

EXETER CITY COUNCIL

SCRUTINY COMMITTEE - RESOURCES 26 JANUARY 2011

EXECUTIVE
8 FEBRUARY 2011

REVENUE BUDGET PROPOSALS 2011/12

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 7 December 2010, the Executive approved a budget strategy based upon key assumptions including the likely level of available resources and identified spending pressures. This strategy, including the revised medium term financial plan, indicated that the Council needed to reduce its revenue budget by about £6 million over the next four years.
- 2.2 Savings proposals to reduce the base budget by £2.421 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 2011/12 and 2012/13 and this was in line with previous forecasts. For Exeter the guideline figures are as follows:
 - Formula Grant 2011/12 £9,219,387 (decrease 13.8% against 2010/11 'adjusted' formula grant)
 - Formula Grant 2012/13 £8,265,565 (decrease 10.3% against 2011/12 provisional formula grant)

The provisional settlement now indicates that in overall cash terms our 2011/12 grant will decrease by £1,471,049 against the 2010/11 adjusted grant amount of £10,690,436.

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 2011/12:

Expenditure

- Pay award 1.0% - to cover any pay award and increments
- Utilities 3.0%
- Insurance 3.0%
- Rates 4.5%
- Fuel 3.0%
- General Inflation Nil (see para 3.4 below)
- Income (excluding car parks) 3.0%

3.3 There has been no offer of an increase in pay for 2010/11. Unions have submitted a pay claim for 2011/12 of £250 for all employees, on which the Local Government Employers are consulting Councils. Given the Government's announcement of a pay freeze for employees earning more than £21,000 and an increase of £250 for those earning less, it is felt prudent at this stage to budget next year for pay increases and increments totalling 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 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%.

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. Conversely, on the positive side, the low interest rates currently prevailing means that the cost of borrowing is lower than normal. 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. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2011/12

4.1 As indicated above the provisional settlement provides local authorities with their provisional funding allocations for the next two years (2011/12 and 2012/13) only. The final allocations are expected to be confirmed in January 2011. The City Council's provisional grant settlement for 2011/12 is £9.219 million and this represents an overall cash decrease of £1.471 million (13.8%) compared to the current year ('adjusted' £10.690 million).

4.2 The adjusted grant figure of £10.690 million for 2010/11 takes into account the transfer of funding responsibility for concessionary travel to Devon County Council from 1 April 2011. The amount of funding that has been 'taken' from Exeter is £3.688 million which comprises £1.356 million of formula grant and £2.332 million of specific grant.

4.3 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. They appear to show that in comparison with other Devon Districts the City Council has fared slightly better in percentage terms of formula grant reduced. The cut of 13.8% in formula grant next year compares to an overall average cut of 15% for all shire districts. This also compares with an average cut of 11.4% for Unitaries and 12.6% for Counties.

4.4 In the grant settlement the Government announced that councils will face an average cut of 4.4%; and that no local authority would experience a decrease of more than 8.9% in 2011/12, as a result of the grant reductions. It should be noted though that these figures relate to local authority "revenue spending power" – a new definition used by the Government, which encompasses an individual authority's:

- Council Tax Requirement;
- Formula Grant;
- Specific Grants; and
- NHS funding for social care (not applicable for district councils).

Appendix 3 shows a comparison of Devon authorities by using this new definition of revenue spending power. Using this measure Exeter does not compare favourably with the other Devon authorities.

5. MONITORING OF REVENUE SAVINGS – 2010/11

5.1 The revenue budget for the current financial year incorporated proposed savings of almost £1.1 million. If these are not achieved during the year then this may also have an adverse impact upon next year's budget. These savings are monitored during the year as part of the stewardship process and the most recent revenue budget overview report to Executive in December indicated that the Council is on track to deliver those savings. Based upon financial information for the first 6 months of this year Service Committee budgets are forecasting an underspend of more than £300,000.

6. FURTHER ISSUES TO BE CONSIDERED

6.1 Before the Council can finalise its revenue budget for next year there are a number of issues that require further consideration as follows: -

- Budget Consultation
- Equality Impact Assessment
- Central Government advice on the level of Council Tax
- New Homes Bonus
- Future spending pressures and review of the medium term financial planning process
- The level of reserves and balances

7. BUDGET CONSULTATION

7.1 This is the second year running that the Council has undertaken a full public consultation specifically on the budget. For public consultation on the 2011/12 budget, it was agreed to use a single survey which would be made available online, printed in the Express & Echo and sent to the Wavelength panel. The survey asked participants to decide whether to protect, reduce or stop spending on different service areas. A summary report of the results of this consultation is attached in Appendix 4.

8. EQUALITY IMPACT ASSESSMENT

- 8.1 Equality Impact Assessments (EQIA) form part of the Council's decision making process and are a tool to help the Council identify what effect or possible effects its work may have on different groups of people. All local authorities have a legal responsibility to assess their policies and functions, and to set out how they will monitor any possible negative impact on equality target groups. The Council needs to consider the impact on equalities of all new and reviewed Council strategies, policies, projects, services or functions, budget decisions and restructures. By anticipating the consequences of its actions on equality groups the Council can make sure that, as far as possible, any negative consequences are eliminated, minimised or counterbalanced by other measures, and opportunities for promoting equality are maximised. As part of this process, next year's revenue savings proposals have been assessed for any potential equality issues and EQIA's have been undertaken as appropriate with the results available on the council's web site.

