2012/13. Although capping criteria are yet to be announced by

the Government, there is a risk of the Council being capped should it approve a council tax increase of 4.5% for next year. For every 1% change that is made to this council tax assumption this will have the effect of either decreasing or increasing council tax revenue by £45,000.

5. LIKELY REVENUE RESOURCES 2009/10 TO 2012/13

5.2 The Government has already announced its provisional announcement for the 2010/11 grant settlement and is likely to be subject only to minor changes, if any at all. Looking beyond next year, the current medium term financial plan has assumed that formula grant will be kept at the 2010/11 level i.e. a nil increase. However, as already indicated above, the current state of the UK economy and public finances in particular indicate that even a nil increase beyond 2010/11 may be overly optimistic. Some other local authorities are already undertaking scenario planning based upon significant reductions of government grant. The City Council's formula grant for 2010/11 is expected to be about £12.09 million. As an example, a 5% reduction in grant could see our resources reduced by a further £605,000.

5.3 If the current assumption regarding council tax remains the same (4.5% increase per annum) and formula grant remains at the 2010/11 level, then the additional resources would be:-

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Formula Grant	11,999	12,090	12,090	12,090
LABGI	56	50	0	0
Council Tax	4,529	4,730	4,966	5,241
Total Resources	16,584	16,870	17,056	17,266
Yearly Increase	369	286	186	210

5.4 However, if formula grant were to be reduced by 3% each year after 2010/11, then the available resources would be:-

	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Formula Grant	11,999	12,090	11,730	11,370
LABGI	56	50	0	0
Council Tax	4,529	4,730	4,966	5,241
Total Resources	16,584	16,870	16,696	16,611
Yearly Increase/(decrease)	369	286	(174)	(85)

6. NEW REVENUE BIDS AND ADDITIONAL SPENDING PRESSURES

6.1 The attached Appendix 1 shows the increases in revenue costs that have been identified so far. For 2010/11 increased revenue costs of some £1,016,000 have been identified arising from proposed new revenue and capital bids together with other identified additional spending pressures. A summary of this amount is also shown below:-

	£'000
Unavoidable or already committed spending pressures	709
Proposed new recurring revenue bids	34
Proposed new non-recurring revenue bids	65
Revenue and borrowing costs of capital programme	<u>261</u>
	1,069

7. REVENUE SAVINGS

- 7.1 Savings proposals to reduce the revenue base budget in 2009/10 by £1.008 million have been identified in order to alleviate the financial pressures that are facing the Council next year. These are in the process of being reviewed by the Resources Member Working Group and will now be incorporated within the budget papers that will be presented together with any comments, during the December meetings of Scrutiny Committees to consider next year's budget. However due to the likelihood of further revenue pressures facing the Council beyond 2010/11 other savings will need to be identified for future years.

8. REVISED MEDIUM TERM REVENUE PLAN (APPENDIX 2 AND 3)

- 8.1 An updated Medium Term Financial Plan (MTFP) including the impact of the proposed revenue savings is set out in Appendix 2 and 3. These are based upon the 2 different grant assumptions set out in section 3 above. Appendix 2 assumes that the level of formula grant is the same for each of the years 2010/11 to 2012/13 whereas Appendix 3 is based upon a grant reduction of 3% after 2010/11.

9. ASSET IMPROVEMENTS AND MAINTENANCE (AIM)

- 9.1 The draft revenue proposals for 2010/11 include an overall allowance of £1,513,500 for AIM expenditure (£1,526,510 2009/10) in order to maintain and service the Council's non-housing properties. Of this amount £1,322,000 will be allocated to meet on-going revenue commitments and £191,500 for high priority service requirements.

10. CAPITAL PROGRAMME

- 10.1 Attached at Appendix 4 is a table setting out the forecast capital resources available for General Fund capital schemes over the next five years. This table is based upon our actual committed programme with an assumption of 70% of committed expenditure being spent in the year approved. It shows that the Council now has to use significant amounts of borrowing in addition to its other capital resources to finance its capital programme requirements. This also has an ongoing impact on the Council's revenue budget. The prudential capital framework enables the Council to borrow within self-imposed targets largely based on affordability. Therefore, before a final decision is made regarding the proposed capital programme the Council will need to demonstrate that its capital spending plans are affordable within the medium term financial plan.
- 10.2 It is expected that the available resources for the General Fund Capital Programme (other than borrowing) over the next 5 years will total about £15.6 million and the capital programme that can be funded other than by borrowing is therefore still quite substantial. However in terms of the General Fund, it is proposed that some £38.7 million is committed over the next 5 years for capital schemes with a resultant borrowing requirement of £23.1 million. The actual proposed Capital Programme for next year and beyond, including any new bids and the review of the currently approved programme will be presented during the round of scrutiny budget meetings in December.

11. RISK ASSESSMENT

- 11.1 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.

11.2 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

11.3 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, which is shown as Appendix 5 to this report.

12. RECOMMENDATIONS

It is recommended that: -

12.1 The contents of the report are noted and that the proposals to establish a balanced revenue budget and capital programme are approved.

HEAD OF TREASURY SERVICES

CORPORATE SERVICES DIRECTORATE

**Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling this report:**

None