

EXETER CITY COUNCIL

EXECUTIVE
7 DECEMBER 2010

2011/12 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 2011/12 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 Exeter City Council, like all other local authorities and public sector bodies, faces unprecedented reductions in its financial support from Government. The recent spending review announcement on October 20 has shown what the likely scale of the cuts in local authority funding will be. Although precise details will only be known in December when the Formula Grant settlement is published by Government, we as a Council have already started to plan for the likely cuts that we are going to have to make. This will be in addition to savings of more than £3.5 million that have already been made by the Council for the current and previous financial year. The Council's current revenue budget requirement for 2010/11 is £16.821 million of which £12.090 million is funded by the Formula Grant.

3. COMPREHENSIVE SPENDING REVIEW

- 3.1 The spending review sets out real terms reductions of 28% in local authority formula grant funding over the next four years reducing from £28.0 billion in 2010/11 to £21.9 billion in 2014/15. However, it is important to note that:
- This funding reduction is front-loaded and
 - The formula grant figure includes both the £3.4 billion of specific grants that the Government has announced will roll into the general funding system and includes funding for police and fire authorities.
- 3.2 The actual cash reduction in formula grant for local authorities could be as much as 32% with almost 17% of the reduction having to be found next year. For the purposes of budget planning we are currently working on the following scenario:
- **An overall cut of 30%** in Formula Grant, over the next four years with the following phasing of cuts

	Cut £000	Percentage %
Year 1 – 2011/12	1,875	15.5
Year 2 – 2012/13	1,022	8.5
Year 3 – 2013/14	112	0.9
Year 4 – 2014/15	618	5.1
Total	3,627	30.0

4. COUNCIL TAX

- 4.1 One of the other key announcements within the spending review affecting local authorities was in respect of council tax. Local authorities who freeze their council tax in 2011/12 will have the resultant loss to their council tax income funded at the rate of 2.5% in each year of the spending review period. For the purposes of budgetary planning it is has therefore been assumed that Exeter will also freeze its council tax next year but thereafter it can increase by 2.5% for each year from 2012/13 to 2014/15.

5. NEW HOMES BONUS

- 5.1 The Coalition Government launched its consultation 'New Homes Bonus' on 12 November. This set out the Government's policy to match fund the additional council tax raised when a new home is built, or a property is brought back into use, with an additional amount for affordable homes. The aim is to reward local authorities who take action now to increase house building. As announced in the Spending Review, the Government has set aside nearly £1 billion over the spending review period and this includes around £200 million to fully fund the scheme in 2011/12. However, funding beyond this level will have to be 'top sliced' from the formula grant settlement which due to the redistributive process of the new homes bonus means that the scheme will create financial winners and losers. The consultation period ends on 24 December and the Council will be responding to the consultation. Although the Council could benefit from the new home bonus reward no assumptions have yet been built into the budget for future years. When it is fully known how the new scheme will work the budgetary impact will be considered as appropriate.

6. OTHER BUDGETARY ASSUMPTIONS

- 6.1 In working out what this might mean for the Council's future budgets we have to make a number of further assumptions about other key factors which could also have a big impact upon the finances. One of the most significant of these remains concessionary fares, the responsibility and government funding for which transfers next April to the County Council. The details of this funding transfer are complex, but suffice it to say that the worst option currently under consideration by the government could result in a further permanent net loss to Exeter City Council of £1 million per year. Conversely, the best options could see the Council gaining significantly in financial terms from the transfer. Currently, for the purposes of budgetary planning it has been assumed that the loss arising from the transfer of concessionary travel is £500,000.
- 6.2 With regard to inflation, an overall allowance of £100,000 has been set aside for next year. This includes an assumption with regard to increases in pay and increases for utility costs and contracts being offset by increases for fees and charges. For the following three years an overall inflation allowance of £300,000 has been included for planning purposes. The inflationary assumptions that have been included for next year are as follows:

- Pay 1.0% - to cover any pay award and increments
- Utilities 3.0%
- Insurance 3.0%
- Rates 4.5%
- Fuel 3.0%
- General Inflation 1.0% - see para 6.3 below
- Income (excluding car parks) 3.0%

6.3 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 3.2%, up from 3.1% in September. The Retail Prices Index (RPI), the alternative measure of inflation which includes housing costs, however fell slightly to 4.5%, down from 4.6% a month earlier. The government target for the CPI measure remains at 2%.

