

**SCRUTINY COMMITTEE – ECONOMY
22 JANUARY 2009**

2009/10 BUDGET ESTIMATES

1. INTRODUCTION

- 1.1. Attached are the estimates for 2009/10, a draft version of which were considered at an informal meeting of Scrutiny Economy on 17 December 2008.
- 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.

2. BUDGET FRAMEWORK

- 2.1. The estimates include assumptions for pay, general inflation and income as follows:

Pay	1.5%
General inflation	Nil (see paragraph 2.3 below)
Income	5.0% (2.8% where VAT is applicable)
Interest on Investments	3.0%

- 2.2. An interim 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 was felt prudent at that stage to budget for a 2.5% increase next year. However, a credit provision has been made in Resources Scrutiny Committee which provides for a 1.5% increase as the result of continued economic downturn and the January reduction in the bank base rate.
- 2.3. 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. Recently released figures show that UK inflation fell in October from a 16-year high, as oil, food and transport costs fell. The Consumer Price Index (CPI) measure dropped to 4.5% from 5.2% in September. The Retail Price Index (RPI), the alternative measure to inflation which includes housing costs, also fell from 5% to 4.2%, the biggest fall since 2003. This downturn trend has also continued in November with further reductions to both CPI (4.1%) and RPI (3.0%). Although the Government no longer produce targets for the RPI, it is still used to determine increases in pensions, benefits and pay negotiations. With regard to next year, the Bank of England has said inflation could fall below its target of 2% and might drop as low as 1%. With regard to the RPI many economic forecasters are currently predicting that the UK's retail price index will turn negative next year.
- 2.4. In November the Bank of England reduced the base rate from 4.5% to 3% and has subsequently followed this up with further reductions to 1.5% bringing interest rates to their lowest level in the banks 315 year history. This lowering of interest rates affects the City Council in a number of ways. On the negative side, the drop in interest rates combined with the lowering of confidence in the banking sector means that we have to significantly lower our investment returns on our cash deposit in comparison with previous years. The likelihood is that investment returns will be no more than 3% in comparison with returns in excess of 6% that we have achieved in

recent years. Conversely on the positive side, the lowering of interest rates also means that the cost of borrowing is now also cheaper. This is particularly important to the City Council which is going to make use of borrowing in order to fund part of its capital programme.

- 2.5. Exeter's provisional grant settlements for 2009/10 and 2010/11 are £11.999 million and £12.090 million respectively, amounting to yearly increases of only £106,000 (0.9%) and £91,000 (0.7%). For the last year of the Medium Term Financial Plan (MTFP) a grant increase of £181,000 (1.5%) has been factored in at this stage. This is slightly higher than the grant increases for the previous 3 year period because it factors in the use of more up to date population data.
- 2.6. The current Comprehensive Spending Review (CSR07) has also indicated a significant reduction in the Local Authority Business Growth Incentive (LABGI) grant funding from £1 billion covering the spending review period to 2007/08 to £150 million in CSR07. There will be total LABGI funding available of £50 million for 2009/10 and £100 million available in 2010/11. To date Exeter City Council has benefited greatly from this funding having received £465,108 for 2005/06, £923,941 for 2006/07 and more than £1.7 million for 2007/08. The current MTFP has therefore assumed further LABGI grant funding of £100,000 for 2009/10 and £200,000 for 2010/11.
- 2.7. At its meeting on the 9 December 2008, Executive approved a budget strategy based on the best known data with regard to Government spending targets:
- Formula Grant increase 0.9%
 - Council Tax guideline 2.9%
- 2.8. The available capital resources for 2009/10 are £12.496 million with an estimated spend of £14.018 million required in respect of the General Fund, of which £0.767million is required for new approvals. The Housing capital programme will be some £5.404 million making a total spend of £19.422 million. This shows that the Council will have to use borrowing of £6.926 million in addition to 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 £65,000 for each £1 million that is borrowed. This amount is lower than previously advised due to the significant reductions in the cost of borrowing that have occurred in recent months. The prudential capital framework enables the Council to borrow within self-imposed targets largely based on affordability. A list of the proposed new schemes for this Committee is attached at Appendix 2.
- 2.9. The proposed 2009/10 Fees and Charges for the Economy budget are included at Appendix 3.

3. REVENUE BUDGET SAVINGS

- 3.1. At the meeting of the Scrutiny Economy Committee on 5 June 2008 the future budgetary position facing the Council was discussed. It was highlighted that the Council was faced with considerable financial uncertainty in the medium term both in terms of a poor financial grant settlement and potential increasing budgetary pressures from, for example, the introduction of the national concessionary travel scheme. The current medium term financial plan had therefore already identified the need for significant ongoing revenue savings having to be identified and achieved.

