**Agenda Item:**

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| **Report to:** | Cabinet |
| **Date:** | 22 January 2007 |
| **Report from:** | Deputy Chief Executive & Director of Finance and Executive Manager, Financial Services |
| **Title of report:** | **REVENUE BUDGET 2006-07 REVISED AND 2007-08 CAPITAL PROGRAMME 2006-07 TO 2009-10** |
| **Purpose of report:** | To consider the Revenue Budget and Capital Programme |
| **Recommendations:** | To agree the recommendations set out at the end of the report. |

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Appendices

Appendix A : Revenue Budget Summary
Appendix B : Revenue – Capital Financing and Interest Charges
Appendix C : Revenue Budget Variation Analysis
Appendix D : Capital Programme Summary
Appendix E : Capital Programme Financing Statement
Appendix F : Capital Programme Commentary
Appendix G : Revenue Budget Forward Plan
Appendix H : Reserve Analysis
Appendix I : Information Technology Reserve
Appendix J : Renewal and Repairs Reserve
Appendix K : PIER Outcomes – Savings
Appendix L : Land Disposal Programme

Separate Documents

Summary Service Revenue Budget Sheets
Capital Programme 2006-07 to 2009-10

1. SUMMARY

1.1 This report contains proposals for the Council's revenue budget and Capital Programme.

1.2 Capital expenditure for the current year is now projected to be some £3m less than the original forecast. Capital investment for the three years commencing 1 April 2007 is programmed at over £32m. This is the maximum affordable and is reliant on extensive external funding, including over £9m Government grant to support programmed Coast Protection schemes.

1.3 Despite continuing cost pressures in respect of waste activities, the current year's overall net revenue spend has been contained within original budget expectations.

1.4 Elsewhere on your agenda is a report on the Corporate Plan. That report also details the consultation arrangements. The priorities and initiatives set out in the planning document are resourced by this budget.

1.5 Government Grant for next year is consistent with planning expectations and the provisional figures announced by Government last year.

1.6 Net expenditure of £16.4m, of which Council taxpayers meet £6.3m, is proposed for 2007-08. If the recommendations in the report are approved, the increase in the Borough's part of the Council Tax will be 3.5%.

1.7 Further progress has been made in aligning expenditure with priorities. However, the Revenue Budget Forward Plan shows future year revenue shortfalls of £550,000 in 2008-09 increasing to £1.5m in 2009-10. Continuing focus will, therefore, be given to the Priorities Income and Expenditure Reviews (PIER) process to balance the future budget position. This will be an early corporate priority and some reassessment of corporate and service priorities will be essential.

2. BUDGET PROCESS

2.1 Your decisions will be subject to extensive consultation as set out elsewhere on your agenda. In addition, other members will have the opportunity to comment at the Overview and Scrutiny Committees and staff will be involved via the Staff and Management Forum. The comments from all sources will be reported to your meeting on 21 February.

2.2 Recommendations on the level of the Council Tax cannot be made until your 21 February meeting. By then final Government Grant figures, the County Council, Fire & Rescue Authority and the Police Authority precepts should be known. Council on the 22 February will make the final decisions.

## 3. CAPITAL PROGRAMME

### 3.1 Background

3.1.1 The capital programme analysed by service is set out in a separate document circulated with your agenda. A summary is shown at Appendix D.

3.1.2 The proposed programme satisfies the requirement that schemes should meet at least one of the following:-

(i) be of a major social, physical or economic regeneration nature,

(ii) meet the objective of sustainable development,

(iii) lever in other sources of finance such as partnership/lottery funding or provide a financial return for the Council,

(iv) Is an 'Invest To Save' scheme and reduces ongoing revenue costs to assist the revenue budget.

3.1.3 Schemes that attract grant or other external sources of funding are shown at net cost to the Council in the programme.

3.1.4 The capital costs are at this stage best estimates of outturn prices. In some cases it has been necessary to make budget provision without knowledge of scheme details and the figures will need to be refined when plans are further advanced.