9. COUNCIL TAX

- 9.1 Council tax in England increased by an average of 1.8% in 2010/11, its lowest increase since the introduction of council tax in 1993/94. By way of a comparison, in 2010/11 Exeter City Council increased its band D council tax from £119.46 to £124.84; an increase of £5.38 (4.5%). However, this still meant that Exeter had set the 4th lowest council tax out of all the other District Councils.
- 9.2 The provisional grant settlement confirmed that a local authority that freezes or reduces its Band D council tax in 2011/12 will receive an additional grant equivalent to having set a 2.5% increase from their 2010/11 level. Any grant paid to an authority for freezing or reducing its council tax in 2011/12 will be matched exactly in each subsequent year of the Spending Review to compensate for the income foregone for a freeze. Authorities will not have to continue to freeze or reduce their council tax from 2012/13 to continue to receive this grant. For Exeter the compensating grant that it will receive for freezing its level of council tax at the 2010/11 level will be £118,456.
- 9.3 The Localism Bill published on 13 December includes provisions to abolish Central Government capping and instead give the public the power to approve or veto excessive council tax rises. Any authority which wishes to increase its council tax beyond a threshold determined by the Secretary of State and approved by the House of Commons will be required to hold a referendum to seek the approval of their electorate. Local people would therefore have the final say on excessive increases; a majority no-vote would mean authorities having to refund their council taxpayers. It is expected that these provisions will come into effect from 2012/13 onwards. Council tax referendums will apply to all local, police and fire authorities.

10. NEW HOMES BONUS

- 10.1 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 ended on 24 December and the Council has responded to the consultation. Although the Council could benefit from the new homes 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.

11. FUTURE SPENDING PRESSURES AND REVIEW OF THE MEDIUM TERM FINANCIAL PLANNING PROCESS

11.1 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 2014/15)
- 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

11.2 An updated medium term financial plan (MTFP) covering the period 2010/11 to 2014/15 is attached in Appendix 5.

11.3 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. The latest forecast MTFP currently indicates that in addition to the savings proposed for next year 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 million in of 2014/15. This would amount to **a cumulative reduction of £4.710 million over the next four years** as shown in the table below:-

Year	Required Savings £000
2011/12	2,421
2012/13	711
2013/14	537
2014/15	1,041
Total	4,710

11.4 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 after 2012/13, 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.

12. BALANCES AND RESERVES

- 12.1 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 £3.276 million as at 31 March 2011, equivalent to 19.5% of Exeter's net revenue budget. The Council's revised medium-term financial plan (Appendix 5) indicates that the General Fund Balance will be reduced to the minimum recommended level of £2 million by the end of 2014/15.
- 12.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2011/12 makes use of £119,000 from the following earmarked reserves: -

Transfer (from)/ to reserves

	£
Isca Bowls	10,000
Devon Home Choice	27,000
Planning Delivery Grant	<u>(156,000)</u>
	(119,000)

13. REVENUE ESTIMATES 2010/11 (APPENDIX 6)

- 13.1 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 8 February 2011. In total, Service Committee Expenditure for 2011/12 is £12,816,990 which is £4,387,210 less than the current year. A summarised breakdown of this decrease is shown below: -

	£000's
Service Committee Expenditure 2010/11	17,204
Reduction of Concessionary Travel from base	(1,658)
Net Inflation allocation	(32)
Other budgetary adjustments	(276)
Proposed revenue savings	<u>(2,421)</u>
Service Committee Expenditure 2010/11	12,817

- 13.2 In addition there are other items to take 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 borrowing in respect of the overall cash balances, and transfers in respect of balances and reserves. The Council's total General Fund Expenditure budget requirement for 2011/12 is planned to be £14,074,647, a decrease of £2,745,862 (16.3%) compared to 2010/11.

14. COUNCIL TAX BUDGET REQUIREMENT 2011/12

- 14.1 When the Formula Grant of £9,219,387 and special tax freeze grant of £118,456 are both taken into account the resultant net expenditure to be financed from council tax is £4,736,804 (as indicated in Appendix 6), a small increase of £6,142 (0.1%) compared to 2010/11.

- 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 2011/12. For next year it is forecast that the Collection Fund will be in a break even position.
- 14.3 As indicated above it is proposed that the net expenditure to be funded by council tax for 2011/12 is £4,736,804. When the tax base of 37,943 divides this amount, the proposed band D council tax for 2011/12 will be £124.84, which means that council tax will be frozen at the 2010/11 level.

15. SUMMARY

- 15.1 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 nil.

16. RECOMMENDATION

- 16.1 That Scrutiny Committee – Resources notes the recommendation to the Executive and comments accordingly.
- 16.2 Executive approves the Draft Revenue budget proposals for 2011/12 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