7. LIKELY REVENUE RESOURCES 2011/12 TO 2014/15

7.1 The Government is due to announce the provisional grant settlement for local government in early December. Based upon the assumptions above regarding forecast grant reductions and levels of council tax then the resources available to the Council to finance its net revenue budget would be: -

	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
Formula Grant	12,090	10,215	9,193	9,081	8,463
Council Tax	4,730	4,746	4,889	5,036	5,188
Funding for tax freeze	0	119	119	119	119
Resources	16,820	15,080	14,201	14,236	13,770
Increase/(decrease)	293	(1,740)	(879)	35	(466)

8. ADDITIONAL SPENDING PRESSURES

8.1 The attached Appendix 1 shows the increases in revenue costs that have been identified so far. For 2011/12 increased revenue costs of some £2,205,000 have been identified and a summary of this amount is also shown below:-

	£'000
Unavoidable or already committed spending pressure	894
Shortfall arising from transfer of Concessionary Travel	500
Proposed new revenue bids	nil
Revenue and borrowing costs of capital programme	<u>643</u>
	2,037

9. REVENUE SAVINGS AND OTHER BUDGETARY REDUCTIONS

9.1 In the current year we have already identified some areas where we expect savings to occur that will have an impact next year and these are shown in Appendix 2. The significant reductions that have been identified for 2011/12 are as follows:-

	£
New Leisure Contract	800,000
Additional income from recycling	100,000
Car Park Income	250,000

9.2 Savings proposals to reduce the revenue base budget in 2011/12 by £2.446 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 be incorporated within the budget papers that will be presented together with any comments, during the December briefings to Scrutiny Committees to consider next year's budget. However due to the likelihood of further revenue pressures facing the Council beyond 2011/12 other savings will need to be identified for future years.

10. REVISED MEDIUM TERM REVENUE PLAN (APPENDIX 3)

10.1 An updated Medium Term Financial Plan (MTFP) including the impact of the proposed revenue savings is set out in Appendix 3. The MTFP currently indicates that the Council will need to reduce its revenue budget by £2.520 million next year, a further £1.865 million in 2012/13 and a further £1.631 million by the end of 2014/15. This would amount to a **cumulative reduction of £6.016 million over the next four years** as shown in the table below:-

Year	Required Savings £000
2011/12	2,520
2012/13	1,865
2013/14	686
2014/15	945
Total	6,016

11. ASSET IMPROVEMENTS AND MAINTENANCE (AIM)

11.1 The draft revenue proposals for 2011/12 include an overall allowance of £1,619,290 for AIM expenditure (£1,513,500 in 2010/11) in order to maintain and service the Council's non-housing properties. Of this amount £1,433,790 will be allocated to meet on-going revenue commitments and £185,500 for high priority service requirements.

12. CAPITAL PROGRAMME

12.1 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 the Council's currently approved capital programme plus proposed new capital bids. 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. The currently approved programme is due to be reviewed in conjunction with the proposed new capital bids as part of the overall budgetary process.

12.2 It is expected that the available resources for the General Fund Capital Programme (other than borrowing) over the next 5 years will total about £13.4 million and the capital programme that can be funded other than by borrowing is therefore still quite substantial. In terms of the General Fund, the currently approved capital programme and proposed new bids total almost £34 million over the next 5 with a resultant borrowing requirement of £20.9 million.

13. RISK ASSESSMENT

- 13.1 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.
- 13.2 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

14. RECOMMENDATIONS

It is recommended that: -

- 14.1 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