Arising from this it was therefore agreed to appoint an all party working group to consider the budget savings proposals for 2009/10.

3.2. The all party Resources Members Working Group met on 11 November 2008 to consider proposed base budget reductions totalling £1,031,100 for 2009/10. Members reviewed and noted the proposed savings which would now be presented to the appropriate scrutiny committees for consideration. The working group acknowledged that the budgets had been carefully researched but wished to emphasise that continuing vigilance would be needed to reduce expenditure in future years.

3.3. The proposed revenue savings that have been included within the draft estimates for Scrutiny Committee – Economy, totalling £288,500, are as follows:

	£
1	<i>Economic Development</i>
	Restructuring of Festivals 55,500
	Transfer liability for Quay House Visitor Centre operations to ECQT 40,000
	Remove sponsorship budget 4,200
	Reduce Event Promotions from £25,000 to £20,000 5,000
	Cease providing Jazz on the Quay 2,300
2	<i>Estates</i>
	Remove a Project Officer's post and re-grade a Valuer post. 43,200
	Reduce Admin Support Budget - Estates 2,500
3	<i>Administration and Parking Services</i>
	Remove admin support equivalent to slightly less than one FTE. 17,000
4	<i>Planning</i>
	Remove the Conservation Grants Budget 16,000
	Delete Forward Planner 0.5 fte 19,400
	Delete Planning Technician 1.0 fte 21,100
5	<i>Building Control</i>
	Delete Technical Assistant 0.5 fte 900
	Delete Senior Building Control Officer 0.8fte 3,600
6	<i>Engineering</i>
	Reduce the graffiti removal budget 1,500
	Reduce the watercourse maintenance budget 2,500
	Delete Senior Engineer 0.4 fte 15,500
	Delete Senior Technician 0.4 fte 11,800
7	<i>Admin, Parking, Transportation</i>
	Reduce the following budgets:
	Consultants Fees 1,500
	Advertising 2,900
	Cycling Initiatives 900
	Delete Project Officer 1.0 fte 42,100
	Delete Support Services Manager 1.0 fte 35,900
	New Projects and Business Manager 1.0 fte (45,600)
8	<i>Archaeology</i>
	10% reduction in Council sponsored work. 3,000

9	Other	
	Potential additional staffing costs arising from reorganisation within the directorate	(25,200)
	Corn Exchange – Additional Income	8,000
	Increase Farmers Market Stall Fees	3,000
	TOTAL	288,500

4. KEY REVENUE BUDGET CHANGES PROPOSED FOR ECONOMY & DEVELOPMENT

- 4.1. Members have already agreed (at the Executive 25 November meeting) a report on the re-structuring of Economy & Development. The purpose of this re-structure was to achieve a significant number of service economies and to strengthen line management arrangements in key areas. The November meeting agreed that a further report would be submitted on the restructuring of the Archaeological Field Unit in the light of falling external income. A further paper on the re-structuring of the AFU forms part of this agenda. It is assumed for the purposes of budget setting that staff costs and income will balance, albeit at a somewhat lower level than has been the case for the last few years.
- 4.2. The Economy and Development Revenue Budget estimates for 2009/10 are included in Appendix 1. The overall movement in the estimates can be summarised as follows:

	£'000
Base Estimate	1,544
Inflation	-142
Unavoidable or Already Committed from Previous Years	350
New Revenue Bids - Non-Recurring	10
Budget Reductions - Non-Recurring Expenditure from Previous Years	-273
	<hr/> 1,489
Capital Charges reductions	-1,253
Budget Savings Target – savings achieved (see 3.2 above)	-289
FRS17 Pension Cost Accounting Adjustment	-148
Support Services savings	-183
Add back: E&D Internal Recharges to E&D cost centres	143
<i>Other Service Pressures / Changes</i>	
Car Parking – projected fall in income	154
Planning Fees – projected fall in income	80
Engineering Services – projected fall in external fees	57
Building Control Fees – projected fall in income	33
Net other changes	15
Proposed Budget for 2009/10	<hr/> 98 <hr/>

- 4.3. The key changes in the proposed budgets for each Management Unit are explained as follows:

83A1 PROPERTY & ESTATES SERVICES

Rental income is expected to increase modestly across Estates Properties reflecting a number of rent reviews. However, this is offset in 2009/10 by a

one-year increase of £35,000 to the provision for voids and rates as the current economic conditions are expected to increase the risk of empty properties.