3.1.5 Column 4 of the draft capital programme sheets shows the status of schemes as follows:-

c denotes schemes which are committed

u denotes schemes which are in the current programme but are still uncommitted

n denotes schemes which are new

3.1.6 It is proposed that schemes marked with an asterisk proceed without further reference to Cabinet or Council.

3.1.7 A commentary on the Capital Programme is given in Appendix F and shows the main changes for the period to 31 March 2010. This programme is the maximum affordable and is reliant on extensive external funding, including over £9m Government grant to support programmed Coast Protection schemes.

3.2 Capital Resources

3.2.1 Since April 2004, local authorities have been allowed the freedom to determine the size of their capital investment plans. However, they must do so in accordance with the Prudential Code, which was developed by the Chartered Institute of Public Finance and Accountancy to support the local decision making process.

3.2.2 The key objectives of the Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further 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.

3.2.3 To demonstrate that local authorities have fulfilled these objectives, the Code sets out indicators that must be used, and the factors that must be taken into account. The Code does not include suggested indicative limits or ratios. These will be for the local authority to set itself, subject only to any controls in the Local Government Act 2003. Appropriate limits and ratios are reflected in the Treasury Management Strategy elsewhere on your agenda.

3.2.4 The Capital Programme is partly funded by capital receipts. The ability to generate new receipts is diminishing swiftly and this adversely affects the Council's ability to support future capital investment. The problem arises from the lack of available land to sell and reduced land values arising from the requirement to provide social housing. An additional factor is the fall off of Amicus sales of ex – Council housing stock from which this Council has shared in the receipts under the transfer agreement.

3.2.5 The proposed land disposal programme is set out in Appendix L for your approval.

3.3 Revenue Consequences

3.3.1 The revenue consequences of the Capital Programme need to be taken into consideration when examining the programme. The revenue costs are shown against each scheme and are totalled in the summary.

3.3.2 The new Government Revenue Support Grant regime introduced last year removed funding in respect of revenue support (Supported Borrowing) for specific capital expenditure streams. In our case this related to coast protection and housing allocations. The Government replaced this revenue support with capital grants. Coast protection capital grant at 100% of planned expenditure is now assumed for budgeting purposes. The position for housing expenditure is that under the new regime a capital grant of £1.5m p.a. is anticipated compared with a supported borrowing figure of around £2.6m p.a. previously.

3.3.3 Costs arising from the capital programme mainly represent the repayment of interest and principal on borrowed funds. This notional amount has been calculated at 9% per annum (i.e. 5% interest, 4%

debt repayment). In reality, some of the programme will be financed by using reserves or new capital receipts. Where known, other running costs or generated income have been included.

3.3.4 Notional revenue costs are estimated to be £638,000 in 2007-08 rising to £1.7m after allowing for 2009-10 expenditure. In simple terms, the figures represent the opportunity cost of undertaking the capital programme. The actual impact at Council Tax level will be lower. This is demonstrated in Appendix E, which shows the net additional revenue costs after allowing for external financing and new capital receipts. The annual revenue impact by 2009-10 is £800,000.

4. 2006-07 REVISED REVENUE BUDGET

4.1 The Council's budget was set in February 2006 and comprised:-

| | **£000's** |
|---|---|
| Net expenditure | 15,953 |
| Use of General Reserve | (300) |
| | 15,653 |

4.2 Appendix A shows revised net expenditure of £16,056,000. This includes items brought forward from 2005-06 of £146,000 which will be financed from the General Reserve as agreed when last year's accounts were approved. Overall, there is an improvement of £43,000 in the revenue position in the current year.

4.3 The most significant area of variation is Waste service related due to

Recycling activities (additional expenditure and reduced income) (£254,000),
Additional Management costs (£78,000) and
Additional costs of Green Waste Scheme (£63,000).

