



## **Financial Strategy (2010 onwards)**

**East Devon District Council  
Knowle  
Sidmouth  
Devon  
EX10 8HL**

**Contact Name: Simon Davey  
Tel: 01395 517413  
Email: [sdavey@eastdevon.gov.uk](mailto:sdavey@eastdevon.gov.uk)**

**[www.eastdevon.gov.uk](http://www.eastdevon.gov.uk)**

## **1. Executive Summary.**

This Financial Strategy 2010 has been developed to provide a financial framework within which the Council can deliver the objectives set out in its Corporate Strategy.

The recent economic downturn will undoubtedly continue to impact on local authorities, and whatever the outcome of the next General Election, Government policy is likely to reduce the amount of money available for public spending for the foreseeable future.

As a consequence East Devon will find difficulty in affording its spending plans, with added pressure from the predicted increase in costs due to pay and price inflation, and a probable reduction in investment and continued low fee income. Furthermore, there is an expectation of an increase in Employer pension costs from 2011/12, the need to fund additional service enhancements to meet customer expectations, and a requirement to finance both legislative changes and challenging performance targets. In addition to external influences the decision to roll out an enhanced recycling service will also have an impact on future revenue budgets.

Set against these cost pressures is the certainty of low increases, or even reductions, in Central Government funding. The Comprehensive Spending Review 2007 (CSR 07) set an indicative increase in grant settlement for East Devon for 2010/11 at 2.6%. However the indications are that future settlements will be lower still, and within the 2010/11-2015/16 financial model a cash freeze, real reduction, in the future level of Government funding have been assumed.

The Council has demonstrated a determination to set the lowest possible levels of council tax, and used a significant amount from revenue reserves in order to balance the 2009/10 approved budget. Whilst in the short term this policy was affordable, it is not sustainable over the life of the Financial Strategy (2010/11-2015/16) and cannot be relied upon to bridge the predicted annual funding shortfall. In recognition of this financial position the Council established a Service Transformation Group (Leader's Service Transformation Group (LSTG)) to review current service provisions and costs with recommendations influencing future service plans and budgets. Time will be required to implement changes and in view of the likely costs involved; the Council has set aside £2.5 million to assist in the implementation of proposals flowing from the exercise.

The financial forecast position is explored in detail in the Medium Term Financial Plan (MTFP), which forms part of this Strategy. The MTFP model predicts an estimated shortfall on the General Fund budget in 2010/11 of £1.7 million, increasing by annual increments to a deficit of £2.2 million in 2012/13 and falling slightly to £2.1 million in 2014/15. These predictions are based upon assumed council tax increases set at much higher levels than have most recently been approved by Council. Should Members approve lower tax increases than those assumed here then there will be a corresponding increase in annual deficits, a position set out within the Strategy. Also it has been assumed that the shortfall in funding the capital programme will be met from a combination of borrowing and reserves and the revenue implications have been included within the model.

The Strategy outlines a range of potential actions the Council should consider in order to manage its finances whilst delivering its strategic objectives; and to also ensure that is able to produce balanced budgets over the medium term.

This Strategy has been developed during a period of continuing uncertainty of the future form of Local Government in Devon, and is based upon the premise that East Devon will continue as an entity to deliver services to its community for the foreseeable future.

## **2. Purpose and background of the Financial Strategy.**

- 2.1 The purpose of the Financial Strategy is to define how the Council will structure and manage its finances over the next 5 years, in order to support the objectives detailed within its Corporate Strategy.
- 2.2 The Financial Strategy links with other key strategies of the Council including its Service Plans (2009/10 to 2011/12), its Asset Management Plan, Treasury Management and Capital Strategies, 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 model and forecast of the cost of providing services over a rolling 5 year period, together with an estimate of the financial resources that are likely to be available to the Council. The process is designed to provide an early warning of any potential deficit in the required level of resources.

As well as considering General Fund revenue services, the Plan also reviews the affordability of the Council's capital investment programme, matching its forecast potential available funding against planned capital spending over a five year horizon.

This Strategy does not however consider the requirements and pressures upon the Council's Housing Revenue Account for which a separate business plan is prepared.

- 2.4 The development of a five year financial model is based upon a number of assumptions and perceived risks which clearly become more difficult to predict as the period covered lengthens. However, as a broad principal the model has been developed on the basis of "reasonable and prudent" forecasts and assumptions in accordance with sound accounting practice.
- 2.5 Underpinning the Strategy the following fundamental 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 the adopted level.
  - 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 2009/10 approved budget and the current cost of ongoing services, adjusted to take account of any supplementary estimates that have been approved by Council, and any significant variances identified through budget monitoring.

