EXETER CITY COUNCIL

EXECUTIVE
20 NOVEMBER 2007

2008-2009 BUDGET STRATEGY

1. PURPOSE OF THE REPORT

1.1 To provide a strategic overview of the budgetary position for the 2008/09 financial year including an indication of the likely level of available resources and the proposals to ensure that a balanced budget is achieved.

2. BACKGROUND

2.1 The budget for 2007/08 was set using a mix of increased government grants, efficiency savings and increased income generation along with a low Council Tax increase of 2.9% to allow for increases in pay, national insurance contributions and other unavoidable costs. Additional revenue funding was allowed for a number of areas, which were prioritised and clearly met the Council's aims and objectives.

2.2 The Government announced the results of its latest Comprehensive Spending Review (CSR 2007) on 9 October. This provides a key signal of what the Government's spending priorities are likely to be in the course of the next three years and will also give an indication of the level of grant funding that will be available. The assumptions in this report about the likely resources are therefore broadly based upon this most current spending review. However at this stage much of the finer detail regarding actual levels of funding will not be available until later in the year.

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 2008/09:

- Pay award 2.5%
- General Inflation Nil (see para 3.4 below)
- Income 3.0%
- Interest on Investments 5.5%

3.3 The pay award for the current year has now been settled. Although Government policy is to try and limit public sector pay increases to no more than 2% it is felt prudent at this stage to budget for a 2.5% increase 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. The Retail Price Index (RPI) for September 2007 was 3.9%. Although the Government no longer produce targets for the RPI it is still used to determine increases in pensions, benefits and pay negotiations.

3.5 With regard to interest the UK base rate has been gradually increased from 4.75% in August 2006 to 5.75% in July 2007, and has subsequently remained at this level. The overall growth and interest rate expectations of the United Kingdom economy remain uncertain in the future although many analysts are predicting a further rise to the base rate in the coming months as unlikely and could even fall. Based upon the Council achieving a 5.75% return on its cash investments next year, this will yield around £1.3 million in the Council's General Fund budget. A small change of 0.1% either way from our assumption would lead to either an increase or reduction of income of around £23,000.

4. COMPREHENSIVE SPENDING REVIEW 2007

4.1 The latest Comprehensive Review (CSR07) indicates a tough financial settlement ahead for Local Government for the next three years. There will be an aggregate increase in external grant funding of 4.2% in 2008/09, 3.5% in 2009/10, and 3.4% in 2010/11. This amounts to **real terms increases** of 1.5%, 0.8% and 0.7% over the CSR period. Given that government priorities will continue to be for Education and Adult Social Care, the actual grant increases for district council services are likely to be significantly less than this. The CSR07 has also indicated a significant reduction in the Local Authority Business Growth Initiative (LABGI) funding from £1 billion in CSR04 to £150 million over CSR07. There will be LABGI funding of £50 million for 2009/10 and £100 million in 2010/11, with no funding outlined for 2008/09. To date Exeter City Council has benefited greatly from this initiative having received £465,108 for 2005/06, £923,941 for 2006/07, and the current budget estimates a further £1.5 million for this (2007/08) financial year.

4.2 The actual levels of grant funding that the City Council will receive will not be announced until later this year. However for the purposes of this report and taking into account the overall likely settlement announced in CSR07 it has been assumed that the Council's level of grant support will increase by 3% for each of the next three years.

5. CONCESSIONARY TRAVEL

5.1 The Government has announced that an additional £212 million will be made available to local authorities to help fund the additional costs of the nationwide concessionary travel scheme that takes effect from 1st April 2008. This additional funding will be paid as a specific grant rather than through the formula grant allocation. The Government are currently consulting on four different options as a means of deciding how the specific grant will be allocated. As far as Exeter is concerned option 3 is the most favourable (an extra £1.162 million) with option 4 the least favourable (an extra £0.408 million). The difference between the best and worst case scenario is therefore £754,000. It is also uncertain at this stage as to what the exact cost of the new national scheme will be. The consultation period is due to end on 23 November 2007 and the City Council has already made its formal response. In the light of the current uncertainty it has been assumed that the introduction of the national scheme will be cost neutral.

6. CAR PARKING INCOME

6.1 Members will recall that the review of tariffs in autumn 2006 resulted in a decision not to raise tariffs for 2007 in light of the potential disruption to the City Centre due to the Princesshay development. In the previous year, the overall increase was 2.2%. Insofar as we would normally expect to make year on year inflationary increases, it would be justifiable to increase tariffs by over 6% from January 2008. Members also recently approved for consultation a policy on climate change which envisages the introduction of a levy to fund sustainable energy or transport enhancements. Taking these elements together, officers recommend an 8% increase in income to be introduced from 7 January 2008, to include 2% as a climate charge levy. This increase would generate, in a full year, an additional £370,000 and within this an additional £92,500 will be in respect of the climate charge levy.