This is partly offset by slippage of £180,000 in respect of the one-off costs to roll out the 'Twin Bin' Collection Scheme. This slippage will need to be financed within the 2007-08 budget and is referred to in paragraph 7.9 below. The issues relating to recycling activities were reported to Cabinet in October.

4.4 The way expenditure financed from reserves is accounted for makes a year on year comparison at Directorate level meaningless via Appendix A. The variation analysis (Appendix C) and summaries for each directorate are the better way to track changes from the original to the revised budget. Appendix C sets out the main variations that include additional Homelessness costs (£57,000), reduced Cliff Railway income (£70,000) and other variations in income generation previously highlighted as part of in year monitoring.

4.5 A detailed explanation of the variation in respect of capital financing and interest charges is shown in Appendix B. Note that, due to new accounting requirements, capital financing charges have been stripped out of the budgets and will be replaced with depreciation charges. This will be dealt with at the year-end, but this will have no impact on the revenue account bottom line.

5. RESERVES

5.1 The Council has a number of reserves, which have been extremely useful over the years to finance items not contained within budgets, to smooth expenditure over financial periods, to properly maintain assets and to provide financial flexibility. The need to maintain a reasonable level of reserves is imperative. The extent of these reserves and their use is set out in Appendix H. The Appendix shows that reserves are expected to reduce over the two year period from around £5m at 1 April 2006 to £3m at 31 March 2008. Given the potential volatility and risks contained within the budget assumptions, lowering the level of reserves further would be inappropriate.

5.2 The Local Government Act 2003 places an obligation on Chief Financial Officers to provide an assessment of the appropriate level of reserves and the robustness of the budget estimates. This will need to be provided to your February meeting. However, based on the reserve figures shown in Appendix H and the depth of detailed budgetary information supporting this report, it will be possible to provide a positive opinion provided that the main recommendations in this report are agreed.

6. GOVERNMENT GRANT SETTLEMENT

6.1 At the time of writing this report all Government figures and proposals are provisional. The provisional Government grant is £9,909,000, which is £37,000 more than notified for 2007-08 as part of a two-year settlement twelve months ago. This represents a cash increase of £311,000 (3.2%) compared to the current year's grant of £9,598,000.

6.2 Representations have been made to Government regarding technical issues adversely affecting the Council's settlement but significant changes in the final grant are unlikely. This technical issue relates to a negative adjustment to take account of the replacement of supported borrowing by capital grants. This has the effect of reducing the 2006-07 base for determining grant increases for this Council. Without this reduction our grant would potentially be up to £260,000 higher.

6.3 The Secretary of State retains reserve capping powers. An extract from the guidance issued by Government is set out below.

*"Under the new reserve powers, the Secretary of State must first decide if the budget requirement is excessive. He will determine a set of principles which will be used to decide this and the set of principles must include a comparison with the budget requirement of a previous*

*year. He may also determine categories of authorities and use a different set of principles for each category.*

*If the Secretary of State decides that the budget requirement of an authority is excessive, he has four options:-*

*(i) he may designate the authority in-year;*

*(ii) he may designate the authority for the following year;*

*(iii) he may set a notional budget requirement to be used for the purposes of comparisons instead of the actual budget requirement to decide if budget requirements are excessive;*

*(iv) he may designate the authority over a number of years, starting in-year or the following year."*

6.4 The Government has made it clear that they expect to see Council Tax increases below 5% and will resort to capping if necessary.

7. <u>2007-08 REVENUE BUDGET</u>

7.1 Next year's budget has been framed to resource the priorities and initiatives set out in the draft Corporate Plan considered elsewhere on the agenda.

7.2 Attached at Appendix A is a summary of the draft 2007-08 Revenue Budget.

7.3 The budget allows for inflation as follows:-

| | |
|---|---|
| Pay Awards | 3% |
| Pension Increases | additional 1.3% of salary costs |
| General Inflation | Nil, unless specifically known * |
| Contract Inflation | Averaging 2.6% |

* For example, electricity costs have increased by 58% as previously reported to Cabinet.

