Agenda Item No: **Appendix 1**

Report to: Cabinet

Date of Meeting: 15 January 2009

Report Title: Revenue Budgets 2008/9 (Revised) and 2009/10, plus Capital Programme 2008/9 to 2011/12

Report By: Neil Dart
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Purpose of Report

The Council faces a period of severe and unprecedented financial uncertainty, with reduced income and the likelihood of higher demand for Council services in what could be a prolonged economic downturn. Steps have already been taken to offset major reductions in income in 2008/9. Given the world wide economic recession the Council needs to ensure that its priorites are clear and the limited resources available are properly targeted in 2009/10 and beyond.

The report has several purposes, firstly to revise the budget for 2008/9 taking account of the changed economic environment and known variations to expenditure and income streams. Secondly to outline Revenue and Capital budgets for 2009/10 and beyond to ensure the continued alignment of the Council's available resources to its priorities within a 3-year rolling programme; this report also identifies the risks that the Council faces in doing so.

Your meeting is a key part of the budget setting process, along with the Budget Cabinet in February. Full Council on the 23 February will be responsible for setting a balanced budget and determining the Council Tax. If the recommendations in the report are approved by Council, the increase in the Borough's part of the Council Tax will be 3.5%.

Recommendation(s)

Cabinet is recommended to approve the following for the purpose of public consultation:-

1. Approve the Revised Revenue budget for 2008-9 (Appendix A)

2. Approve the draft 2009/10 Revenue (Appendix A) and Capital budgets 2008/9 (revised) to 2011/12.

3. Transfer from the General Reserve, £200,000 of the surplus achieved in 2007/8 to the Industrial Development Reserve (to fund legal fees associated with the Foreshore Trust) and £165,000 to the Renewal and Repairs Reserve

4. 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.

5. Approve the revised Land Disposal Programme. (Appendix L) and agree that disposals can be brought forward if market conditions make it sensible to do so.

6. Agree that schemes marked with an asterisk in the Capital Programme can proceed without further reference to Cabinet or Council

Reasons for Recommendations

The Council's Corporate Priorities are subject to review given the economic slow down and the need to ensure limited resources are properly targeted.

The Council needs to be in a position to match its available resources to its priorities across the medium term whilst maintaining sufficient reserves and capacity to deal with potentially large and unexpected losses of income and increased demand for services.

This budget is set within the testing economic climate, whereby the Council's income streams, and investment returns are severely diminished, and inflation in 2008/9 has pushed up contract prices significantly above original projections. To produce a balanced budget the Council has needed to identify new income streams, make efficiency savings and cut costs; With the savings identified the Council is in a position to determine a balanced budget and set the Council Tax.

Background

1. Prospects for all centrally funded organisations are uncertain given the fixed funding arrangements and current financial pressures e.g. higher than expected inflation, lower investment returns. A down turn in the economy is leading to higher unemployment, reduced spending and hence reduced tax receipts for the government.

2. The higher level of unemployment now being experienced is likely to result in more pressure on Council services.

3. Given the need to plan over a minimum 3 year period, the Medium Term Financial Strategy (MTFS) identified key principles to be followed when compiling the budget as well as identifying the financial risks and opportunities more closely . The Financial Strategy is robust in that it integrates the financial and policy planning procedures of the Council. That robustness is built upon a foundation of key principles:

(i) All key decisions of the Council relate to the Corporate Plan. Priorities are determined and reviewed in the light of any changes to the Plan.

(ii) Adequate Provisions are made to meet all outstanding liabilities.

(iii) Each year there is a thorough examination of the Council's "Base Budgets" to identify efficiency savings and to ensure existing spend is still a Council priority (Priority Income and Efficiency Reviews- PIER)

(iv) Resources will be allocated to invest in the Council's assets to ensure they support the delivery of corporate and service priorities

(v) Resources will be made available to finance invest to save schemes, to help modernise and improve services, and generate efficiencies in the medium term.

(vi) Provision of value for money services - continuous improvement is sought in services flowing from the identification and achievement of efficiencies.

(vi) The objective is to maintain affordable increases in Council Tax over the next 3 years whilst accepting that such an objective is linked to the amount of annual Government grant, inflation and new legislative requirements.

(vii) Capital receipts and reserves will primarily be available for new investment of a non-recurring nature thereby minimising the overall financial risk.

(viii) The importance of partners in delivering cost effective solutions for services is recognised.

