

## Agenda Item

**Executive Board**

**6 January 2010**

**SD**



## Draft Revenue and Capital Estimates 2010/11

### Summary

This report presents the draft revenue and capital estimates for 2010/11 for adoption by the Executive Board before consideration by the Overview and Scrutiny Committee on 27 January.

To assist the Scrutiny and Overview Committee a Service Planning & Budget Task and Finish Forum will meet on the 18 January to review the draft plans and estimates. The Housing Review Board will undertake a similar exercise in respect of the Housing Revenue Account.

Recommendations from these meetings will be presented to the Executive Board on 10 February when members will finalise budget proposals and service plans and recommend to the Council the 2010/11 Council Tax requirement and Council House Rent level.

The Council's Financial Strategy outlined the financial difficulties facing the Council with service expenditure not being matched by available income mainly due to the effects of the recession which has resulted in a fall in income levels, particularly interest receipts. The preparation of these estimates has been difficult and options on reducing expenditure will need careful consideration and debate.

The estimates have been prepared based on business as usual and the continuation of East Devon District Council as a 'going concern'. The report does however reflect upon the recent announcement by the Boundary Committee and their recommendation for a Unitary Devon.

### Recommendation

**That the draft revenue and capital estimates are adopted before forwarding to the Overview and Scrutiny Committee for consideration.**

#### a) Reasons for Recommendation

There is a requirement for 2010/11 to set balanced budgets, to levy a Council Tax and to set Council House Rents.

#### b) Alternative Options

Please see main body of report.

#### c) Risk Considerations

Risks have been considered in preparing the budgets and the financial implications have been assessed at the point of preparation. Various budget assumptions have been made including the treatment of inflation and interest rates; estimates on the level and timing of capital receipts; the treatment of demand led pressures; the treatment of planned efficiency savings/productivity gains; levels of income; financial risks inherent in any new arrangements; capital developments; the availability of funds to deal with major contingencies and the need for any provisions. In each of these areas the Council's

financial standing, management and track record has been considered in order to prepare robust budget proposals.

Particular areas to draw to members' attention are:

- The impact of the recession meant that the current year's budgets for many of the major income streams were significantly reduced, with a reduction in income of £1.125m. This reduction was in the areas of; Planning, Land Charges, Building Control, Car Parks and most significantly external interest.

In preparing the 2010/11 estimates we have maintained budgets at this reduced level as it is not anticipated that fee income or interest rates will return to pre-recession levels in 2010/11.

- Land charges income has been included at a realistic sum of £0.250m for next year and equates to a breakeven position for the service. There is concern over a risk that the majority of the information we currently charge for should be given free under the Freedom of Information Act 2000 and the Environmental Information Regulations 2004. This gives rights of public access to information held by public authorities. This issue is a significant concern to all local authorities and a matter being taken up by the Local Government Association who is seeking further legal guidance. Because of the magnitude of the impact this will have on local authority's finances it is assumed, at least for 2010/11, that along with other authorities East Devon will continue to be allowed to charge for the supply of this information.
- Consideration must be given to the powers available to the Government to 'cap' an authority's budget in the event of the Council setting a budget and council tax above the level considered appropriate by the Department for Communities and Local Government (DCLG). This 'capping' level in 2009/10 was above a 4% increase in budget requirement and more than a 5% increase in council tax. For 2010/11 the Government has issued an early warning with the advice that councils should limit their tax rise to a maximum of 3%.
- No provision has been made for salary inflation in 2010/11 on the assumption that pay will be frozen next year. In the event that pay is not frozen, then the effect of a 1% salary increase on the Council's General Fund would be in the order of £0.132m (Housing Revenue Account - £0.032m).
- Budgets have been prepared on the basis of business as usual. Even assuming that the Boundary Committee's recommendation for a Unitary Devon is accepted by the Secretary of State the new authority will not come into force until April 2011.

With the Medium Term Financial Plan (MTFP) predicting expenditure to be far in excess of income action must be considered to reduce that funding gap. Amongst other measures, the proposed budget includes a savings targeted to be achieved through shared services. Reductions are also proposed across the range of services delivered. The ability of the Council to deliver the former and the timing of the latter will, to a degree, be dependent upon the decision on future of local government in Devon. If a Unitary Authority is to be created for Devon then it could be considered appropriate to take no action now and to allow the new council to take decisions on the shape and scope of services. Under this scenario, the Council would need to use its reserves to fund the budget deficit.

