

## EXETER CITY COUNCIL

### SCRUTINY COMMITTEE - RESOURCES 27 JANUARY 2010

EXECUTIVE  
9 FEBRUARY 2010

#### REVENUE BUDGET PROPOSALS 2010/11

### 1. PURPOSE OF THE REPORT

- 1.1 This report outlines the strategic framework within which the estimates have been prepared and circulated for discussion and comment during December and highlights the issues that will affect the actual setting of the overall level of council tax.
- 1.2 This report also summarises the overall budget position arising from the current cycle of Scrutiny Committee meetings.

### 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 (Appendix 1) have been incorporated within the budget papers presented to the individual Scrutiny Committees.
- 2.3 The Government has now announced the provisional local government finance settlement for 2010/11 and this was in line with previous forecasts. For Exeter the guideline figure is as follows:

- Formula Grant £12,089,847 (increase 0.8% against 2009/10 grant )

The provisional 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%.

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. CONCESSIONARY TRAVEL

- 4.1 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 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. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2010/11

- 5.1 As indicated above the provisional settlement includes a notification of our likely grant for next year. The City Council's provisional 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:-

<b>Service Area</b>	<b>Budgeted Savings 2009/10 £</b>	<b>Comment</b>
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.
Leisure and Museums	31,000	The proposed savings for reducing supplies and services are not likely to be achieved. The current shortfall is expected to be £18,000.

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 6). In total there have been 883 interactions with the various methods. This is not the same as 883 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 4<sup>th</sup> 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 £1.008 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>
	<b>(487,500)</b>

## 12. REVENUE ESTIMATES 2010/11 (APPENDIX 5)

- 12.1 The Council's revenue estimates for next year are being considered during the current cycle of Scrutiny Committee meetings for the final budget report to the Executive on 9 February 2010. In total, Service Committee Expenditure for 2010/11 is £17,196,770 which is £2,159,860 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	368
Proposed revenue savings	<u>(1,008)</u>
Service Committee Expenditure 2010/11	17,197

- 12.2 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 £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.

### **13. COUNCIL TAX BUDGET REQUIREMENT 2010/11**

- 13.1 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 5), an increase of £202,138 (4.5%) compared to 2009/10.
- 13.2 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.
- 13.3 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.

### **14. SUMMARY**

- 14.1 Although the final grant settlement figures from the Government are not expected to be available until the end of January it is unlikely that they will be significantly different from the provisional settlement figures used elsewhere in this report. Based on this and the proposed revenue estimates presented to each Scrutiny Committee the proposed council tax increase for next year will be 4.5%.

**15. RECOMMENDATION**

- 15.1 That Scrutiny Committee – Resources notes the recommendation to the Executive and comments accordingly.
- 15.2 Executive approves the Draft Revenue budget proposals for 2010/11 and that the recommended minimum level for the General Fund Working Balance remains at £2 million.

HEAD OF TREASURY SERVICES

CORPORATE SERVICES DIRECTORATE

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

**Background papers used in compiling this report:**

None