This financial base has then been adjusted to take account of a range of unavoidable costs such as pay increases, inflationary pressures, the implementation of the approved enhanced recycling scheme, and any costs arising from new legislation and associated regulations. The MTFP also takes account of any forecast variations in the level of both investment and fee income.

The MTFP reflects costs associated with delivering objectives set out within Council's Service Plans and Corporate Strategy, together with the revenue implications of implementing its approved Capital Programme.

Finally the Plan considers and makes reasonable assumptions about the probable future level of the tax base, and likely incomes from council tax and central government funding.

- 3.2 The MTFP is designed to model various scenarios and to aggregate the sum of all potential financial inputs to determine whether the Council will have sufficient resources to achieve its objectives, or indeed whether action is required to bridge a funding gap.
- 3.3 In formulating these calculations a number of assumptions have been made and a range of external influences considered. Appendix A identifies the various risks and pressures and provides commentary on their potential impact.
- 3.4 A similar exercise has been undertaken in respect of future capital expenditure detailing the anticipated level of resources required, together with potential funding sources available to the Council to support its planned programme of works.

### **4. Summary of the MTFP Model.**

- 4.1 The summary page of the MTFP Model is attached.
- 4.2 The position on General Fund services is detailed below in Table 1 and shows the latest prediction for the current year 2009/10 which forms the basis from which future assessments have been made. It should be emphasised that the current year uses £1.8 million from reserves in order to meet the costs of service delivery; no such allowance has been made for future years. Currently we are predicting revenue savings will be achieved in the current year in the order of £580,000. As part of these savings have been achieved part way

through the year then the full year effect for 2010/11 has been assumed at £816,000.

- 4.3 The MTFP shows a projected deficit for 2010/11 of £1.7 million which then increases annually reaching £2.2 million in 2012/13, thereafter falling slightly. Clearly this is an unsustainable pattern and not one that the Council will allow. The Strategy addresses this issue in Section 5 below.

**Table 1: MTFP Model – Summary of General Fund Position**

	<b>2009/10</b> £'000	<b>2010/11</b> £'000	<b>2011/12</b> £'000	<b>2012/13</b> £'000	<b>2013/14</b> £'000	<b>2015/16</b> £'000
<b>Service Requirement</b>	17,815	17,815	17,488	18,183	18,650	18,943
<b>Adjustment to base for savings in 2009/10</b>		(816)				
<b>Pay Award &amp; Inflation</b>		58	184	186	189	192
<b>Increment Rise (effect of JE)</b>		209	218	167	-	-
<b>Recycling &amp; Refuse enhancement scheme</b>		190	140	89	91	92
<b>Superannuation</b>		66	159	19	19	19
<b>Other items</b>		(34)	(6)	6	(6)	6
<b>Net Budget Requirement</b>	<b>17,815</b>	<b>17,488</b>	<b>18,183</b>	<b>18,650</b>	<b>18,943</b>	<b>19,252</b>
<b>Government Grant</b>	(7,948)	(8,155)	(8,155)	(8,155)	(8,155)	(8,155)
<b>Council Tax</b>	(6,712)	(7,053)	(7,370)	(7,701)	(8,048)	(8,449)
<b>External Interest</b>	(1,195)	(492)	(492)	(575)	(575)	(575)
<b>Collection Fund Surplus</b>	(110)	(60)	-	-	-	-
<b>Agreed use of General Fund and other reserves</b>	(1,850)	-	-	-	-	-
<b>Total Resources Available</b>	<b>(17,815)</b>	<b>(15,760)</b>	<b>(16,017)</b>	<b>(16,431)</b>	<b>(16,778)</b>	<b>(17,179)</b>
<b>(Surplus) / Deficit for year</b>	-	<b>1,728</b>	<b>2,166</b>	<b>2,219</b>	<b>2,165</b>	<b>2,073</b>
<b>Prudential Borrowing/use of reserves to support the Capital Programme</b>		<b>197</b>	<b>110</b>	<b>100</b>	<b>98</b>	<b>99</b>

