

EXETER CITY COUNCIL
SCRUTINY COMMITTEE - RESOURCES
28 JANUARY 2009

EXECUTIVE
10 FEBRUARY 2009

REVENUE BUDGET PROPOSALS 2009/10

1. PURPOSE OF THE REPORT

- 1.1 This report outlines the strategic framework within which the estimates have been prepared and circulated for discussion and comment during December and highlights the issues that will affect the actual setting of the overall level of council tax.
- 1.2 This report also summarises the overall budget position arising from the current cycle of Scrutiny Committee meetings.

2. BACKGROUND

- 2.1 At its meeting of 9 December 2008, the Executive approved a budget strategy based upon key assumptions including the likely level of available resources and the proposed new revenue bids and other identified spending pressures. This strategy, including the revised medium term financial plan, indicated that the Council can afford to fund its proposed spending plan in the short term to medium term by utilising some of its balances and reserves. However there are a number of spending pressures that the Council needed to be made aware of. In particular the impact of borrowing to fund the Council's future capital programme and the reduction of income in some service areas will add more pressure to the revenue budget in future years. Implicit within the budget strategy and medium term financial plan is the requirement to identify ongoing cashable efficiency savings.
- 2.2 The Government has now announced the provisional local government finance settlement for 2009/10 and this was in line with previous forecasts. For Exeter the guideline figure is as follows:

- Formula Grant £11,998,852 (increase 0.9% against 2008/09 grant)

The provisional settlement now indicates that in cash terms our grant will only increase by £105,936 against the 2008/09 grant amount of £11,892,916.

3. KEY ASSUMPTIONS

- 3.1 In producing the Council's medium term financial plan and annual revenue budget a number of factors have to be taken into consideration. Economic factors outside of our control such as inflation, interest rates, and economic growth etc. can have a huge impact upon the Council's overall financial position. Consequently it is necessary to make a number of assumptions on such issues so that a meaningful financial plan can be produced.

3.2 The following assumptions have been made with regard to the revenue budget for 2009/10:

- Pay award 2.5%
- General Inflation Nil (see para 3.4 below)
- Income 5.0% (2.8% where VAT is applicable)
- Interest on Investments 3.0%

3.3 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 is felt prudent at this stage to budget for a 2.5% increase next year.

3.4 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 Prices Index (CPI) measure dropped to 4.5% from 5.2% in September. The Retail Prices Index (RPI), the alternative measure of inflation which includes housing costs, also fell from 5% to 4.2%, the biggest fall since 2003. This downward 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.

3.5 In November the Bank of England reduced the base rate from 4.5% to 3% and has subsequently followed this up in January with a further reduction to 1.5% bringing interest rates to their lowest level in the Bank's 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.

4. CONCESSIONARY TRAVEL

4.1 The Government previously announced that an additional £212 million would be made available to local authorities to help fund the additional costs of the nationwide concessionary travel scheme that took effect from 1st April 2008. This additional funding would be paid as a specific grant rather than through the formula grant allocation. The Government consulted on four different options as a means of deciding how the grant will be allocated. In the event, they opted for a 'fifth option' that was not favourable for the City Council. Information received from Stagecoach and other smaller bus operators relating to usage of concessionary bus travel during the period April to September 2008, indicates that the new nationwide scheme has resulted in a significant increase in costs for the City Council. Current predictions are that the funding gap could be as much as £1.3 million in the current financial year.

The grant allocations were initially set for the first 3 years of the new scheme so there is also potentially an ongoing revenue pressure beyond 2008/09. The Council is currently lobbying the Government together with other similarly affected authorities to redress this funding gap and believes that it has a very strong case. However, the revenue budget proposals contained in this report have made a provision for this potential shortfall for both 2009/10 and 2010/11 and that therefore additional compensating revenue savings will also need to be identified.

