

EXETER CITY COUNCIL
SCRUTINY COMMITTEE – ECONOMY
19 JANUARY 2012

ESTIMATES 2012/13

1. INTRODUCTION

- 1.1 Attached are the draft estimates for 2012/13, which were discussed at an informal meeting of Scrutiny Committee - Economy on 15 December 2011.
- 1.2 This report outlines the strategic framework within which the estimates have been prepared, changes in accounting practices, which affect all budgets and detailed reasons for any significant changes in the Management Unit estimates.
- 1.3 The draft estimates that are presented reflect the current committee and management structure arrangements. In due course, the Council's budgets will need to be redesigned to reflect the new management structure and changes arising from the systematic review of services.

2. BUDGET FRAMEWORK

- 2.1 With regard to inflation, an overall allowance of £421,000 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 £400,000 has been included for planning purposes. The inflationary assumptions that have been included for next year are as follows:

- Pay 3.0% - to cover any pay award and increments
- Gas and Electricity 10.0%
- Water 7.0%
- Insurance 3.0%
- Rates 2.0%
- Fuel 12.0%
- General Inflation 1.0% - see para 2.3 below
- Income (excluding car parks) 4.0%

- 2.2 There has been no offer of an increase in pay for 2011/12. Unions have submitted a pay claim for 2012/13 asking for a substantial increase, although this has not been quantified. The Chancellor of the Exchequer has however more recently announced in his Autumn Statement that there should be a further restraint of all public sector pay with a 1% cap on public sector pay rises for two years after the end of the current freeze next year (2012/13). Currently most local government employees have already had two years of a pay freeze and for senior managers this is the third year of a pay freeze.

- 2.3 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 the rate of Consumer Prices Index (CPI) inflation in the UK fell again slightly for the second month running to 4.8% during November, down from a rate of 5.0% the month before. Although the rate of inflation still remains well above the Bank of England's target of 2% there is an expectation that it will begin to fall more sharply after January.
- 2.4 With regard to interest rates, the Bank of England has held the base rate of interest at only 0.5% since March 2009. Although many analysts are predicting that interest rates could start rising towards the end of 2012/13 they are likely to remain at their historically low levels for much of the year. 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 continue to be low. Conversely on the positive side, the low interest rates also mean that the cost of borrowing is much less than it has been in the past.
- 2.5 The Government has announced the provisional local government finance settlement for 2012/13 which was in line with previous forecasts. For Exeter the guideline figures are as follows:

- Formula Grant 2012/13 £8,257,807 (decrease 10.6% against 2011/12 'adjusted' formula grant)

The provisional settlement now indicates that in overall cash terms our 2012/13 grant will decrease by £977,419 against the 2011/12 adjusted grant amount of £9,235,226.

- 2.6 On 3 October 2011, the Chancellor of the Exchequer announced an £805m fund for local authorities freezing council tax next year. All billing and major precepting authorities who freeze or reduce their council tax next year will receive additional funding equivalent to raising their council tax by 2.5%. Fire and police authorities will receive funding equivalent to a 3% raise. However unlike the extra grant available to fund the 'freezing' of council tax in the current year which was provided for 4 years to the end of the spending review period, this additional money announced will be available for one year only. For the purposes of the revised medium term financial plan it has been assumed that the Council will freeze council tax again next year. It is estimated that the extra grant to compensate for freezing council tax again next year will be about £120,000.
- 2.7 The New Homes Bonus is designed to create an effective fiscal incentive to encourage local authorities to facilitate housing growth. The scheme provides local authorities with a New Homes Bonus grant, equal to the national average for the council tax band on each additional property and paid for the following six years as an un-ring-fenced grant. There will be an enhancement for affordable homes. DCLG has allocated nearly £200m to fund the scheme fully in 2011/12. For the following three years of the spending review (2012/13 to 2014/15) they have allocated £250m per annum with funding beyond these levels to come from Formula Grant.

- 2.8 For the current year (2011/12) the Council has received New Homes Bonus of £389,165, which amounts to £2,334,990 over the full 6-year period. This was based upon 374 net additional homes per the between October 2009 and October 2010. The Council's valuation list in October 2011 showed 937 net additional homes compared to a year ago and this could generate additional New Homes Bonus of almost £935,000 next year and in total £5.6 million over the next 6 years. Based upon current forecasts it is also reasonable to assume that average New Homes Bonus would be £540,000 per annum in future years assuming that the scheme continues in its current form.
- 2.9 It is expected that the available resources for the General Fund Capital Programme (other than borrowing) over the next 5 years will total about £5.5 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 £20.3 million over the next 5 years with a resultant borrowing requirement of £14.7 million. However, the current extra revenue cost of borrowing is between £50,000 and £60,000 for each £1 million that is borrowed and this therefore means that the potential future borrowing costs of the Council's capital programme are significant. A list of the proposed new schemes for Economy Scrutiny Committee is attached at Appendix 2.
- 2.10 The changes in respect of 2012/13 Fees and Charges for the budget are included at Appendix 3.
- 2.11 As FRS 17 / IAS 19 pension charges do not affect the Council Tax it has been decided to remove these notional costs from the estimates and this will reduce the budget volatility that can be caused by these charges.

