



Financial Strategy (2008 onwards)

**East Devon District Council
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1. Executive Summary.

The objective of the Financial Strategy is to define how the Council will structure and manage its finances over the next 5 years to support the objectives it has set itself, as detailed in the Corporate Strategy.

Prior to setting the 2005/06 budget a fundamental review of service priorities was undertaken against the background of a predicted revenue funding gap of £2 million. This difficult exercise was successfully completed with the Council setting a balanced budget in 2005/06 and the 2 succeeding years.

In common with other local authorities, East Devon will however continue to struggle to afford its spending plans with expenditure forecast to increase, due to pay and price inflation, at a faster rate than income. In addition the Council can anticipate higher pension costs, additional demands to meet consumer expectations, legislative changes and more challenging performance targets.

The decision to roll out a more comprehensive refuse/recycling service, including the weekly collection of kitchen waste will have a profound impact on the revenue budget in the next and future financial years.

The development of the new community at Cranbrook will also start to have an effect on services during the life of the 5 year financial plan. Against this it is assumed low single figure increases in central government funding and the council tax, together with lower investment income, will not keep pace.

The position is explored in detail in the Medium Term Financial Plan, which forms part of this Strategy. As a headline the Plan predicts an estimated shortfall on the General Fund budget in 2008/09 of £902,000, and this assumes an annual council tax rise of 4.99%. This gap then increases annually for the life of the Plan, to 2012/13.

The Strategy outlines the actions the Council needs to consider to manage its finances in order to produce balanced budgets in the future whilst delivering its objectives.

2. Purpose and background of the Financial Strategy.

- 2.1 The objective of the Financial Strategy is to define how the Council will structure and manage its finances over the next 5 years to support the objectives it has set itself, as detailed in the Corporate Strategy.
- 2.2 The Financial Strategy links with other key strategies of the Council including its Service Plans (2007/08 to 2009/10), the Asset Management Plan, Treasury Management and the Capital Strategy, which together form the Authority's Corporate Business Plan.

- 2.3 The Strategy requires the preparation of an annual medium term financial plan (MTFP). This requirement has been in place for a number of years and is now an essential part of the budget setting process. The MTFP provides a financial forecast of the cost of providing services over a 5 year period, together with the resources that are likely to be available. The process provides an early warning of any potential deficit in funding.

As well as considering General Fund revenue services the Plan also reviews the Council's capital investment programme and potential resources over the next five years. This Strategy does not however look at the Housing Revenue Account for which a separate business plan is prepared.

- 2.4 The preparation of a 5 year MTFP is based upon a number of assumptions and risks which become more difficult to predict as the period covered lengthens. These matters will therefore be periodically reviewed as events unfold, and the Plan updated.

- 2.5 Underpinning the Strategy the following principles have been adopted by the Council:

- Annually a balanced revenue budget will be set with expenditure to be limited by the amount of available resources.
- The General Fund balance will be maintained at or above the adopted advisory level of 7.5% of net budget with an annual decision taken on the use of any sums available above this target.
- Resources will be redirected from low to high priority services to meet objectives set out in the Corporate Strategy.
- Council tax increases will be kept within annually announced Government guidelines

In considering the capital budget the Council will continue to follow the methodology agreed within the Capital Strategy of scheme scoring and prioritisation. The Council will also seek to maximise the use of its assets.

3. The Medium Term Financial Plan – Framework.

- 3.1 The base for the MTFP is the 2007/08 cost of ongoing services, adjusted to take account of one off items, any supplementary estimates agreed by Council and variances identified through budget monitoring.

To this base there are a range of costs that the Council can not escape covering such items as pay increases, inflation, the development of the

new community at Cranbrook and costs arising from new legislation and associated regulations, offset by increased fees and charges.

The Plan also reflects costs associated with delivering objectives as set out in Service Plans and the Corporate Strategy, together with the revenue implications of the Capital Programme, and the return to be anticipated from its investments.

Finally the Plan considers and makes assumptions about the level of the council tax and central government funding.

- 3.2 The aggregate of the above sums indicates whether the Council will have sufficient resources to achieve its objectives or whether steps are required to bridge a funding gap.
- 3.3 In formulating the calculations above a number of assumptions have been made and a range of external influences considered. Appendix A identifies the associated risks and comments on their potential impact in the event of a different outcome.
- 3.4 A similar exercise is undertaken in respect of future capital expenditure and the anticipated resources that will be available to the Council to fund the programme of works.