The average rate of inflation applied to the Council's overall expenditure budget is in the region of 4.8%. This contrasts with a general increase in inflation as measured by Retail Price Index (RPI) of 3.9% and RPIx of 3.4% in the twelve months to November 2006.

7.4 Provision is made for a general contingency of £175,000, and a Renewal & Repairs Reserve contingency of £100,000. This is consistent with the 2006-07 approved budget and recent experience indicates that any lower figure would not be prudent.

7.5 An allowance for staff turnover of £125,000 is included in the budget, again consistent with 2006-07. However, experience suggests that achieving this level of saving in general salary costs is proving more difficult year on year as vacant posts are increasingly covered by temporary or agency staff, often at additional cost. Any increase in this allowance would not be prudent.

7.6 The apportionment of expenditure and income relating to Foreshore land affected by the Trust is reflected at the summary level in the revenue budget sheets. For budget purposes the position is assumed to be financially neutral. There is currently not a shared understanding between the Council and the Foreshore Trustees regarding the financial position of the Trust. This issue remains an area of significant risk to the financial planning of both organisations and needs to be resolved as soon as practical.

7.7 New regulations have been introduced in respect of Land Charges such that aggregate income should not exceed the level of expenditure incurred on the service. Work is ongoing to establish the level of expenditure legitimately chargeable to this service, including appropriate support costs. At this stage, the budget has been prepared on the historic basis. However, there is a risk that the current level of charges may not be sustainable.

7.8 The process to identify priorities, to review spend and increase income has continued in a similar fashion to previous years by way of Priorities, Income and Expenditure Reviews (PIER). Appendix K shows the outcome of the reviews and the amounts built into the revenue budgets.

7.9 The budget includes £200,000 to roll out the ‘Twin Bin’ Collection Scheme, funded from the expected Public Service Agreement (PSA) revenue grant. A capital grant is also anticipated, part of which has already been allocated by Cabinet to support a Housing Stock condition survey. The use of the remainder of the capital grant will be considered at a future date when final grant details are known.

7.10 A new grant for the implementation of smokefree legislation has recently been announced by Government. This amounts to over £50,000 payable mainly in 2007-08. No account of this has been taken in the budget as it is assumed that the grant will support new expenditure. A specific report on this issue will come to a future Cabinet meeting.

7.11 Members will be aware that the Council has previously fared well with the Planning Delivery Grant and that substantial parts of the monies have been allocated to fund new activity in connection with the Local Development Framework. A further sum can be expected in 2007-08, but the final figure will not be known for a month or so. A report will be brought to you as soon as appropriate, but in the meantime it is assumed that expenditure will continue to be funded from this source.

7.12 A prior-year deficit is now anticipated on the Council Tax Collection Fund. This Council's share, to be funded from the revenue budget, is £45,000.

7.13 The major changes from the original 2006-07 budget are set out in Appendix C. Further budget information is contained in the revenue budget sheets for each Service. Some expansion of service delivery has been possible, including

| | **£000's** |
|---|---|
| Introduction of Choice Based Lettings Scheme | 20 |
| Strengthening of Waste Management Team | 48 |
| Concessionary Fares Scheme Growth | 38 |
| Additional Office Accommodation (net) | 83 |
| External Funding Officer (replacing external funding) | 21 |
| Leisure Sites – Maintenance Costs & Travellers Site | 43 |
| ESCC – Health Scrutiny | 6 |
| | **259** |

7.14 After taking into account the provisional Government grant settlement of £9,909,000 (see section 6 above) and a contribution from the General Reserve of £264,000, income from Council Tax of £6,289,000 is required to meet net expenditure. This represents a 3.5% increase on our share of the Council Tax compared to the current year.