4. Over the last 4 months the Accountants and Heads of Service and Directors under the leadership of the Corporate Management Group have reviewed the affordability of the capital programme, fees and charges, new income streams, and any new opportunities for service provision, and have identified efficiency savings. Cabinet members have been involved in "Star Chamber" reviews of individual services.

5. With the changing economic environment the effect on income streams is pronounced. The full effects of the recession may yet impact further on the Council and it is possible that the income projections are optimistic. As such in a period of such uncertainty it is prudent to seek to preserve, and wherever possible increase, the level of reserves. Any under spends should be considered as opportunities to strengthen the reserves and improve services for the future - as and when the economic outlook removes some of the uncertainties.

6. It is recognised that delivering the longer term goal and key Community Strategy target of 'Narrowing the Gap' will be even more challenging in these times. With the three year allocation of Area Based Grants, the Council's Corporate Plan remains ambitious when set against a background of low annual grant settlements, higher than expected inflation and increasing unemployment. The Council is well placed to deliver the programme, with a Good Use of Resources Assessment in 2007, a track record of improving performance, thus demonstrating the Council’s ability to deliver against priorities.

7. The Council's financial strategy remains one of moving towards a budget that is balanced without the use of reserves, after excluding the potentially short term Area Based Grants monies, and within the context of affordable Council Tax increases. To this end the revenue budget proposes using £179,000 of general reserves in 2009/10 and £50,000 in 2010/11 in line with original projections.

Council Strategic Priorities

8. The Council, as a result of the changing economic environment, is currently consulting on a revised set of 4 strategic priorities, which the budget is aligned to. Namely:-

   (i) Doing everything we can to soften the impact of the economic downturn on the town's economy and residents' lives

   (ii) Working closely with our partners to make the town clean and safe

   (iii) Making sure we're efficient, customer-focused and a good organisation to work for

   (iv) Promoting equality and an inclusive, supportive community

9. The Council in agreeing the revised priorities is seeking to target its limited resources to effectively cope with the increased demand for its core services, whilst ensuring that the infrastructure and resources are available to take advantage of the upturn in the economy when it comes.

The Key Factors Impacting on the Budget

External Funding - Annual Grant Settlement

10. The Government outlined a three year grant settlement as part of its Comprehensive Spending Review in 2007 (CSR 2007). Whilst 3 year Settlement figures aid financial planning the Government grant increases are below inflation.

Year	HBC Increase	Government Grant	Cash Increase
2008/09	1.9%	£10,145,000	£190,000
2009/10	1.5%	£10,299,000	£144,000
2010/11	1.3%	£10,437,000*	£138,000

* Provisional figure

11. There are a wide range of variables likely to impact on the grant settlement in 2011/12 and beyond, not least a further Comprehensive Spending Review and the considerable pressure on Central Government expenditure over the next few years.

12. There is also the need to factor in a ½% increase in National insurance contributions from April 2011, which will cost the Council an estimated £74,000 p.a.

Reduced Income

13. A number of income streams are vulnerable to a depressed housing market and recession. Most obviously, land charges fees which are predicted to be £190,000 below budget estimate, planning fees (down £81,000 in 2008/9), Building control fees (down £52,000) and potentially subsequent effects on all areas of income such as Estates and car parking as disposable income levels decline and bad debts increase.

14. The Council has limited reserves and depends upon these income streams to provide services. If the downturn is sustained the Council will need to consider reducing its expenditure further, and potentially taxing for a proportion of any shortfall.

Investment interest

15. This is falling significantly as bank base rates are reduced (2% as at December 2008). The Council's longer term borrowing costs are fixed at some 4.8%. The risk is that base rates could fall further and there have been predictions of 0.5% and even 0% in early 2009/10 by some forecasters.

16. Current assumptions, for budget purposes assume investment returns of 2.5% in 2009/10 and thereafter. This may be overly optimistic given the recent falls in American interest rates to less than 0.25%. If this is the case the Council does have an Interest Equalisation Reserve of £188,000 which could be used to cover a further fall of 1% for a year if necessary. The Treasury Management Strategy (2009/10) which is due to be considered by the Cabinet in February will continue to advocate a policy of keeping the respective levels of debt and investment under review and look to reschedule and/or redeem debt where cost effective to do so.

Inflation

17. Inflation in September 2008 was 5% (Retail Price Index) with RPIX at 5.5% (RPIX excludes mortgage interest). The Consumer Price Index (CPI) hitting 5.2% which was well above the government's 2% target. This clearly has a significant impact on the 2008/9 budget which allowed 3% for general and contract inflation. In some areas, such as energy prices, increases of 50% are being experienced. A supplementary estimate was approved for 2008/09 with an expected full year cost of £100,000 in 2009/10. With these large increases there is added impetus to finding ways of reducing energy consumption. Given the massive reduction in oil prices, energy prices would be expected to fall. However given the weakness of Sterling there are competing pressures on prices.