4. Summary of the MTFP Model.

- 4.1 The Summary position on General Fund services shows the latest prediction for the current year, 2007/08. Although only 4 months into the financial year there are no indications that any significant variance can be expected. The fact that services can be provided within the funds available gives a sound base on which to make future assessments.
- 4.2 The 2007/08 budget contains a number of 'one off' items totalling £526,000 which the council resolved would be funded from a surplus achieved in a prior period. Both the expenditure and associated income figures have been excluded from the MTFP for 2008/09 onwards.
- 4.3 With the inclusion of higher refuse and recycling costs together with other variances the budget moves from being balanced into a projected deficit for 2008/09. A position which deteriorates over the period of the plan as illustrated below. Clearly this is not a position the Council will allow and the Strategy sets out the range of options available to address the position. These are discussed in Section 5.

Table 1: MTFP Model – Summary of General Fund Position

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Service Requirement	15,766	15,470	16,925	18,355	19,625	20,212
Pay Award & Inflation	-	359	372	382	393	406
Increment Rise (JE) & Market Supplement	-	237	222	228	178	-
Recycling & Refuse	-	657	805	649	-	-
Superannuation	-	123	-	-	-	-
Other Items	230	79	31	11	16	(20)
Net Budget Requirement	15,996	16,925	18,355	19,625	20,212	20,598
Government Grant	(7,659)	(7,812)	(7,968)	(8,127)	(8,290)	(8,456)
Council Tax	(6,347)	(6,703)	(7,038)	(7,389)	(7,757)	(7,944)
External Interest	(1,306)	(1,458)	(1,394)	(1,331)	(1,331)	(1,331)
LABGI	(130)	-	-	-	-	-
Collection Fund Surplus	-	(50)	-	-	-	-
Use of G.F Bal - Previous Years Surplus	(554)	-	-	-	-	-
Total Resources Available	(15,996)	(16,023)	(16,400)	(16,847)	(17,378)	(17,731)
(Surplus) / Deficit	-	902	1,955	2,778	2,834	2,867

(Note to above figures – The deficit of £902,000 in 2008/09 differs to the deficit of £313,000 outlined in a financial presentation to the visioning panel on 26 June 2007. This is due in the main to the decision of the Executive Board on 4 July to adopt an improved recycling and refuse scheme at an estimated cost of £657,000.

- 4.4 The funding gap widens in 2009/10 to £1,955,000. However, as it is to be anticipated that the 2008/09 position will have been resolved then the sum required to be found in order to set a balanced budget, would stand at £1,053,000 i.e. £1,955,000 less the £902,000.
- 4.5 Capital expenditure and funding projections over the same five year period is shown in table 2 below and shows a deficit of £1,884,000 in 2008/09 which then decreases towards the end of Plan. Here the latter

years of the Programme only includes recurring items such as Disabled Facility Grants with no new major projects/schemes included.

Table 2: MTFP Model – Capital Expenditure and Funding Position

	2007/08 £'000	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000
Net Expenditure (agreed programme)	5,130	2,988	1,939	1,605	1,231	1,231
Resources Available	4,463	1,104	910	917	924	930
(Surplus) / Deficit	667	1,884	1,029	688	307	301

Note – 2011/12 to 2012/13 the rolling programme items have been carried forward.

5. The Way Forward

5.1 To address the gap in funding identified for both the General Fund and Capital Programme particular consideration needs to given to:

- Achieving efficiency savings to provide the current level of service at less cost, or an improved level of service at current cost.
- Ensuring services achieve value for money and continue to deliver the Council's priority aims and objectives.
- Alternative means of service delivery, including possible partnership arrangements.
- Options for acquiring assets and the use of Prudential Borrowing Code powers.
- To maximise income from fees and charges.
- The scrutiny of budget spending, including the requirement to appoint to vacant posts.
- The use of resources, including sums received through the Local Authority Business Growth Incentive Scheme, on an 'invest to save basis'.
- The phasing of projects over a different/longer time frame.

The gap in funding identified is now unfortunately a common theme in terms of setting the Council's budgets. Were it not for the decision to provide a "Rolls Royce" refuse and recycling service then this Strategy would not suggest a fundamental review of service expenditure be required. Instead it would be advising that the 2008 'visioning' exercise

will provide an opportunity for the Council to assess the views of stakeholders on a range of key issues facing the Authority and redirect resources from low to high priority service areas. The magnitude of the deficit means it will not be that simple and overall reductions in other services will have to be made.

6. Process for Delivering the Financial Strategy

- 6.1 This Strategy will be considered and debated by the Executive Board at its meeting in August 2007 and alongside the 'visioning' exercise it will help shape the Council's revenue and capital budgets.

7. Measuring Delivery

- 7.1 Financial and non-financial performance will be routinely monitored and reported on in accordance with the Council's Performance Management Framework.