The Asset Improvement and Maintenance (AIM) expenditure budget is reduced as the previous year included a one-off allocation for repaving Clipper Quay (priority schemes).

A vacant Project Officer post has been deleted which, together with increased admin support efficiency, provides savings of £45,700pa. This, together with lower support services and AIM costs, is reflected in lower recharges to other services.

83A2 TRANSPORTATION/CONCESSIONARY FARES

From 1 April 2008, the Devonwide concessionary travel scheme that provides free travel for people over 60 and those with disabilities was replaced by a nationwide scheme. Central Government have issued a specific grant allocation which, it has argued, is intended to cover the additional costs associated with the nationwide scheme. The specific grant for 2009/10 is £663,000, an increase of £16,000 on the previous year. The total net cost to the authority of providing the travel concession has risen from the original estimate of £1.57 million in 2008/09 to an estimated £2.88 million in 2009/10. The scheme is thus costing the City Council £1.3 million more than originally expected.

ECC is currently lobbying government, seeking to rectify this potential deficit. Evidence suggests that the methodology the government is using to distribute the aforementioned specific grant does not truly reflect the distribution of additional costs associated with the national scheme.

£5,000 is included in the budgets for the City Council's second of three annual contributions to Travelsmart, which will be funded from an earmarked reserve.

No Capital Charges are expected in 2009/10, reflecting the proposed Capital Programme (Appendix 2).

83A3 CAR PARKING

Members have supported a car park tariffs increase of an average of 3.3% from January 2009 (which has been adjusted to account for the recent drop in VAT charges). However, despite this increase in price, the budget for car parks income reflects a projected reduction of around £400,000 with reducing car park and season ticket sales volumes and reduced income from off-street parking fines.

The budget now includes costs and income related to civil parking enforcement for on street parking following the transfer of this activity from Devon CC in May 2008. The effect is to increase the expenditure budget by £388,480, with a corresponding increase in the income budget for 'on street' Penalty Charge Notices. Overall, Civil Parking Enforcement is budgeted to break even in 2009/10, and there is an agreement in place whereby any

surplus or deficit will be passed over to or funded by Devon CC.

Parking income includes a climate change levy which will be specifically earmarked for initiatives to be delivered as part of the Council's climate change strategy.

Reduced admin and operating costs has enabled savings of £33,000pa to be achieved.

83A4 ECONOMIC DEVELOPMENT

The major budget movement in this unit relates to estimated Capital Charges under Economic/Partner Initiatives, for ECC's contribution to the Science Park development. The 2008/09 budget included an estimated £850,000 contribution. However, current estimates assume this contribution will be spread across a three year period: £30,000 in 2008/09; £70,000 in 2009/10; and £750,000 in 2011/12.

£50,000 savings have been included with the removal of non-recurring costs from previous years in respect of grant aid for the Wild City Project Officer and the promotional campaign for specialist and independent retail in the City. A further £9,200 savings have been achieved with the proposed removal of City sponsorship budget and reduced event promotions costs.

Economy & Tourism Admin costs are reduced predominantly due to lower support service costs.

83A5 FESTIVALS & EVENTS

In order to meet budget savings requirements it is proposed to restructure the Festivals operation so that the Summer Festival and Animated Exeter Festival are alternated each year. This will enable a £37,500pa saving to be achieved. Related to this, efficiency savings within Arts & Festivals administration team are expected to reduce expenditure by a further £18,000pa.

The Christmas Events budget was increased by a one-off £10,000 allocation in 2008/09 to enable the improved Christmas launch and marketing to continue. It is proposed that this allocation is extended for a further year.

83A6 TOURIST INFORMATION

Economies in the operation of this service were considered. Officers are in negotiation with Exeter Canal & Quay Trust who are, in principle, prepared to contribute to funding the operation of this service resulting in an estimated saving of £40,000pa.

83A7 ARCHAEOLOGY IN EXETER

This is the City Council's provision to finance a programme of works in Exeter from the consultancy services offered by the Archaeological Field Unit. This provision has been reduced by £3,000 in 2009/10.

83A8 DISTRICT HIGHWAYS AND FOOTPATHS

Capital Charges of £200,000 have been included in respect of the City Centre Enhancements programme for 2009/10, reflecting the planned expenditure in the Capital Programme (see Appendix 2).