#### **d) Policy and Budgetary Considerations**

The position is outlined in the report.

## e) Date for Review of Decision

A joint Task and Finish Forum of the Overview and Scrutiny Committee will receive the draft service plans and associated estimates in a day long meeting on 18 January for consideration. An Overview and Scrutiny meeting on 27 January will then debate findings of this Forum. The Executive Board will review plans and estimates again on 10 February with recommendations to Council on 24 February.

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### 1. Background

- 1.1 The Council's Financial Strategy, revenue budget and capital programme are soundly based and designed to deliver priorities set down in the Corporate Strategy and service plans.
- 1.2 The Constitution requires the Executive Board to approve the draft revenue and capital estimates prior to their detailed consideration by the Overview and Scrutiny Committee. This assessment by members is to be undertaken at the same time as they review service plans and set targets against which to measure service performance in the forthcoming year.
- 1.3 The Service Planning & Budget Task and Finish Forum will aid members of the Scrutiny and Corporate Overview Committee in their independent review of the detailed service plans and budgets. Any decisions taken at these meetings will be reported back to the Executive Board at its meeting on 10 February. At this meeting members will be required to recommend East Devon's Council Tax requirement for 2010/11 and Council House Rent levels.

### 2. Introduction

#### General Fund Budget

- 2.1 The Council's MTFP contained within the Council's Financial Strategy projected a significant deficit on the General Fund Budget for 2010/11 of just under £2m. This was no surprise based on previous financial plans and reports warning over the level of spending when compared to income available.
- 2.2 The Council has been hit like many others by the recession and balanced the current year's budget by taking £1.8m from reserves to meet the drop in our income receipts primarily from car parking, planning, building control, land charges and investment income. This was against the backdrop of the Local Government Review (LGR) and the uncertain future for the Council.
- 2.3 This reduced level of income is projected to continue into next year, 2010/11, and to make this situation worse the Council will not be able to call upon set aside interest receipts as it was able to in 2009/10. In the current year a sum of £0.673m, being the difference between budgeted and actual interest receipts received in 2008/09, was available to fund services. At £0.380m, the estimated income from interest is some £1.220m below that allowed for in the 2008/09 budget!
- 2.4 The future local government structure in Devon is still unclear; potentially the Council could be subsumed into a Unitary County in 2011 or be left to continue to deliver services in its own right. Without that knowledge, every effort has been made to set a balanced budget next year by freezing vacant posts, proposing reductions in areas of

discretionary spend, increasing income where possible and through anticipated efficiency savings. In addition, a savings target is included next year from shared services. Once there is a degree of certainty then further measures to reshape the management structure are to be anticipated.

### **Housing Revenue Account**

- 2.5 The Housing Revenue Account budgets have been carefully constructed in line with previously adopted 30 year business plan designed to improve and maintain the standard of dwellings whilst keeping within the finances available.

### **Capital Programme**

- 2.6 The Medium Term Plan projected a funding deficit for next year's capital programme and the need to use earmarked capital reserves to fund the gap. In line with the Financial Strategy prudential borrowing will be necessary to fund a proportion of the programme. A scoring methodology has been employed in order to prioritise schemes and account has been taken of external funding streams.

## **3. Draft Revenue and Capital Estimates 2010/11**

**It needs to be stressed that the following budget figures have yet to be reviewed by the Overview and Scrutiny Committee and will be finally determined by the Executive Board at the beginning of February.**

### **General Fund Budget**

- 3.1 The attached booklet details the draft revenue budgets for 2010/11.
- 3.2 The net budget, that is after allowing for inflation and service growth most notably for an enhanced recycling scheme, for 2010/11 of £17.120m is some £0.737m below that of 2009/10. This reduction has been achieved holding posts vacant, reducing or deleting budgets for training, subscriptions, professional conferences, non-essential equipment, materials etc as well as additional income. Some of the main areas of savings have been;

£0.150m has been included for pre-planning application charges, but offsetting part of this is the inclusion of additional staffing costs/new post at £0.050m.

