

APPENDIX 2

Report to: Cabinet

Date: 21 January 2008

Report from: Deputy Chief Executive & Director of Corporate Resources and Executive Manager, Financial Services

Title of report: **REVENUE BUDGET 2007-08 REVISED AND 2008-09 CAPITAL PROGRAMME 2007-08 TO 2010-11**

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 2007-08 to 2010-11

1. SUMMARY

- 1.1 This report contains proposals for the Council's revenue budget and Capital Programme.
- 1.2 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.
- 1.3 Capital investment for the three years commencing 1 April 2008 is programmed at over £14m, of which approximately half will need to be financed by the Borough Council. This is the maximum affordable.
- 1.4 Despite having to provide additional funds for concessionary bus passes and for the Foreshore Trust, the revenue budget for 2007-08 has been contained within the overall level set twelve months ago.
- 1.5 The three year Formula Grant settlement has allocated the Council below inflation increases for all three years. However, the Council will be the recipient of some Area Based Grants for the three year period.
- 1.6 Reliance on reserves is reducing and will need to continue to do so as revenue reserves approach levels which would be imprudent to go below.
- 1.7 Net expenditure of £16.5m, of which Council taxpayers meet £6.5m is proposed for 2008-09. If the recommendations in the report are approved, the increase in the Borough's part of the Council Tax will be 3.5%.
- 1.8 Good progress has been made in aligning expenditure with priorities. However, the Revenue Budget Forward Plan shows deficits in 2009-10 and 2010-11, and a continuing focus will need to be given to the Priorities, Income and Expenditure Reviews (PIER) in order to balance future budgets.

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 20 February 2008.
- 2.2 Recommendations on the level of the Council Tax cannot be made until your 20 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 20 February 2008 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 2011. This programme is the maximum affordable and reflects changes made to reduce the ongoing impact of the programme on future revenue budgets. For example, substantially less resources are now identified to carry out works in support of the Seafront Strategy. However, it has been possible to support some limited programme expansion including general Public Realm improvements.

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 reducing land values.
- 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 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. The Council now has options for accounting for debt repayment. This is dealt with in the Treasury Management report elsewhere on the agenda and will be considered further as part of the final accounts process.
- 3.3.3 Notional revenue costs are estimated to be £200,000 in 2007-08 rising to £1.3m after allowing for 2010-11 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 2010-11 is £414,000.

4. 2007-08 REVISED REVENUE BUDGET

4.1 The Council's budget was set in February 2007 and comprised:-

	£000's
Net expenditure	16,417
Use of General Reserve	(264)
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	16,153
	<hr style="width: 100%; border: 0.5px solid black;"/>

4.2 Appendix A shows revised net expenditure of this sum. This includes items arising from 2006-07 of a net £609,000 which will be financed from the General Reserve in 2007-08 and 2008-09, as agreed when last year's accounts were approved. These are:-

	2007-08	2008-09
	£000's	£000's
Expenditure B/F from 2006-07	286	
PSA Funds Received in 2006-07	200	
Additional Council Tax Deficit		182
Provision No Longer Required		(113)
Redundancy Cost Arising Early	(109)	
Landfill Site Receipts in 2006-07	80	83
Additional General Reserve Contribution	<hr style="width: 100%; border: 0.5px solid black;"/> 457	<hr style="width: 100%; border: 0.5px solid black;"/> 152

Overall, there is an improvement of £109,000 in the revenue position in the current year, after a transfer of £721,000 from the General Reserve (£457,000 to support 2006-07 transactions as above and £264,000 as originally planned).

4.3 Within this net improvement, there are three significant areas of additional costs:

- No allowance was made in the original 2007-08 budget for payments to the Foreshore Trust. The budget report commented that there was not a shared understanding regarding the financial position of the Trust and also stated that the issue remained an

area of significant risk to the financial planning of both organisations. The revised budget includes a sum of £221,000 as payment to the Foreshore Trust

- Foreshore Trust legal expenses much greater than anticipated. This is funded primarily from the Industrial Development Reserve and it is recommended that the net revenue improvement of £109,000 identified above is transferred to this reserve to provide a working balance for commitments in 2008-09.
- As reported to Cabinet previously, the additional costs of free concessionary travel within the Sussex Countywide Scheme are far higher than budgeted for in most authorities. The revised Council budget is now some £206,000 higher than the original budget.

In addition, income generation in some areas of the Council's activities is less than planned (eg Off Street Parking) and this is creating budget tensions in this year and next year.

Despite these issues which have all been identified as part of in year monitoring, other reductions in net expenditure have more than offset these.

- 4.4 As reported in June 2007, some £240,000 of parking cash that was collected from parking machines by an outside contractor was not credited to the Council's bank account as it should have been. The revised budget has not been adjusted to reflect this loss, but the proper accounting treatment will need to be resolved at the time of the closure of accounts in June 2008.
- 4.5 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.
- 4.6 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 again 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 total of revenue reserves at 31 March 2009 is forecast to be approximately £2.4m. This is approximately £600,000 lower than the forecast for 31 March 2008 made twelve months ago.

