EXETER CITY COUNCIL

SCRUTINY COMMITTEE – RESOURCES
17 SEPTEMBER 2008

MEDIA SPECULATION OF A £11 MILLION BUDGET DEFICIT

1. The Chair of Resources Scrutiny Committee has asked for an explanation of the financial position shown in the information given to the Express & Echo which, it was purported, revealed a huge budget deficit.

2. The attached spreadsheet is the one provided to the Express & Echo and on which the articles concerning a budget deficit of ‘up to £30m’ (E&E, 23 August) and an £11m ‘black hole’ (E&E, 29 August) were based.

3. The figures of £11m and £30m were obtained by subtracting the ‘Total Resources available’ and ‘Total General Fund’ figures in the ‘2008-09’ and ‘Total’ columns. The resulting sum of money was then reported to be a massive budget deficit. The capital forecast which was passed to the Express & Echo is similar to that included in the 2008-09 Estimates Book presented to Council in February this year. The latest schedule has simply been updated with current financial projections, but both overall positions shown, remain similar.

4. The appendix shows the projected capital programme for current and suggested schemes over a five year period. The gap between the resources available and the planned expenditure is quite normal and will be financed by borrowing. Until 2008-09, the Council had more capital resources available than it planned to spend each year. This is technically known as ‘debt free’. As the Council’s ambitious capital investment used up those resources, members have been advised that the Council would, in future, need to borrow, in common with most other local authorities. For comparison, Ipswich Borough Council currently has long term borrowing of £41.7m, Cheltenham Borough Council £42.1m and Devon County Council £613m.

5. The cost of borrowing to finance the capital programme is met from the Council’s revenue budget. Different rules govern capital and revenue expenditure. Capital is used to finance investments in assets or facilities that have a life exceeding one year, such as a new building or IT systems. For this reason, a local authority is allowed to borrow to finance its capital investment. Revenue budgets are used to finance day to day expenditure such as staffing, maintenance and utility costs. The Council is under a duty to set a balanced revenue budget each year so that the expenditure in that year is funded by predicted income.

6. To borrow £1m, increases revenue costs by £90,000 per annum covering repayment of capital and interest, so capital expenditure can have a significant impact on the revenue budget. By law, the Council has to ensure that the amount it borrows is affordable. The Head of Treasury has to confirm this when the budget is set and it is verified by external audit.

7. It is full Council which agrees the revenue and capital budgets each year when it sets the Council Tax. To finance an ambitious investment programme using borrowing, members will have to ensure that they agree a revenue budget which can meet the future repayment costs.

8. Members were advised, when the current year's budgets were set in February, that due to a number of factors such as below inflation government grant settlements for the next three years and the withdrawal of other funding, significant savings in future revenue budgets would have to be found. Indeed, it was this which prompted the Resources Scrutiny Committee to propose a working group to review the budget savings proposed for 2009-10. The amount to be saved in the base revenue budget for next year will be in the region of £1m; the actual amount will depend on the spending levels determined by members as part of the budget process.

9. It is, therefore, totally misleading to refer to the draft capital forecast as showing a huge budget deficit. Unless significant revenue savings are to be made, members will need to reduce the projected capital programme but this contains estimated expenditure and schemes which are not yet committed or, in some cases, not yet approved by Council. This is a normal part of the budget process which begins in the Summer with discussions with portfolio holders and ends in February, after consideration by scrutiny committees, when the Council agrees the budget and Council Tax for the coming year.

10. In summary, therefore, there is no massive budget deficit of £11m or £30m but the media speculation will have damaged the Council's reputation. There will be a borrowing requirement to fund the Council's investment programme in the future and there is a challenging process ahead for members to balance the revenue budget for 2009-10 and agree a capital programme it can afford to finance. This will, however, be settled during the normal budget process over the next six months.

DIRECTOR CORPORATE SERVICES

CORPORATE SERVICES DIRECTORATE

Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling the report:
None

5 September 2008