83A9 BUILDING CONTROL

The staffing establishment is being reduced by 1.3fte, saving £45,000pa. Building Control Fee income budget anticipates a fall, in cash terms, of £50,000 with the slow down in the housing market and construction industry. Overall, the Building Control fee-earning account is budgeted to break even. An earmarked reserve with an estimated balance of approximately £89,000 at the start of 2009/10 will help mitigate risk of any further decline in fee income next year.

83B1 LAND DRAINAGE

A modest saving of £2,500 has been included related to watercourse maintenance, towards the overall budget reductions requirement.

83B2 ADMINISTRATION SERVICE

Staffing costs are reduced by c£36,000 with savings arising from the management re-structure (December 2008) and reduced incremental pay costs through staff turnover. These savings are reflected in reduced income from recharges to other services within the Directorate.

83B3 DIRECTOR ECONOMY & DEVELOPMENT

Project management staff resources has been reduced as part of the management re-structure (December 2008), resulting in budget savings of £14,760pa. These staff cost savings, together with lower operating and support services costs have resulted in lower recharges to other services.

83B4 ENGINEERING & CONSTRUCTION SERVICES

The Engineering Service establishment has been reduced by 0.8fte, achieving budget savings of £27,300pa. Further savings have been identified with reduced insurance and support service costs. However, estimated external income from fees is projected to fall, with a decline in demand for engineering works related to the water industry, resulting in a budget pressure of £57,000.

83B5 PLANNING SERVICES

A Planning Technician post has been deleted following a vacancy, resulting in staff budget savings of £21,100. In addition, Grant-funded staff costs are reduced by £19,400 with the proposed deletion of a 0.5fte Forward Planner post. However, with the current slow down in the housing and construction markets it is estimated that income from planning applications will fall by around £80,000.

It is proposed to increase the budget for Housing & Planning Delivery Grant income by £52,500 (of which £42,500 is assumed to be non-recurring), assuming total grant of £202,500 for revenue purposes in 2009/10 (2008/09 = £292,690). Other grant-funded expenditure related to staff training, software costs and various projects/studies is estimated at £155,000 for 2009/10, an increase of £105,000 on the previous year.

Net Planning Delivery expenditure, estimated at £200,520, will be funded from the Planning Delivery Grant earmarked reserve at the end of the year.

Expenditure of £100,000 has been included in 2009/10 related to the Local Development Framework, delivering the following priorities: Monkerton Study (part-funded with DCC), Alphington/SW Exeter Study and Flood Risk Level 2 assessment. In the medium term financial plan, LDF costs are estimated at £80,000 in 2010/11 and £40,000 in 2011/12.

83B6 CONSERVATION

It is proposed that Conservation Grants expenditure is deleted due to budgetary constraints, saving £16,000pa.

Premises costs in 2009/10 include Asset Improvement and Maintenance priorities in respect of masonry repairs to Mediaeval Exe Bridge and St Margaret's Church Yard.

83B7 ARCHAEOLOGICAL FIELD UNIT

Staffing costs have been reduced to reflect a predicted continuation of reduced demand for the service, as seen in the current financial year. The slow down in the construction industry is seen as a significant factor affecting demand. As a result income levels are budgeted to fall, however the management of costs in response to this is planned to obtain a break-even position.

83B8 MAJOR PROJECTS

This budget is now reduced to nil following the conclusion of costs related to the Princesshay development project in 2008/09.

83B9 MARKETS & HALLS

The main movement in the net cost for the Matford (Livestock) Centre relates to the proposed Asset Improvement and Maintenance (AIM) programme for 2009/10 which, in addition to scheduled maintenance, includes remedial works to prevent legionella.

The budget for Markets includes increased income from the Farmers Market as it is intended to raise fees from April 2009. Farmers Market Fees have not been increased for many years, but the rise is proposed following a recent benchmarking exercise.

The net cost for the Corn Exchange is budgeted to be reduced, with improved income estimates (mainly sales of food and drink, and fees for events) plus reduced asset maintenance and support service costs.

5. USE OF RESERVES

- 5.1. The following withdrawals from earmarked reserves are budgeted to fund certain non-recurring expenditure in 2009/10:

	£'000
Planning Delivery Grant reserve	201
Transport Initiatives	5
Budgeted Use of Earmarked Reserves in 2009/10	<u>206</u>

6. RECOMMENDATIONS

- 6.1. It is RECOMMENDED that Members are asked to comment on the draft Estimates for 2009/10.

ANDY STARK
HEAD OF TREASURY SERVICES

JOHN RIGBY
DIRECTOR, ECONOMY & DEVELOPMENT