- 5.2 The extent of reserves and their uses is set out in Appendix H. The Industrial Development Reserve, which has been used to finance the legal costs of the Foreshore Trustees shows a small deficit even after the injection of additional monies in the current year. This is rectified by a transfer from the Renewal and Repairs Reserve. You are asked to approve this transfer and all the proposed reserves' expenditures set out in Appendices H, I and J.
- 5.3 The need to maintain a reasonable level of revenue reserves is imperative. The reliance on reserves is reducing, but this will need to be continued even more so into the future. The revenue reserves are approaching levels which it would be imprudent to go below.
- 5.4 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

- 6.1.1 Central Government supports local councils' revenue expenditure through Formula Grant, Area Based Grants and specific grants.
- 6.1.2 The Local Government Finance Settlement is concerned with the distribution of Formula Grant, which is made up of Revenue Support Grant and re-distributed business rates. Area Based Grants and specific grants are not part of the settlement, but are usually announced around the same time.
- 6.1.3 In 2006-07, for the first time, the Government decided to produce forward allocations of most grants in multi-year settlements. The first full three year settlement is for 2008-09, 2009-10 and 2010-11.
- 6.2.1 **Formula Grant** – Is distributed by formula that take account of authorities' relative needs and relative resources. There are no restrictions on what it can be spent on.
- 6.2.2 At the time of writing this report, the Formula Grant figures and proposals are provisional. The provisional allocations for the three years are:-

	£000's
2008-09	10,145
2009-10	10,299
2010-11	10,437

6.2.3 For comparative purposes, the 2007-08 adjusted Formula Grant is £9,955,000. The annual percentage increases for each of the three years of the settlement are 1.9%, 1.5% and 1.3%.

6.2.4 The Government settlement ensures that all local authorities receive at least a guaranteed minimum increase in grant, year-on-year. For Shire Districts the floor increases over the three years are 1.0%, 0.5% and 0.5%. The cost of providing the guaranteed floor for Shire Districts is met by those Shire Districts above the floor. This is achieved by scaling back grant increases for authorities above the floor. This mechanism has cost Hastings £240,000 in 2008-09, £170,000 in 2009-10 and £119,000 in 2010-11. We have suggested to Central Government that it would be fairer for them to subsidise those authorities below the floor, thereby allowing the Shire Districts above the floor to receive their proper entitlement. However, significant changes in the final grant settlement are unlikely.

6.3.1 **Area Based Grants (ABG)** – are new, non-ring-fenced general grants that in the main are made up of grant streams that were previously provided to local authorities as specific grants. A guide from the Communities and Local Government Department comments that “ABG will enable local authorities, working with their partners, to decide where best to invest their resources in the most effective and efficient routes to delivering local priorities”.

6.3.2 The Area Based Grants to be received over the three year period by the Council are:-

- Working Neighbourhoods Funds (WNF) of £2,185,000, £2,691,000 and £2,812,000.
- Local Enterprise Growth Initiative (LEGI) of £1,509,000, £407,000 and £407,000 provisionally (including a capital element) subject to further discussion with the Government Department.
- Cohesion of £49,000, £91,000 and £140,000.
- Stronger, Safer Communities (Neighbourhood Element) of £413,000, £258,000 and nil.
- Greater Hollington Partnership of £281,000 for 2008-09 only.

6.3.3 You received a report on Area Based Grants at your meeting on 7 January, where it was agreed:-

- a stakeholders conference be organised in late January or early February, to develop proposals for a commissioning process for the allocation of Working Neighbourhoods Fund, and then to bring these proposals to Cabinet for decision while recognising that this is unringfenced money paid to Hastings Borough Council and therefore the final decision on its use will be made by the full council as part of its budget-setting process; and

- a draft Economic Development and Inclusion Strategy be brought forward for consideration by Cabinet, which along with the community strategy and its wider targets can provide a “platform” for the co-ordination of Working Neighbourhoods Fund with other work aimed at addressing worklessness, economic development and improving the quality of life within the town.

6.3.4 By the time of your next budget meeting on 20 February, some of the issues regarding Area Based Grants may be somewhat clearer and it would be appropriate to delay decisions until that time. However, for budget purposes, it is being assumed that 10% of the Working Neighbourhoods Fund will be used to support the Council’s corporate management costs in facilitating and managing the fund and the figure factored into the budget proposals in paragraph 7 of this report.

6.4.1 The main **Specific Grants** for the Borough Council relate to Concessionary Fares – national scheme, Homelessness Grant and Planning Delivery Grant. These are unfenced and are sometimes called targeted grants.

6.4.2 Three-year allocations of £125,000 per annum of Homelessness Grant have been notified. Allocations of £424,000 p.a., £434,000 p.a. and £446,000 for the Concessionary Fares – national scheme can be expected.

