

EXETER CITY COUNCIL

SCRUTINY COMMITTEE – RESOURCES 25 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 - Resources on 12 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 Resources 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.

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:

86A1 REVENUE COLLECTION & BENEFITS

The estimate for Housing Benefit payments has been increased to reflect the outturn forecast for 2011/12 plus case load and price increases for 2012/13 as follows:

- Rent Allowances + 4.57%
- Council Tax Benefits + 1.11%
- Rent Rebates + 9.11%
- Non HRA Rebates + 8.45%

Discretionary Housing Payments have been increased to £103,760. The Housing Benefits subsidy has been amended to reflect the above increases in line with the 2011/12 performance.

There has been an overall increase in the cost of administering Revenue Collection and Benefits, largely due to a review of the recharges from the Customer Services Centre, see also 86B1 Treasury Services below. The overall net increase in Revenue Collection and Benefits is £432,160 which is 0.8% of the total cost of £51.152m

86A2 ELECTIONS & ELECTORAL REGISTRATION

There are Exeter City Council elections planned for May 2012 and it had been assumed in the original budget calculations that there would have been Police Commissioner elections held at the same time, thereby saving an estimated £40,000. However, these elections are now proposed to take place in November 2012 so there will no longer be any savings.

Recent guidance on the conduct of elections has placed additional responsibilities on the Council for running elections and it is estimated that has added to costs by £15,000.

86A3 CORPORATE

There has been a decrease in the corporate cost allocation from 86B1 Treasury Services management and 86B8 Chief Executive Services due to budget reductions and efficiency savings.

86A4 CIVIC CEREMONIALS

Savings have been made following a reorganising of the staffing of Civic Ceremonials although this has been partially offset by an estimated reduction in income from Guildhall lettings.

86A5 DEMOCRATIC REPRESENTATION

There has been a pay inflation provision made in the budget for Members' Allowances in 2012/13, but the actual recommendation of any changes to payments will come from the independent review panel and determined by full Council.

86A6 GRANTS/CENTRAL SUPPORT/CONSULTATION

Additional rate relief has been granted to businesses and charitable organisations as a result of the economic downturn.

There have been some increases in rent grants approved by Grants Committee that are matched by rental income received in other cost centres within the council.

The cost of Community Safety has reduced following a redundancy in 2011.

86A7 UNAPPORTIONABLE OVERHEADS

There is a balance on Central Support Services and the AIM Fund contingency that appear within Unallocated Central Costs. The actual users of these services will be recharged during 2012/13.

CENTRAL SUPPORT SERVICES ACCOUNTS:

The management units listed below are recharged out across the whole of the Council and are either brought back to zero cost or have balances left that are to be recharged back to the users of the services in 2012/13:

86A8 CHIEF EXECUTIVE SERVICES

The staffing and operational costs of Chief Executive's Services have been reviewed and have resulted in budget savings, despite some increased costs in producing the Exeter Citizen each quarter, due mainly to increased postage costs.

86A9 STRATEGIC / COMMUNITY PARTNERSHIPS

This management unit brings together the Council's community partnerships with the police, health authorities and other councils to establish strategies and programmes within the Exeter area. External project funding and the Area Based Grant that the Council used to receive have now ceased so only the estimated cost of administering cost centre S078 ASB Co-ordinator is shown within management unit 86A6 above.

86B1 TREASURY SERVICES

The staffing and operational review of costs in Treasury Services has resulted in budget savings overall, despite the cost of Council Tax Collection and Benefits Administration increasing; this is due to an increased share of the Customer Service Centre reallocation arising from the loss of work in respect of the issuing of resident parking permits.

Part of the budget for postage costs within cost centre T051 Mail have been transferred to Treasury Services as some of the printing, enveloping and posting work for Council Tax and Housing Benefits is now undertaken by an external contractor.

The depreciation of IT equipment and software in Council Tax Collection, NNDR Collection and Benefits Administration has resulted in reduced capital financing costs.

86B2 INTERNAL AUDIT

It is expected that there will no longer be any income from the sale of CIPFA matrices that have been developed by Internal Audit.

86B3 HUMAN RESOURCES SERVICES

All of the service based training budgets throughout the Council have been transferred to HR and added to the corporate budget; this combined training budget has been further reduced and will be managed by the unit.

Capital charges have decreased due to the revaluation of IT software and equipment.

86B4 LEGAL SERVICES

There are some minor pay savings that have been offset by price increases in legal publications.

86B5 CORPORATE CUSTOMER SERVICES

Part of the budget for postage costs within cost centre T051 Mail have been transferred to Treasury Services as some of the printing, enveloping and posting work for Council Tax and Housing Benefits is now undertaken by an external contractor.

A range of cost saving measures, including staffing, have been made within Mail, Telephones, Civic Centre and the Customer Service Centre services.

Capital charges have decreased due to the depreciation of IT software and equipment.

86B6 IT SERVICES

There have been some savings in the cost of administering and maintaining IT systems that have been partly offset by an increase in the cost of printing within the Copy Centre.

There has been a reduction in the capital financing costs due to the depreciation of IT software and equipment.

86B7 DIRECTOR CORPORATE SERVICE'S OFFICE

The post of Director is redundant from 31 March 2012 but costs and recharges have been left as existing pending further changes. The deletion of this post will form part of the overall senior management restructure savings of £500,000 indicated in 3.1 above.

5. RECOMMENDATION

That members are asked to approve the draft estimates.

HEAD OF TREASURY SERVICES

CORPORATE SERVICES DIRECTORATE

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

Background papers used in compiling the report:

None