The budget reduction in this committee is £77,280. The individual amounts have been removed from the pay budgets in each management unit where necessary.

3. REVENUE BUDGET SAVINGS

- 3.1 The Council's budget proposals for 2011/12 included a package of measures to save some £2.421 million. As part of the overall budget proposals for next year, the Council is required to find further revenue savings of at least £1 million of which it is anticipated that £500,000 will be met from the current management restructure. The Council has already started the process of making changes to the senior management structure and it is intended that all the new arrangements will be in place by 1 April. However whilst this process is still ongoing, by necessity this means that the draft estimates cannot fully reflect the finalised position of the revised senior management structure. The estimates will therefore only include an overall savings amount of £500,000 for the senior management restructure.

4. KEY REVENUE BUDGET CHANGES PROPOSED FOR 2012/13

- 4.1 The Revenue budgets are attached at Appendix 1. The proposed budgets reflect a combination of budget changes and savings and the key changes are as follows:

83A1 PROPERTY & ESTATES SERVICES

Income budgets in respect of Commercial and Miscellaneous Properties have reduced to reflect rental pressures and void allowances across the property portfolio. The budget in respect of National Non Domestic rates has been increased to cover any liability that may fall on the council due to a property becoming void. The reduction in these budgets has been offset by a saving on employment budgets as a result of the senior management restructure.

The budget in respect of the Asset Improvement and Maintenance programme (AIM) has reduced due to the completion of an AIM priority in the current financial year. The departmental recharge from the Contracts unit to this management unit has also reduced resulting in a saving.

There has been a reduction in budget to cover any potential trading loss that may arise at the Exeter Business Centre.

The budgets in respect of Support Services have reduced with savings been made on the recharges from Legal Services, Information Technology and the Economy and Development Admin team.

83A2 TRANSPORTATION

The budget reduction in this management unit relates to a reduction in the Support Service recharge from the Economy and Development Administration team.

83A3 CAR PARKING

The Council's Medium Term Financial Plan included a reduction in the fee income in respect of off street parking fees due to the shortfall of income against the budget in the previous year; the inflationary increase applied to the fees for 2012/13 has offset this reduction meaning the income budget has been maintained at the current year level.

The current year budget included a proposal to terminate the car park security contract and to revise staffing to enable this task to be undertaken in house. It was found that it was more cost efficient to renegotiate the external security contract. The savings on staffing have been identified in the stewardship reports to this committee, the staffing budgets in 2012/13 have been changed to reflect this change and an additional budget has been included for the external contract.

The AIM budgets in the management unit have reduced due to the completion of an AIM priority in the current financial year. There has been an increase in the national non domestic rates budget.

The support services recharge budgets have reduced with the recharge in respect of the Customer Service Centre reducing significantly. The Customer Service Centre issued residents parking permits and this service has returned to Devon County Council with effect from October 2011. All other budgets in respect of Residents Parking have been removed; this service was run on an agency basis with any surplus or deficit being passed to or funded by DCC.

Budgets for costs and income related to Civil Parking Enforcement (CPE) for on street parking are included. CPE is run under an agency agreement with the County Council. CPE is budgeted to break even in 2012/13 and an agreement is in place that any surplus or deficit will be passed to or funded by DCC.

83A4 ECONOMIC DEVELOPMENT

Savings on salary and superannuation budgets have been made due to a post being job evaluated to a lower grade and some staff members not being in the pension scheme, the budget saving has been partially offset due to the inclusion of a pay protection budget.

The recharges to the management unit for Support Services has reduced with the budgets for Economy & Development Administration team, Information and Technology recharges and the recharge from Estates Services all being lower than the current year budget.

83A5 FESTIVALS

The budgets in this management unit have remained at current year levels with the exception of the inclusion of the one off budget in respect of the Olympic Torch Event.

The support service recharges in respect of Information Technology and Human Resources has reduced, various other recharge budgets have also reduced.

83A6 TOURISM

The budget in respect of the Asset Improvement and Maintenance programme (AIM) has reduced due to the completion of an AIM priority in the current financial year. There has also been a reduction in the Service and Maintenance and the departmental recharges element of the AIM programme in respect of tourism.

The expenditure budget in respect of travel and attraction tickets at the Visitor Information Centre has been increased due to the increase in demand for these tickets; this additional expenditure will be covered by the income received from the sale of the tickets to the public.

83A7 ARCHAEOLOGY IN EXETER

The annual budget of £26,000 due to Exeter Archaeology to undertake various archaeological studies has been removed due to the Archaeological Field Unit ceasing to trade at the end of the current financial year.

83A8 DISTRICT HIGHWAYS AND FOOTPATHS

The budget in respect of capital charges has increased; this increase has been offset by a saving being made on the sub-contractor budgets.

83A9 BUILDING CONTROL

The budgets in the management unit are split into a fee earning account and a non-fee earning account. The fee earning account has to break even and the annual budget is set on this basis.