- 4.4 The model identifies the major pressures and influences on the Council's revenue budgets and highlights a significant and expanding shortfall between the Council's spending requirements and the amount of finance available of £1.7 million in 2010/11. In addition to this sum the Council will need to find a further £197,000, in the form of interest to support the capital programme (see para 4.8).
- 4.5 On top of existing service provision a number of emerging possible cost pressures has been identified. These relate to £50,000 per annum for Housing Enabling (identification of sites, scheme planning etc) as local authorities are given more direct involvement in housing provision (there will also be implications on the Housing Revenue Account). The possible ICT costs of hand held communication devices of £19,000 per annum and through changes in food safety expectations where a further £50,000 might be required.
- 4.6 There are also a number of factors and influences that cannot easily be quantified in financial terms at this time although they do need to be highlighted. These include the potential for a change in the administration and funding of the Concessionary Fares scheme and the likely service delivery costs associated with the development of Cranbrook. Faced with an every growing cost of the free fares scheme the Government could limit its costs by restricting entitlement through means testing, if this were to be the case the pressure on councils to exercise their discretion to provide the concession to those above the means tested threshold will be significant. There is also the possibility for the administration and funding of the scheme being transferred to county councils. To achieve this the Government will be required to determine how much of the grant we currently receive is in respect of the free fares scheme and to transfer this to the responsible authority. Such exercises are thwart with danger.
- 4.7 The Council maintains a programme of capital expenditure designed to improve a wide range of community facilities and local infrastructure. However the forward funding projections as shown in Table 2 below, clearly indicates that there is a disparity between the Council's capital spending aspirations, and the amount of finance available to it to finance such works.

**Table 2: MTFP Model – Capital Expenditure and Funding Position**

	20010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	2014/15 £'000
<b>Net Expenditure (agreed programme)</b>	3,577	1,999	1,759	1,759	1,759
<b>Enhancement required to building assets</b>	477	479	470	434	460
<b>Total Capital Expenditure</b>	<b>4,054</b>	<b>2,478</b>	<b>2,229</b>	<b>2,193</b>	<b>2,219</b>
<b>Housing Revenue Account Contribution</b>	(267)	(273)	(278)	(284)	(289)
<b>Capital Receipts</b>	(200)	(200)	(200)	(200)	(200)
<b>Resources Available</b>	<b>(467)</b>	<b>(473)</b>	<b>(478)</b>	<b>(484)</b>	<b>(489)</b>
<b>(Surplus) / Deficit</b>	<b>3,587</b>	<b>2,005</b>	<b>1,751</b>	<b>1,709</b>	<b>1,730</b>

4.8 The programme of expenditure includes schemes already approved by Council and rolling items such as; the provision of statutory disabled facility grants, the public toilet renovation programme, equipment replacement for street scene services, ICT replacement/upgrades and housing improvement schemes. The capital receipt projections are based on prudent assumptions with no major asset disposals.

Key issues to consider for this Strategy in terms of capital are:

- The rolling items, or annual core expenditure, which happen every year equate to approximately £2.1m/£2.2m. With only £0.5m predicted being raised through asset sales and revenue there is an annual shortfall in funding of £1.6m/£1.7m. Resources need to be found to meet these annual programmes.
- Capital schemes over and above this core annual expenditure need to be considered carefully for inclusion in future programmes on a case by case basis to determine if they meet corporate objectives and if they can be self funded evidenced in a business case or delivered in conjunction with other agencies/partners.
- Clearly there is a significant funding gap which the Council needs to address if it is to continue with its programme of capital works. The Council has powers under the “Prudential Code” which allows it to borrow to fund capital projects providing it can demonstrate that such borrowing is “prudent, affordable and sustainable”. In practice the Council would not initially need to borrow from the money market, but rather utilise its own reserves and “borrow internally”. However, in doing so the Council would of course lose the investment opportunity and revenue that balances used in this way would otherwise provide.

The financial model has therefore, taken account of this borrowing requirement and includes an annual provision for the cost of this money. This provision incorporates both the interest lost, and a minimum revenue provision (MRP) designed to repay the capital sum over the asset life. This has a significant impact upon the Council's forward budgets which will bear a borrowing cost of £197,000 in 2010/2011, which will increase to a cumulative sum of £605,000 by 2014/15 if the current capital spending plans remain unaltered, and/or new additional funding sources cannot be identified.