5. PROVISIONAL LOCAL GOVERNMENT FINANCE SETTLEMENT 2009/10

- 5.1 As indicated above the provisional settlement includes a notification of our likely grant for next year. The City Council's provisional grant settlement for 2009/10 is £11.999 million and this represents an overall cash increase of £0.106 million (0.9%) compared to the current year (£11.893 million).
- 5.2 This provisional grant settlement is the same as we were originally forecasting and also included the provisional settlement figures for 2010/11. The indicated grant increase for 2010/11 is even less at only 0.8%. The attached Appendix 1 shows as a comparison the grant settlement figures for all Devon authorities covering the current spending review period. The final settlement figures will be announced later this month but at this stage it is not expected that they will be significantly different from the provisional announcement.

6. FURTHER ISSUES TO BE CONSIDERED

- 6.1 Before the Council can finally consider the appropriate level of Council Tax to be levied next year, there are a number of issues that require further consideration as follows: -
- Central Government advice on the level of Council Tax
 - Future spending pressures and review of the medium term financial planning process
 - The level of reserves and balances

7. COUNCIL TAX

- 7.1 Council tax in England increased by an average of 3.9% in 2008/09 compared to 4.2% in 2007/08. By way of a comparison, in 2008/09 Exeter City Council increased its band D council tax from £110.03 to £114.98; an increase of £4.95 (4.5%). This meant that Exeter had set the 5th lowest council tax out of all the other (238) English District Councils.
- 7.2 The Government has already stated its intention of keeping council tax increases to low single figures and therefore they have previously used their capping powers to restrict local authorities' budgets. This has been previously taken into account when formulating the Council's Medium Term Financial Plan. The latest Budget Strategy noted by Council in December 2008 included an assumption that council tax would increase by 2.9% for next year and by no more than 4.5% for the following 2 financial years.

8. FUTURE SPENDING PRESSURES AND REVIEW OF THE MEDIUM TERM FINANCIAL PLANNING PROCESS

8.1 The Council has a medium term financial strategy that forms an integral part of its formal financial planning processes. The key elements of this strategy form part of the overall Budget Strategy that is approved by Council each year. As a brief reminder the Medium Term Financial Strategy contains the following key points:

- It sets out a 4 year revenue financial plan (covering the period to 2011/12)
- It identifies the likely level of grant support from the government
- Sets out the likely level of future council tax increases
- Identifies future service cost variations
- Identifies level of future investment income
- Takes into account the revenue consequences of our Capital Strategy
- Identifies the future amount of efficiency savings/cost reductions required for a balanced budget

8.2 An updated revenue financial plan covering the period 2008/09 to 2011/12 is attached in Appendix 2.

8.3 Although the Council is required to approve an annual revenue budget it does also need to take into account future spending pressures and the likely level of available resources covered by its medium term financial plan. In the medium term, assuming that there are no major changes in service delivery, the Council will need to identify significant ongoing efficiency savings in order to deliver a balanced budget within its overall available resources. The revised plan indicates that in addition to the £1.031 million of savings approved for next year, a further £1.320 million of savings for 2009/10 also have to be identified to offset the likely shortfall of funding for concessionary travel. Additionally, further cash savings of £2.250 million in 2010/11 will need to be identified and delivered in order to have an overall balanced budget position in the medium term. This level of efficiency savings will be very challenging to achieve and therefore work has already commenced at looking at more efficient ways of working.

8.4 Looking to the longer term there are a number of uncertainties and factors that could affect the future financial position. These include: the amount of grant support from central government; the level of future years' pension contributions; potential costs arising from the review of service plans; the cost of any new statutory functions; and additional borrowing and revenue costs in respect of any new capital programme commitments. Any additional revenue costs that are not currently identified within the medium term financial plan will have to be met from either additional savings or the use of General Fund Balances.