6.4.3 Planning Delivery Grant allocations are results driven and therefore not announced in advance. The grant is un-hypothecated, but it has been this Council’s decision to use the funds for planning and planning related activities. The 2007-08 Planning Delivery Grant was budgeted at £385,000, but only £275,000 received. Due to the changing nature of the grant only £100,000 per annum is being assumed for 2008-09 onwards. The loss of grant has impacted adversely and the budget proposals to deal with this are factored into paragraph 7 of this report.

7. 2008-09 REVENUE BUDGET

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. The formulation of the budget has been particularly challenging both in respect of the changes to Government funding streams and the ongoing need to reduce our net expenditure in line with the Revenue Budget Forward Plan.

7.2 Attached at Appendix A is a summary of the draft 2008-09 Revenue Budget.

7.3 The budget allows for inflation as follows:-

Pay Awards	2.5%
Pension Increases	additional 1% of salary costs
General Inflation	3%
Contract Inflation	3%

General increases in inflation as measured by Retail Price Index (RPI) are 4.3% and RPIx of 3.2% in the last twelve months.

- 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 2007-08 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 2007-08. 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 no longer assumed to be financially neutral and the estimated Trust surplus of £229,000 in 2008-09 is now shown as a transfer from the Council. There is still no formal agreement between the Charities Commission, the Council and the Foreshore Trustees regarding the future arrangements 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 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.
- 7.8 Hastings differs from many District Councils in that we have been extremely successful in attracting time limited specific grants. The Revenue Budget Forward Plan assumed that a cessation of grant would result in a cessation or reduction of service. This has resulted in a reduction in our budgeted expenditure (mainly employees) of almost £800,000. Changes to the grant anticipated for planning delivery increases this reduction to around £1m. The following specific impacts need to be brought to your attention:
- Community & Regeneration Services – Expenditure on the Council funded elements of these services has substantially been retained in the budget to support the proposed revised structures as reported to Cabinet and which are subject to current consultation.
 - Warden Service – Expenditure on the Council funded element of this service has been retained to support the proposed new Environmental Community Officers and Stray Dog Service proposals as reported to Cabinet and which are subject to current consultation.

- Planning Delivery – Expenditure reductions of £130,000 (increasing to £177,000 in a full year) have been incorporated into the budget in recognition of lower grant levels moving forward. A grant of £100,000 in 2008-09 is assumed. Should the actual grant entitlement be less than assumed, the shortfall will need to be treated as a cost to the Council's overall budget as it would not be reasonable to seek even further savings from the Planning Service budget in 2008-09. If, however, the actual grant exceeds expectations the converse will apply and the surplus treated as a benefit to the Council's overall budget.

7.9 A prior-year deficit on the Council Tax Collection Fund was declared in June 2007. This Council's share is £182,000 as reported as part of the final accounts report. That report identified funding from 2006-07 such that there would be no impact arising from the deficit on this Council's part of the Council Tax in 2008-09. This funding is set out in paragraph 4.2 and is included in the budget proposals.

7.10 The major changes from the original 2007-08 budget are set out in Appendix C. Further budget information is contained in the revenue budget sheets for each Service. Additional expenditure of £336,000 on Concessionary Fares, after receipt of specific Government Grant, is included to support the new national scheme.

7.11 After taking account of the Government grant settlement, an increase in the level of Council Tax of 3.5% is required. The budget is supported by a contribution from the General Reserve of £377,000 (£152,000 to support 2006-07 transactions as set out in paragraph 4.2 above and £225,000 as originally set out in the Revenue Budget Forward Plan).

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

8. 2008-09 COUNCIL TAX LEVEL

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 & Rescue 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 2007-08 this accounted for only 15% of the whole.

9. 2009-10 AND BEYOND

- 9.1 The Government has now issued provisional grant information for the next three years. The Council's updated revenue budget forward plan incorporating this is attached as Appendix G.
- 9.2 Considerable progress has been made in reducing the 2009-10 shortfall from £1.3m in the forecast of twelve months ago to just below £250,000 now. There will need to remain a focus on achieving all of the Priority, Income and Expenditure Reviews (PIER) outcomes as set out in Appendix K, and a commitment to continue the process in the future.
- 9.3 The shortfall in 2010-11 is currently predicted to be above £750,000, and as with the shortfall for 2009-10 will need to be seriously considered in the next financial year.

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 2011, together with assumed slippage in the programme of £1m.**
2. **Agree that schemes marked with an asterisk can proceed without further reference to Cabinet or Council.**
3. **Approve the Land Disposal Programme.**

2007-08 Revised Budget (see paragraph 4)

4. **Approve the revised revenue budget for 2007-08, including the transfer from the General Reserve and other reserve transfers.**

Reserves (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.**

2008-09 Budget (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 2008-09 revenue budget at a figure of £16,850,540.**
9. **Use £377,000 from the General Reserve during 2008-09 to support all expenditure over £16,473,540.**
10. **Consider further the use of area based grants at your meeting on 20 February 2008.**

2009-10 and Beyond (see paragraph 9)

11. **Agree that a continuing focus be given to the Priorities Income and Expenditure Reviews (PIER) process to balance the future budget position. Further reassessment of corporate and service priorities will be necessary.**

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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