## **5. The Way Forward**

5.1 The issues highlighted within the MTFP are complex and cannot be easily addressed. However the funding deficits identified for both the General Fund and Capital Programme could be reduced through:

- The outcome of the work of LSTG and subsequent report by the Chief Executive to recommend transformation of Council's service to delivery affordable future plans and budgets. The key drivers to these improvements that were considered by the LSTG were:
  - Redesign service delivery around customer needs
  - Extensive collaboration and joint working with partners
  - Smart procurement and use of competition
  - Better use of technology
  - Asset Management and the maximisation of capital receipts
- The development of full options appraisals when acquiring assets, and the use of Prudential Borrowing Code powers.
- The maximisation of income from fees and charges including developing new and innovative fee structures and exploring new service and fee generating opportunities.
- The review and scrutiny of all Council expenditure to develop opportunities where appropriate to reduce (or even cease), service provision on low priority areas allowing for a reinvestment in areas of high priority, and/or cuts in overall spending.
- A rigorous review of all vacant post when they arise.

5.2 These actions will take time to implement and as such in setting the 2010/11 budget interim measures will be required in reducing net budgets significantly. The possible use of an element of reserves/savings from the current year will be required to balance the remaining deficit dependant on the level of interim saving proposals that can be approved before the transformation process can be implemented.

## **6. Process for Delivering the Financial Strategy**

- 6.1 This Strategy should inform and aid the development of the Council's Corporate Strategy by setting the financial parameters within which future policy development can be formed. In turn the Corporate Strategy will shape and develop the Council's future revenue and capital budgets by determining where and how the Council's resources are allocated.

## **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.
- 7.2 The Strategy and the MTFP model will be updated annually for presentation to Executive Board, but in addition the MTFP model will be regularly reviewed and updated for consideration by the Strategic Management Team and can, with the lead from Members, steer the Council's detailed budget preparation for future years.

## **8. Council balances and reserves**

- 8.1 For completeness and reference attached in Appendix C is the Council's balances and reserves policy including the current levels held.

## 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. The most recent Spending Review (CSR 07) covers the period 2008/09 to 2010/11 and determines the total grant to local authorities for the three years.

The Government has produced provisional figures for 2010/11 (2.6% increase), and this will be the likely final settlement figure unless there is a change in the responsibilities of services provided by the Council. This provisional figure has been assumed with the Plan, but from 2011/12 it has been assumed that no cash increase will be received going forward, giving a real term annual reduction. Bearing in mind the warnings over reductions in government spending this will be kept under review; if for example instead of stand still position the government reduced the Council's settlement by say 5% in 2011/12 this would represent a decrease in grant of £408,000.

- **Inflation**

The inflationary factors built into the financial model can be seen from the supporting sheets to the MTFP model summary.

The provision for employee pay has been increased by 0% for 2010/11 and then 1% onwards. General inflation has been assumed at 2.0%, as has the increased cost for Leisure provision, fuel at 5%, and the annual increased cost of utilities at 2%. Fees and charges have been increased at 2.0% in line with general inflation estimates.

- **Risk assessment and sensitivity analysis**

Although the financial model is based upon what are believed to be a series of prudent assumptions, there is inevitably a risk that some or all factors applied could be inaccurate. Table 3 below summarises the impact of any such inaccuracies that would have a detrimental upon the financial plan:

**Table 3: Financial impact of changes in assumptions 2010/11.**

<b>Factor</b>	<b>Predicted Cost Base (Revenue) £000</b>	<b>Worse by 0.5% £'000</b>	<b>Worse by 1.0% £'000</b>
Pay	12,510	63	126
General Inflation	10,843	53	106
Utility costs	375	2	4
Fuel	154	1	2
Leisure	1,178	6	12
Fees and Charges	(9,762)	48	96
Government Grant	(8,155)	41	82

- **Investment Returns**

The model assumes that the current low level of return applied to investment incomes will continue, whilst there are continuing uncertainties in this area, there does not appear to be a commonly held view that rates will move significantly from the current position. The approach adopted, of budgeting for investment income at the bottom end of the portfolio manager's prediction remains prudent.

- **Council Tax Income**

Income from council tax has been included in the model assuming a 4.49% increase. Table 4 below highlights the impact of reducing the council tax requirement in 2010/11, and clearly any loss of income will influence the yield from subsequent tax years detailed within the model.

**Table 4: Financial impact of changes in council tax levels.**

<b>Level of council Tax increase</b>	<b>Predicted council tax income £000</b>	<b>Loss of income from MTFP in 20010/11 £'000</b>
Council tax yield from at 4.49% increase	(7,053)	Nil
Yield at 3.0%	(6,953)	101
Yield at 2.0%	(6,885)	168
Yield at 1.0%	(6,818)	235
Yield at 0.0%	(6,750)	303

*\*These calculation assume a small increase in taxbase for new properties*