The Chartered Institute of Public Finance Accountants (CIPFA) determines which element of the service are fee earning and those that are not. The changes in the regulations by CIPFA have meant that the budgets have been revised to take account of the revised regulations. The revised budgets have resulted in an additional £75,000 falling on the Council.

83B1 LAND DRAINAGE

Budgets changes in this management unit relate to the recharge from the Engineering section for works undertaken on Water Courses.

83B2 ADMINISTRATION SERVICE

Employment budgets in this area have reduced due to vacant posts not being filled and removed from the budget. The savings made in this management unit have been reflected in the recharges to the various management units within the Economy and Development directorate.

83B3 DIRECTOR ECONOMY AND DEVELOPMENT

The budget change in this management unit relates to a change in support service recharges. The main change relates to the recharge from the Economy and Development Administration team which has increased.

83B4 ENGINEERING AND CONSTRUCTION

The changes to the budget in this management unit relate to support service recharges, the recharge from the Economy and Development Administration service has reduced, the recharge budgets in respect of Civic Centre room rental and Information Technology have also reduced.

The Engineering and Construction team costs are recovered by charging services for the time spent on projects. The reduction in budgets will be reflected in a lower recharge to the services for which works are undertaken.

83B5 PLANNING SERVICES

A new fee charging regime for Planning Services is expected to come into effect from the 1st April 2012, the details of this are not fully known at this point meaning budgets have been set on the current charging regime. However, additional income is expected from planning fees and pre application charges, the budgets have therefore been increased to reflect this anticipated additional income

The changes to the employee budget in 2012/13 are a reduction in the superannuation due to the number of employees in the pension scheme reducing and savings on agency staff and insurance.

In addition to the savings on employee budgets there has been a reduction in the budget in respect of premises, equipment tools and materials and printing.

The Housing & Planning Delivery Grant budget has reduced to reflect the proposed expenditure in 2012/13. The reductions are in respect of employee budgets as a number of posts are now funded by ECC, the transfer of the posts has also resulted in the associated on-cost budgets reducing as have the support service recharges. The remaining costs in relation to Housing & Planning Delivery will be funded from the balance on earmarked reserve.

The budget in respect of the Local Development Framework (LDF) has been removed as per the council's medium term financial plan. Expenditure in this area in 2012/13 will be funded from the LDF earmarked reserve.

83B6 CONSERVATION

The changes in budgets within this management unit relate to the AIM budgets. The 2011/12 funded AIM priority budget has been removed due to the completion of the priority in the current financial year. There has also been a reduction in the service and maintenance, reactive repair and the departmental recharges element of the AIM programme.

83B7 ARCHAEOLOGICAL FIELD UNIT

The Archaeological Field Unit will cease to trade on 31st March 2012, therefore the budgets included for 2012/13 relate to the running costs of the Customs House.

The budgets included are in respect of the maintenance of the premises, utility charges, insurance, national non domestic rates and support service recharges.

83B8 MAJOR PROJECTS

A budget has been funded to engage the necessary legal and property expertise in respect of the regeneration of the Bus Station Site. This expenditure will be funded by the New Homes Bonus received in the year.

83B9 MARKETS AND HALLS

The revised Auctioneers contract has resulted in significant savings within this management unit. Savings have been made on the trade refuse charges, national non-domestic rates budgets and AIM budgets due to the responsibility for the maintenance of element of the centre now falling on the lessee.

Income budgets have also been revised in line with the new lease. Various income budgets have changed with income from auctioneers, open air markets and lettings increasing and income from car boot sales, car auction, mobile caterers and boardroom hire reducing.

The overhead costs for the management unit are recharged to the various cost centres. The staffing restructure as part of the new auctioneers contract have meant that the overheads recharged to the Livestock Centre have reduced meaning further savings have been made.

Budgets in respect of Exeter Corn Exchange have also reduced; the AIM recharge to the cost centre has reduced due to a 1 year funded AIM priority ending and the departmental recharge also reducing. Income budgets have increased with a significant increase in the income budgets for events held.

The event promotion budget has increased due to the need to promote a greater number of events being held, this increase in budget has been more than offset by the additional income expected from the events being staged.

83C1 WATERWAYS

A saving has been made on employment budgets due to the removal of the budget in respect of the Canal manager post. This saving has been partially offset by the inclusion of a budget for Marine Advice.

The AIM budgets within this management unit have increased with the service and maintenance, reactive repairs and departmental recharges all increasing.

Insurance budgets in relation to this management unit have increased; the increase is in respect of the Marine Insurance Policy.

5. USE OF RESERVES

- 5.1 The following withdrawals from earmarked reserves are budgeted to fund certain non-recurring expenditure in 2012/13

Planning Delivery Grant Reserve - £51,350

6. RECOMMENDATIONS

- 6.1 **RECOMMENDED** that Scrutiny Committee – Economy supports the estimates and proposed fees and charges for 2012/13 and recommends approval at the Special Meeting of the Council on 21 February 2012.

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

Background papers used in compiling this report:

None