9. BALANCES AND RESERVES

9.1 Previous advice to members has indicated that the General Fund Balance should equate to at least 15% of Exeter's revenue budget. This policy, although reviewed annually, has not been changed for a number of years. The Council's net revenue budget has also increased over this period of time and therefore it is now considered appropriate to revise the policy for the General Fund Balance such that the minimum level of the General Fund Balance will now be £2 million. This is considered a sufficient level taking into account the potential level of financial risk facing the Council in the medium term. The latest estimated position of the General Fund Balance is that it will be about £4.647 million as at 31 March 2009, equivalent to

28.7% of Exeter's net revenue budget. The council's revised medium-term financial plan (Appendix 2) indicates that the General Fund Balance will be reduced to £2.001 million (11.8%) by the end of 2010/11.

- 9.2 The Council also has other reserves that have been earmarked for specific purposes. The Council's proposed revenue budget for 2009/10 makes use of £387,000 from the following earmarked reserves:

Transfer from/ (to) reserves	£
Transport Initiative	5,000
Planning Delivery Grant	155,520
Tree Management	81,920
Licensing	(14,380)
Empty Homes Initiative	18,940
Leisure Contract	<u>140,000</u>
	387,000

10. REVENUE ESTIMATES 2009/10 (APPENDIX 3)

- 10.1 The Council's revenue estimates for next year are being considered during the current cycle of Scrutiny Committee meetings for the final budget report to the Executive on 10 February 2009. In total, Service Committee Expenditure for 2009/10 is £18,598,330 which is £196,500 more than the current year. A summarised breakdown of this increase is shown below:

	£000's
Service Committee Expenditure 2008/09	18,402
Inflation allocation	490
Increased cost of Concessionary Travel	1,320
Proposed new revenue bids – recurring	118
Proposed new revenue bids – non-recurring	17
Revenue Costs arising from New Capital Bids	119
Other budgetary adjustments and savings	<u>(1,868)</u>
Service Committee Expenditure 2009/10	18,598

- 10.2 In addition there are other items to taken into account referred to as 'below the line' as they do not form part of the individual service controllable budgets. These include an estimate of £300,000 for net interest in respect of our overall positive cash balances, and transfers in respect of balances and reserves. The Council's total General Fund Expenditure budget requirement for 2009/10 is planned to be £16,484,021, an increase of £268,848 (1.7%) compared to 2008/09.

11. COUNCIL TAX BUDGET REQUIREMENT 2009/10

- 11.1 When the Formula Grant of £11,998,852 is taken into account the resultant net expenditure to be financed from the council tax payers is £4,485,169 (as indicated in Appendix 3), an increase of £162,912 (3.8%) compared to 2008/09.
- 11.2 Each year the Council must estimate the likely surplus or deficit position on its Collection Fund and any such amounts must be taken into account when determining the band D Council Tax amount for 2009/10. For next year the amount that must be taken into account by the City Council is a surplus of £24,858.

- 11.3 As indicated above it is proposed that the net expenditure to be funded by council tax payers for 2009/10 is £4,485,169. The surplus of £24,858 must be deducted from this amount to give a revised amount to be funded of £4,460,311. When the tax base of 37,700 divides this amount, the proposed band D council tax for 2009/10 will be £118.31, an increase of £3.33 (2.9%) compared with the 2008/09 band D amount of £114.98.

12. SUMMARY

- 12.1 Although the final grant settlement figures from the Government are not expected to be available until the end of January it is unlikely that they will be significantly different from the provisional settlement figures used elsewhere in this report. Based on this and the proposed revenue estimates presented to each Scrutiny Committee the proposed council tax increase for next year will be 2.9%.

13. RECOMMENDATION

- 13.1 That Scrutiny Committee - Resources considers the recommendation it wishes to make to the Executive on the Draft Revenue budget proposals for 2009/10 and the recommended minimum level for the General Fund Working Balance proposed at £2 million.

HEAD OF TREASURY SERVICES

CORPORATE SERVICES DIRECTORATE

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

Background papers used in compiling this report:

None