Posts which are vacant or becoming vacant have been excluded from next year's budget totalling £0.476m (17 posts).

£0.117m of savings have been made from the homeless budget.

£0.250m saving from training, equipment, book & publications, overtime, travelling, furniture, apprenticeships and other budget areas. A good proportion of this reduction has been achieved from the budgets of central support services.

Detailed explanations for service reductions are set out in the budget book

- 3.3 In addition to the above further savings of £0.893m are being proposed from next year's budget to reduce the amount that would be otherwise needed from balances. It is considered these reductions would have a more immediate impact on service provision or potentially effect the ability of grant receiving organisations to continue to deliver community services. These proposals are listed as Appendix B for consideration.
- 3.4 With the employment of a full time procurement officer, a target has been set to achieve cash savings in next years budget of £75,000. Potential areas for saving have been identified and work has already commenced to deliver budget reductions.
- 3.5 A £200,000 saving has been assumed for the shared service agenda with any set up costs being written off to the Transformation Reserve – currently standing at £2.517m. A saving of this magnitude could be achieved next year through sharing a Corporate Director with Exeter City for 9 months by sharing a Chief Executive and other senior manager posts with South Somerset District Council.
- 3.6 The Council Tax is assumed to increase by 2% from £118.24 to £120.60 a year (a 1% increase generates £0.067m).
- 3.7 Finally, the General Fund Balance has been utilised at this stage to cover the remaining budget deficit for 2010/11 of £0.646m, however if the proposed savings in Appendix B are not approved then the amount required will up to a maximum of £1.539m.
- 3.8 In addition to the draft budget a list of special item bids totalling £0.411m have been put forward for consideration. These are detailed in Appendix C and are currently not included in the draft 2010/11 budget. Given the requirement to utilise reserves to balance the 2010/11 budget it is unlikely that any of these items can be afforded.

#### **Housing Revenue Account Budget**

- 3.9 The attached booklet details the draft estimates for 2010/11. The HRA Business Plan has formed the basis of the preparation of the HRA budgets and the estimates proposed show a deficit of £0.004m, which will be taken from the HRA Balance. Council House rents have been increased in line with the government guideline of 3.1%. Garage rents have been increased by 10%.
- 3.10 In setting the budget sufficient financial provision is included to maintain council homes to a high standard with a comprehensive programme of planned improvements, adaptations and routine repairs. £2.682m is to be spent through the Major Repairs Account and a further £2.677m on other items of repairs and maintenance.
- 3.11 The proposed HRA budget will ensure that adequate funds are available to maintain Council houses to a high standard with staffing levels maintained to provide a responsive housing management service.
- 3.12 An early draft of the HRA budget has been reviewed by the Housing Review Board but a final draft will be presented on 14 January for their consideration.

#### **Capital Programme**

- 3.13 The attached booklet details the draft capital programme for 2010/11 to 2013/14.
- 3.14 The adopted capital appraisal process has been used to build a capital programme aimed at delivering the Council's stated priorities. As well as the traditional Portfolio presentation style the capital budget the programme has also been summarised as follows;

- **Priority schemes.**

Top priority schemes, which have scored over 30 through the appraisal process, are included in the capital programme. The schemes below this score, whilst not included, are listed for information.

- **ICT schemes.**

Bids totalling £0.475m have been received. Although these have been scored under the capital prioritisation process the bid forms received require more information and scrutiny by the ICT programme board. A marker budget for these schemes has currently been included of £0.300m, but scheme approval and the effects on the budget will be reported in the capital monitoring reports to the Executive Board through the year.

- **Generation of Capital Receipt ring fenced to linked schemes.**

These schemes require expenditure but will then generate receipts in order to deliver the scheme associated with the receipt. This covers schemes for Exmouth and Seaton regeneration. These bids have been included in the proposed capital programme.

- **Potential Capital Receipt.**

Officers estimate that expenditure in these areas will in time generate a capital receipt to the Council greater than the expenditure incurred. These schemes have been included in programme.