APPENDIX A

EXTERNAL INFLUENCES AND KEY ASSUMPTIONS WITHIN THE MTFP MODEL.

- **Comprehensive Spending Review**

The Governments Spending Review sets out the framework for Government grant support to local government. There is currently a Spending Review taking place which covers the period 2008/09 to 2010/11 with the outcome to be announced in the Autumn of 2007. This review determines the total grant to local authorities for the following three years. The last settlement gave the Council a 2.7% increase, which, as in previous years, was calculated at the floor (minimum) level.

The next spending review has been billed as an extremely tight one. Figures in the Chancellors budget reports show overall public spending growth at 1.9% per annum in real terms. However once commitments on health, education and aid, and increases in benefits and tax credits are taken into account, this could remove any scope for real spending increases for local authorities. Efficiency is also likely up to be a major issue in the Review with expectations of delivering 3% cashable savings annually.

We are already seeing the implications of this with the Department for Works and Pensions (DWP) being advised their departmental administration grant for the three year period from 2008/09 cut in real terms year on year by 2.5%. The indications are that the DWP will pass this on to local authorities through a reduction in the Housing Benefit administration grant; this has been reflected in the Plan.

The Plan has assumed a 2.0% year on year increase in grant; this assumes a real term cut in the order of 0.4%.

Risk assessment

The Government have previously provided all authorities with a cash increases in formula grant. For those authorities 'at the floor' the increase has been broadly in line with inflation. However indications are not so favourable for the future. The impact for example of a nil increase would have significant effect on the funding gap by increasing it by £153,000 for 2008/09. However based on previous experience the likelihood of funding not being increased in "cash terms" is seen as low.

What ifs

Below is the effect of a different outcome to that used in the Plan.

Effect of changes in Formula Grant for 2008/09

Worse	Model	Better
-2.0%	2.0%	+2.0%
£7,659,000	£7,812,000	£7,965,000
-£153,000	-	+£153,000

- **Inflation**

Varying increases have been applied depending on the classification of expenditure. In the main pay has been increased at 2.5% for 2008/09 onwards. Main inflation as been taken at 2.4% with the exception of electricity, gas, water, and fuel which have been increased on average by 4%. Fees and charges have been increased at 2.4%. Inflation has been included separately for the recycling and refuse contract and shown within the total cost of this service (5%). No increase has been applied to the sum paid to Leisure East Devon, where the contract provides for a review in 2010/11.

Risk assessment

The most significant budget provision, in cash terms, is employees pay. Here the assumption is made for pay awards in line with inflation, as in prior years. With regard to other budgets the rise in energy prices are more difficult to predict, however as the overall spend in this area is only £264,000 the impact of prices higher than that allowed are not considered significant when viewed against a net budget of £16m.

What if

Below is the effect of a different outcome to that used in the Plan.

Effect of changes in inflation sums allowed for 2007/08.

Better	Model	Worse
-1.0%	Various %	+1.0%
£217,000	£359,000	£501,000
-£142,000	-	+£142,000

- **Investment Returns**

Current interest return assumes 5.15%. Forecasts suggest that rates will increase in the shorter term, hold for a period before tailing off. Advice has been taken from the Council Fund manager and the worst case prediction has been used in the Plan. It is assumed that there will be no variance in the level of the investment fund.

Risk assessment

A number of factors determine the level of interest the council will receive and incur in a year, including:

- Sum invested
- Interest rates
- Speed and level of revenue collection
- Expenditure patterns

The assumption is made that the Council will set a balanced revenue budget and set a capital programme in line with the resources available to it without recourse to the use of balances.

If that position is achieved and the council maintains revenue collection rates the one area of most concern is future interest rates. Whilst there are uncertainties in this area there does not appear to be a commonly held view that rates will move significantly from their current position. The approach adopted, of budgeting for investment income at the bottom end of the portfolio manager's prediction, remains prudent.

What if

Below is the effect of a different outcome to that used in the Plan.

Effect of a change in investment return for 2008/09.

Worse	Model	Better
-0.25%	5.75%	+0.25%
£1,395,000	£1,458,000	£1,521,000
-£63,000	-	+£63,000

• **New Community – Cranbrook**

Costs of servicing provided to residents and facilities maintained will arise. Their timing and impact on the budget will be largely dependent upon the start date and speed of development. The additional costs will be offset against increased council tax income which will be received from the new properties. Presently it is considered that the significant costs will fall outside the life of the current Model. In addition to council tax it is anticipated that the amount of Revenue Support Grant will increase although this is difficult to predict at this stage.

Risk assessment

Timing on speed of delivery will be dependant on the granting of planning permission, the capacity of builders and the general housing market. The impact on the plan of delays will be the effect of deferring expenditure, therefore not seen to be significant in financial terms.