7. COUNCIL TAX

7.1 The current budget strategy had assumed a council tax increase of 2.9% for 2008/09 and beyond. However given the likely tough financial settlement for the next three years including the reduction of LABGI funding and the uncertain costs of the new concessionary fare scheme, it is now prudent to consider an increase of 4.5% for council tax. This will still be below the Government's likely 'capping' limit increase of 5% whilst ensuring that the City Council continue to levy one of the lowest district council level of council tax in the country.

8. REVENUE BUDGET 2008/09 – AVAILABLE RESOURCES

8.1 Based upon all of the above the likely level of external funding from Government Grant and Council Tax Income is shown below: -

	2007/08 £'000	**2008/09 £'000**	**2009/10 £'000**	**2010/11 £'000**
Formula Grant	11,664	12,014	12,374	12,745
LABGI	1,500	0	100	200
Council tax (4.5%)	4,080	4,297	4,515	4,754
	17,244	**16,311**	**16,989**	**17,699**

Note : The actual tax yield increase indicated above will be 5.3% for 2008/09. This is higher than the actual band D increase due to a forecast increase in the number of chargeable dwellings.

8.2 The change in resources each year is set out in the table below.

Likely increase/(decrease) in resources

	2008/09 £'000	**2008/09 £'000**	**2009/10 £'000**
Increase/(decrease) in resources	(933)*	678	710

*** The large reduction in 2008/09 is due to the reduction in LABGI - £1.5 million estimated for 2007/08 to £nil in 2008/09 per CSR07**.

9. NEW REVENUE BIDS AND ADDITIONAL SPENDING PRESSURES

9.1 The attached Appendix 1 shows the increases in revenue costs that have been identified so far. For 2008/09 increased revenue costs of some £598,000 have been identified arising from proposed new revenue bids together with other identified additional spending pressures. A summary of this amount is also shown below:-

	£'000
Unavoidable or already committed spending pressures	28
Proposed new recurring revenue bids	218
Proposed new non-recurring revenue bids	165
Revenue costs arising from new capital bids	187
	598

10. REVISED MEDIUM TERM REVENUE PLAN (APPENDIX 2)

10.1 The revised medium term financial plan takes into account all the changes and assumptions that have already been highlighted in this report. In addition an allowance for some LABGI funding has been allowed for in 2009/10 and 2010/11. The revised plan does however indicate that additional reductions to the base budget for 2008/09 amounting to £540,000 will be necessary in order to have a balanced budgetary position whilst maintaining the General Fund Balance at a reasonable level.

10.2 In order to find the necessary reductions to the base budget, SMT has agreed that each directorate should try to achieve the following savings targets (based upon their net revenue budget) as follows and which will be reported through the detailed budget process :-

	£000
Community and Environment	327
Economy and Development	107
Corporate Services	81
Chief Executive	25
Total	**540**

11. ASSET IMPROVEMENTS AND MAINTENANCE (AIM)

11.1 The draft revenue proposals for 2008/09 include an overall allowance of £1,750,250 for AIM expenditure in order to maintain and service the Council's non-housing properties. Of this amount £1,299,240 will be allocated to meet on-going revenue commitments and £451,010 for high priority service requirements.

12. CAPITAL PROGRAMME

12.1 Attached at Appendix 3 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 from 2008/09 onwards the Council will have to use borrowing in addition to its other capital resources to finance its capital programme requirements. This will also have an ongoing impact on the Council's revenue budget. The current revenue cost of borrowing consisting of interest and loan repayments, is about £85,000 for each £1 million that is borrowed. 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. In order to minimise the impact of funding a new swimming pool both in terms of capital and revenue pressures caused by new borrowing, SMT is reviewing all existing approved schemes that the Council is not actually committed to or in advance stage of planning/implementation, with a view to recommending either deletion or deferral them to future years. This appendix has taken into account the overall level of adjustments which will be presented to members in the detailed budget 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 more than £34 million and the capital programme that can be funded is therefore substantial. However in terms of the General Fund, some £40.5 million has already been committed for capital schemes. It is proposed that the total General Fund programme for 2008/09 is £19.616 million of which £2.132 million will be for new approvals. By taking into account the amount identified for improvements to our housing stock of £5.217 million, the total proposed capital programme for 2008/09 is £24.833 million. The actual proposed Capital Programme for next year and beyond, including all the new bids and the review of the currently approved programme will be presented during the round of scrutiny budget meetings in December.

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

13.3 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 4 to this report.

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