3.15 The draft capital budget for 2010/11, detailed in the attached booklet, shows a shortfall of £1.603m which is to be met from the Capital Reserve. This position is set out below:

	<b>2010/11 £'m</b>
Proposed Programme	6.223
<b>Funds available:</b>	
In Year Receipts	-2.387
Loans (housing new build & refuse/recycling equipment)	-1.959
HRA Contribution	-0.274
Shortfall met by capital reserve	-£1.603m

3.16 This shortfall of £1.603m is an assumed worse position and may reduce with the receipt of additional capital receipts or through scheme savings and slippage.

#### **4 Government Support in 2010/11**

##### **General Fund Budget**

The Revenue Support Grant from Central Government for 2010/11 is going to be in line with the three-year settlement under the 2007 Comprehensive Spending Review giving the Council a grant of £8.157m, an increase of £0.209m or 2.6%. With the Government facing difficult decision in its battle to manage the economy future grant settlements in the coming years are unlikely to be as generous.

## **Housing Revenue Account Budget**

- 4.2 Housing Subsidy is the calculated difference between the notional income and expenditure of the Housing Revenue Account (HRA) for East Devon. For 2010/11 it is estimated the HRA will contribute £5.521m to the Government.

## **Capital Programme**

- 4.3 Central support for capital expenditure is mainly through direct grants for specific schemes, such as coast protection and flood alleviation schemes. The Council also receives a Public Sector Renewal Grant to support housing in the private sector of £0.524m. Additional bids for specific schemes have been submitted but the outcome of these are yet unknown. These sums are recorded in the Capital Programme against the specific schemes to which they relate.

## **5. Interest Receipts from investments in 2009/10.**

- 5.1 The Council's surplus cash resources are invested to produce an annual income, which is used to support revenue expenditure. Interest rates have significantly reduced and it is anticipated these low rates will continue into 2010/11. With the Council, spending more than it receives on both capital projects and revenue services, the level of cash available for investment has diminished. In turn this will result in a lower level of interest receipt.
- 5.2 The net position on interest receipts available to the General Fund in 2010/11 is estimated at £0.380m. This is after a proportion of the interest figure generated, equal to £0.018m, has been transferred to the HRA.

## **6. Balances available to support 2010/11 and future budgets.**

### **General Fund**

- 6.1 There are two reserves available to the General Fund:

- **The General Fund Balance**

The policy set by the Council previously was to maintain a General Fund Balance equal to 7.5% of the net budget. Due to the uncertainty of the impact of the recession, it was deemed sensible to increase the level held to twice that amount. With the net proposed budget being £17.120m, this means we should hold a General Fund Balance of £2.568m.

Having now reduced our income expectations, and on the assumption that these are not likely to fall further it is considered appropriate to reassess the amount held. On the basis of prudence it is proposed that the General Fund Balance for 2010/11 be 1.5 times the annual figure, that is £1.926m

The current estimate of the closing position on the General Fund balance at the end of 2009/10 is £2.864m, which is higher than the minimum sum now considered appropriate by £0.938m. This is partly due to budget savings made in the current year and a reduction in the minimum level deemed appropriate.

The draft budget requires the General Fund Balance to cover the budget deficit for 2010/11 of £0.646m, however if the proposed savings in Appendix B are achieved then this will increase the sum required up to a maximum of £1.539m.

- **Transformation Reserve**

The balance on this reserve is £2.517m. This sum was set aside to assist the Council's transformation programme by meeting up front costs necessarily incurred in order to produce savings in future years. This would include redundancy and pension strain costs incurred in reshaping the management structure.

One possible call on this reserve would be the costs associated with a shared Chief Executive and other senior staff in the event of posts being shared with South Somerset or any other council.

### **Housing Revenue Account**

The policy set by the Council is to maintain a HRA Balance of £245 per property this currently equates to £1.050m. The current estimate of the closing position in the current year of the HRA Balance is £1.066m. The draft HRA budget for 2010/11 shows a small deficit of £0.004m thereby maintaining the projected balance at the end 2010/11 of £1.062m keeping it slightly above the adopted level.

### **Capital Reserves.**

The Capital Reserve has a projected balance at the end of 2009/10 of £3.4m. With the proposed capital programme shortfall of £1.6m in 2010/11 this would leave a balance of £1.8m in the capital reserve to fund future years. The capital programme deficit in 2011/12 alone is currently £1.8m and would therefore leave no reserve from 2012/13 onwards.

