

Leader's Half-Year report to Resources Scrutiny

Leaders Previous Report June 2012 - The Council's Current Financial Standing

Exeter City Council continues to face unprecedented cuts in its financial support from the Government. For Exeter this has meant a reduction in formula grant of almost 23% between 2010/11 and 2012/13 with expectations of further cuts in grant beyond that. In cash terms our formula grant has reduced from £10.7 million in 2010/11 to £8.3 million in 2012/13. As a consequence of this we were required to reduce our budget this year by £1 million. This means we can no longer just manage our budgets better; we have to now manage our business differently as well as being prudent with our finances. The restructure of the Council has already seen a reduction in our senior management of 30% which will produce half of the saving required as a consequence of the government cut. The remaining 50% is being found through other efficiency savings which do not impact on front line service delivery.

The Council's Medium Term Financial Plan also indicates that the Council will need to make further savings of £2.2 million by 2016/17.

Members will note however in the revenue outturn reports being presented to Scrutiny Resources that last year the Council has performed extremely well. We have achieved our overall savings target and the Council has in fact made a surplus due to increased income from services like recycling. There has also been further good news with regard to the money that we had invested in 2 Icelandic banks. We have already recovered £3 million of the £5 million that we had invested and it is currently predicted that we will eventually recover all of our original investment plus some interest.

Apart from government grants one of the most important sources of our income is council tax and this currently raises about £4.7 million for us. As you know this has been frozen for the second year running and in comparison with most other district councils Exeter has a very low council tax; it currently has the 5th lowest district band D council tax. However, this also means that the council is also less able to generate additional revenue from council tax in comparison with most other councils. Whilst other sources of revenue, such as car parking income and property income, are relatively substantial in Exeter, they are both largely dependent on the health of the economy and cannot be expected to significantly increase from current levels in the short term.

With regard to the Council's revenue reserves, significant use has already been made of them in recent years as part of the overall budget strategy. The Council's revenue reserves at the end of 2007/08 were some £10.1 million, comprised of £7.5 million of unallocated General Fund balances and £2.6 million of earmarked reserves. By contrast, the Council's reserves position as at 31 March 2012 shows total revenue reserves of only £6.2 million, of which £4.3 million are in respect of the unallocated General Fund balance. The Council has already planned to use its reserves so that the General Fund Balance reduces to the prudential minimum level of £2 million by the end of 2016/17.

All of this leads to the inescapable conclusion that Exeter City Council will have to continue to reduce its cost base in the medium term if it is to meet its legal duty to have a balanced budget, whilst providing a wide range of mandatory services to the public. In recent years the Council has been able to save very significant sums from budgets through greater efficiency and reduced staffing. That is why the Council has reduced its senior management structure and will continue with its systematic review of services to find the necessary savings in other areas. Our overall financial aim remains to find efficiency savings which do not impact on front line service delivery.

The Labour Manifesto was widely endorsed by the people of Exeter in the elections, I believe because it shows a positive vision for the city despite financial constraints. Economically Exeter has much to be optimistic about. It is our leadership and vision for the city that appeals to commercial

partners. We are investing in the infrastructure of our communities and taking opportunities as with the torch relay to celebrate with the community. Exeter has a bright future with Labour.

Update on the Council's Financial Standing as at October 2012

- The Council is on course to deliver all of the £1 million of savings that were identified in this year's budget. The budget overview report being presented on this agenda shows that after the first 6 months of this year we are on track to keep our spending within the Council's approved budget.
- We have received a good report from our external auditors indicating sound financial performance and an unqualified opinion on the Council's annual accounts.
- We continue to receive back the money the council invested in both of the Icelandic banks; it is anticipated that eventually there will be almost a full recovery including interest.
- The Council has started preparing for next year's budget. Whilst at this stage we don't know exactly what our grant funding is going to be next year it is anticipated that we are going to have to make further significant savings next year and in the medium term. The current Medium Term Financial Plan indicates that we will have to make further savings of about £3 million by the end of 2016/17. This figure is even after the use of reserves which will see a reduction of the General Fund Balances from £4.2 million at the end of March 2012 to the minimum recommended level of £2 million by the end of 2016/17. That is why we will continue with our programme of structural change and service rationalisation to help deliver the necessary savings required.
- There are a number of changes that will be happening next year that will have an impact upon the way we are funded. As part of the welfare reforms, next year will see the introduction of a new localised council tax support scheme to replace council tax benefit. We have been working with our neighbouring Devon authorities to try to come up with a scheme which is both fair but which also keeps the incentives for those that are working.
- Next year our grant allocation from the Government is also going to be based partly on a new localised business rates scheme with incentives built in for those authorities that can deliver real economic growth in their areas. Whilst we expect that nationally the overall funding available for Local Government will be significantly reduced again, I am optimistic that the Council can continue to deliver economic growth in the City to maximise the incentive effect of this new funding scheme. We have led a bid to set up a Devonwide business rates pooling arrangement that will ensure that all additional funding from new business growth remains in Devon as a whole rather than being returned to Central Government.
- With regard to the New Homes Bonus we have continued to gain significant funding with a combination of providing new homes in the City and by bringing empty homes back into use. To date this has generated £389,000 in 2011/12, £1.3 million this year and we are expecting to increase this again next year by a further £971,000 so that we will get about £2.9 million in New Homes Bonus in 2013/14. It is however important that we continue to maximise this funding stream because the New Homes Bonus is now top sliced from the Government's overall funding allocation for Local Government. In other words, whilst our funding from New Homes Bonus continues to increase, our mainstream funding from Government will continue to be significantly reduced during the medium term.

- I returned as Leader of the City Council elected on a manifesto centred on delivering prosperity and growth for Exeter. The transformation of the city centre has been a key part of our vision. It was only thanks to the leadership of Labour Leaders before me that the Princesshay development was delivered. John Lewis has now opened and already seen an increase in footfall in the city centre retail economy.
- Building on this success I am optimistic our leadership in bidding for government money to combine with major developers will enable us to bring plans forward to transform the bus station site, creating jobs and further improve the city centre environment.