8. <u>2007-08 COUNCIL TAX LEVEL</u>

8.1 It is not possible to fix the level of Council Tax until the Government have issued final grant levels and East Sussex County Council, East Sussex Fire Authority and Sussex Police Authority have issued their precepts.

8.2 With so many factors outside of your control it is impossible to give a sensible prediction of the overall level of Council Tax at this stage.

8.3 Whilst you will be responsible for setting the overall level of Council Tax, you can only influence the Borough Council part. In 2006-07 this accounted for only 15% of the whole.

8.4 Formal decisions in respect of the Borough's part of the Council Tax cannot be made until after the Government issue formal grant settlements.

9. 2008-09 AND BEYOND

9.1 The Government will be carrying out a new three-year Comprehensive Spending Review. This is not yet available, but their proposals for local authorities are expected to be tough and will include efficiency targets of 3% p.a. The Council's updated revenue budget forward plan is attached as Appendix G.

9.2 Shortfalls of around £550,000 increasing to £1.5M are shown for 2008-09 and 2009-10 respectively. A major driving factor behind these figures is the financing costs of the Capital Programme together with staff cost inflation, particularly in respect of pension provisions.

9.3 The plan clearly indicates that further rounds of Priorities, Income and Expenditure Reviews (PIER) will be required. However, this is not surprising and is consistent with the position of most local authorities throughout the country.

9.4 Where Hastings differs is that we have been extremely successful in attracting time limited specific grants. The Forward Plan assumes that a cessation of grant will result in a cessation or reduction of service. The challenge for future PIER reviews will be to identify the priority of the services currently financed by specific grant and if thought desirable to continue with the service, how best to finance it. This could be by seeking new, successor or replacement external resources, by refocusing existing budgets and/or by generating additional income.

9.5 Continuing focus will, therefore, need to be given to the Priorities Income and Expenditure Reviews (PIER) process to balance the future budget position. This will be an early corporate priority and some reassessment of corporate and service priorities will be essential.

**10. RECOMMENDATIONS**

**10.1 The Cabinet is recommended to approve the following for the purposes of public consultation:-**

**Capital Programme (see paragraph 3)**

1. **Approve the capital programme for the period to 31 March 2010, together with assumed slippage in the programme of £1,000,000.**

2. **Agree that schemes marked with an asterisk can proceed without further reference to Cabinet or Council.**

3. **Approve the Land Disposal Programme.**

**2006-07 Revised Budget (see paragraph 4)**

4. **Approve the revised revenue budget for 2006-07, including the transfer from the General Reserve.**

**<u>Reserves</u> (see paragraph 5 and Appendices)**

5. **Agree the proposed expenditure from the Renewal and Repairs Reserve and Information Technology Reserve (Appendices J and I respectively) and those items from other reserves shown in Appendix H that can proceed without further reference to Cabinet.**

**<u>2007-08 Budget</u> (see paragraph 7)**

6. **Assume an allowance for staff turnover of £125,000.**

7. **Agree to a contingency of £275,000 (£175,000 general expenditure and £100,000 Renewal & Repairs Reserve) being included within the budget.**

8. **Approve the 2007-08 revenue budget at a figure of £16,461,820.**

9. **Use £264,020 from the General Reserve during 2007-08 to support all expenditure over £16,197,800.**

**<u>2008-09 and Beyond (see paragraph 9)</u>**

10. **Agree that a continuing focus be given to the Priorities Income and Expenditure Reviews (PIER) process to balance the future budget position. This to be an early corporate priority and include a reassessment of corporate and service priorities.**

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|---|---|
| Equalities & Community Cohesiveness | |
| Crime and Fear of Crime (Section 17) | |
| Risk Management | |
| Environmental issues | |
| Economic / Financial implications | |
| Human Rights Act | |
| Organisational Consequences | |

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*The appendices listed in this report could not be published on the website. Hard copies may be obtained from Elaine Wood, Principal Committee Administrator. Tel. 01424 451717.*