If the Council is to maintain a capital programme close in value to that of previous years it will need to borrow money and create 'headroom' within its revenue budgets in order to accommodate associated debt charges.

### **Other Balances & Reserves available**

The Council holds other earmarked reserves detailed below:

- **Local Authority Business Growth Incentive Scheme Reserve**

The purpose of this reserve is to promote and deliver economic development. The estimated balance at the end of 2009/10 is £0.702m with commitments against the reserve including £0.250m for the development of the proposed science park.

- **Planned Maintenance Reserve**

The balance at the beginning of the current financial year is £0.260m; it envisaged this will be used in full by the end of 2010/11.

- **Planning Delivery Grant Reserve**

The sum remaining in this reserve of £0.138m is set aside and waiting to help deliver the Local Development Framework.

- **Refuse & Recycling Equipment Reserve**

£0.403m was set aside at the beginning of the year to purchase equipment for the roll out of the recycling scheme across the District. It is estimated that this will be used in full in the current year.

- **Investment Shortfall Reserve**

A one off Reserve to offset the estimates shortfall in the 2009/10 budget. This will be used in the current year.

## **7. Robustness of estimates and adequacy of reserves.**

7.1 This part of the report deals with the requirement of Section 25 (2) of the Local Government Act 2003 in that the Council's Chief Finance Officer (CFO) must report on the robustness of the estimates included in the budget and the adequacy of reserves for which the budget provides.

7.2 In terms of the robustness of the estimates all known factors have been considered and the financial implications have been assessed at the point of preparation. Various budget assumptions have been made including the treatment of inflation and interest rates, estimates on the level and timing of capital receipts, the treatment of demand led pressures, the treatment of planned efficiency savings/productivity gains and levels of income, financial risks inherent in any new arrangements and capital developments and the availability of funds to deal with major contingencies and the need for any provisions. In each of these areas the Council's financial standing, management and track record has been considered in order to prepare robust budget proposals.

7.3 The proposed draft budgets for 2010/11 maintain both the General Fund balance and the Housing Revenue Account Balance at the advisory level provided actual net expenditure is at, or below, the level forecast. Continuous monitoring and reports to the Executive Board will highlight and make recommendations on any necessary corrective action necessary to achieve during 2010/11.

## **8. Prudential Code**

8.1 The Local Government Act 2003 also requires under regulation for local authorities to have regard to the Prudential Code for Capital Finance in Local Authorities, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) when setting and reviewing their affordable borrowing limit.

8.2 The key objective of the Code is to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.

8.3 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used and the factors that must be taken into account. These indicators will be presented to the next Executive Board meeting when a recommendation will be made on the budget for 2010/11, Council Tax levy and Council House Rents.

8.4 The capital programme does assume borrowing of £0.959m for the recycling and refuse equipment and £1m for the construction of 17 new council houses. The interest and repayment of these loans has been factored into the revenue estimates.

## **9 Future General Fund and Revenue Budgets**

- 9.1 The Financial Strategy highlights an increasing problem of expenditure growing annually at a much faster rate than income, a position made significantly worse by reductions in income levels. This is a concern for both the revenue and capital programmes.
- 9.2 The use of reserves in 2010/11 and discretionary spending cuts do provide a temporary solution. However, this is not a sustainable strategy and the Council needs to make longer term plans whether that's through the reshaping of service delivery, the shared service agenda or whether it is taken out of the Councils hands through Local Government Review. Whichever the associated costs of present structures, methods of working and service delivery are no longer viable.

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### **Legal Implications**

Save for those matters specifically mentioned in the Report there are no apparent legal implications.

### **Financial Implications**

As stated in the report

### **Consultation on Reports to the Executive**

The details of this report have been discussed by the Strategic Management Team

### **Background Papers**

- ❑ Internal estimate working papers, Local Government Finance Settlement
- ❑ CIPFA's Prudential Code , Local Government Act 2003
- ❑ Financial Strategy (2010 onwards) including Medium Term Financial Plan
- ❑ Corporate Strategy and Service Plans

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Executive Board  
6 January 2010