- **Local Authority Business Incentive Scheme (LABGI)**

The Council received a grant under the LABGI scheme in 2006/07 of £253,000. The final year of the current scheme ends in 2007/08 and the Government have yet to announce their proposals in respect of future years.

At this stage it is unclear whether a similar level of cash will be available nationally for distribution, whether the distribution formula itself will be varied or whether authorities will be required to fund specific scheme or initiatives with the sums they receive. Until these matters have been determined it is considered prudent to exclude further sums from the Plan after 2007/08.

Risk assessment

There is no reason to believe businesses will not continue to be attracted to the region but no income in the Plan until details of the future scheme has been announced.

- **Council Tax Income**

Income from council tax has been included in the model assuming a 4.99% increase. It is the stated Government intention to maintain the capping rules with increases limited, it is assumed, to 4.99%. The Model anticipates there being an accumulated surplus on the Collection Fund available for allocation in 2008/09 only.

Risk assessment

Council tax increases as been included at the maximum allowed in order to marginally offset the cost of improvements to the recycling and refuse contract. This increase is within the powers of the Council.

What if

Below is the effect of a different outcome to that used in the Plan.

Effect of a change in Council Tax Level for 2008/09.

Lower	Model	Higher
-2.59%	4.99%	-
£6,538,000	£6,704,000	-
-£166,000	-	-

- **Other issues.**

There a few other issues to note regarding the Plan, these being:

Planning Delivery Grant

- i. There is a base income figure included in the 2007/08 estimates and carried forward to future years of £140,000 for Planning Delivery Grant (PDG). PDG will come to an end with 2007/08 being the last year of grant monies. However, this level has been left in the Model as indication from Government is that this funding will be replaced with the ability for Council's to raise an equivalent sum through higher charges.

Risk assessment

The impact would be a loss of £140,000 in income; however the likelihood that this would not be replaced with increased income in fees is small as the Government has already stated that this is their intention.

Land Charges Fees

- ii. The Land Charges budget in 2007/08 is estimated to bring a net income to the Council of £200,000. This sum has been carried forward to future years of the Plan, updated for inflation. There has been guidance issued by Government that Councils should not be making a "profit" on these activities and should do no better than break-even. The guidance has yet to be fully considered

Risk assessment

The impact could be a loss of £200,000 in income; however if this change is implemented the Council would ensure that full costs are appropriately charged to this service before calculating any "profit" to ensure this sum is kept to a minimum.

Recycling and Refuse

The 2007/08 budget currently includes income of £110,000 allocated by the County Council under the Local Area Agreement. Although similar bids for funding will be made in future years there is no certainty of funding.

At this stage it is considered prudent not to assume external funding, whether it is from the County or any other source, to support the refuse and recycling service.

The phased roll out of the enhanced service has been included in the MTFP with the trial starting later this year. In accordance with the report to the Executive Board the full year cost of the phased expansion of the scheme have been allowed for in the following 3 years. Here annual inflation of 5% has been allowed, and not the 7% previously reported.

Risk assessment

If bids are successful the impact would be addition income and this approach is considered appropriate at this stage.

Concessionary Fares Scheme

iv. In April 2006 the Government introduced a free concessionary bus fare scheme for people aged over 60 and disabled people, which was funded by an extra £350 million added to formula grant. This scheme is currently included in the Plan's base budget and carried forward to future years.

From April 2008 the Government is to introduce a further extension of this scheme to enable concessionaires to travel for free anywhere in England. The responsibility for administering and funding the scheme will in the initial years, at least, fall on district councils. Discussions are continuing as to whether the extra funding, made available by the Government for this extension, will be added to formula grant or distributed through a special grant. The Plan assumes that additional costs incurred will be covered by additional funding.

Risk assessment

The Council in the past has proven itself skilful at managing the scheme whilst protecting the council taxpayer as much as possible. The concern is that historically government funding has not matched expenditure in this area. Once funding proposals have been announced and future costs considered in more detail then the Plan will be updated appropriately, but at this stage the intention by Government is that funds will be made available to meet the additional costs incurred.

Planned Maintenance Programme

The budget contains a £234,000 provision for planned maintenance which has been rolled forward each year with inflation. In addition to this a reserve has been established to meet the cost of larger projects. The balance on this is £589,000. It is assumed for the period of the Plan that these sums will be sufficient to meet the maintenance programme.

Risk assessment

A condition survey is currently being conducted and the planned maintenance system updated. The analysis of this data will indicate the adequacy of existing budgetary provisions. It is anticipated that the position will be reported to an early meeting of the Executive Board.