18. Inflation is expected to fall in 2009/10 from the current higher than expected rates. The Government in September's Treasury report identified an average rate of 2.3% by quarter 4 in 2009. However some economic forecasters are predicting deflation in some quarters of next year. Based on the figures available the 2009/10 budget is based on general inflation of 1.5% by summer 2009 and remaining at that level throughout the year, rather than the 3% identified a few months ago.

19. In terms of the Council's major contracts e.g. Waste and Street Cleansing, Software support, Grounds maintenance, etc, which are linked to inflationary indices for periods of 12 months, the impact has been individually assessed.

Public Sector Pay Settlement

20. The April 2008 pay award has not yet been determined and has now gone to arbitration, with the result expected in the near future. For 2008/09 the Council budgeted at 2.5%. The government set a target of 2% for public sector pay settlements. At the start of the budget process 3% was allowed for in 2009/10 but given the rapid decline in inflation rates it is considered prudent to budget at 2.5% in 2009/10 and 2.5% again in subsequent years.

Increased Demand for Public Services

21. In an economic downturn there will be increased demand for public services in some areas e.g. benefits, housing, homelessness. The increased demand is already being experienced within the benefits service.

Concessionary Fares

22. A key area of uncertainty in the budget remains that of Concessionary Fares. At the time of writing no information is available on the first quarter take up of the national scheme introduced in April 2008. The gross expenditure budget amounted to £1.573m in 2008/09 and includes a sum to meet higher costs of the scheme through higher uptake but also for use should outstanding appeals by the bus companies regarding the 2008/09 schemes be successful. This remains a significant risk to the Council and detailed knowledge of the costs may not be known before the budget is set.

23. For 2009/10 the budget for reimbursing bus operators has been increased to £1.583m (from £1.573m) which accounts for an increase in fares but retains a smaller contingency for the outcome of any appeals and uptake.

Disposals - Delays in Receiving Capital Receipts

24. The Council's land disposal programme originally amounted to £3.5m over three years with £2.2m forecast in 2008/9, £1.275m in 2009/10 and £50,000 in 2010/11. Some capital receipts will be received in this period, but given the state of the property market careful timing of any asset sales will be required. As a result of the decrease in disposals the Council has to fund more of its capital programme through borrowing and additional costs fall on the revenue account.

25. The effect of the loss of capital receipts has been at least partially offset by a comprehensive review of the Capital programme, in terms of identifying priorities and rescheduling projects.

26. A revised disposal programme is shown in Appendix L, which highlights that only £688,000 of receipts are forecast in 2008/9, and £305,000 in 2009/10. However, should the property market improve, it would be the intention to bring forward some of the disposals.

Bad Debt Provision & Other Minor Provisions

27. An economic downturn is likely to result in more benefit claimants, more housing support and homelessness. The level of bad debts may also increase. Whilst good progress has been made in collecting Council Tax in recent years, a reduced collection rate has been assumed for Council Tax for 2009/10 of 97% (from 97.25% in 2008/09).

28. The general provision for bad debts has been increased by £35,000 for 2009/10, as a prudent provisional increase.

29. The Council holds a number of provisions in its accounts totalling £1.83m and minor balances of £25,000. Following a review a number of these can be released, which would free up some £101,000 in 2008/09. These monies can be used to offset or partially offset an emerging reduction of income from the car park service which has not otherwise been accounted for within the budget.

Pension Fund Contributions

30. The Council's contributions to the pension fund managed by East Sussex County Council are determined every three years following an actuarial valuation. The next valuation is due to take place in 2009/10 with revised contribution rates payable from April 2011. Given the economic downturn there is a clear risk that contributions could increase. For planning purposes a 1% increase from 2011/12 has been assumed.

Efficiency Savings

31. The Council has a very good record in achieving Value For Money for the services it provides, as evidenced by the annual Use of Resources Assessment undertaken by the Audit Commission.

32. The 3% cashable efficiency targets set by Government for the three years commencing 2008/09, and required in any event if the Council is to balance its budget equates to some £1million p.a. in each of the next 3 years.

Efficiency Savings	2008/09	2009/10	2010/11
Target (Cumulative)	3%	6.1%	9.3%
Estimated Value (Incl. Capital) - £'000s	994	2,021	3,082

33. The Council is for the first time required to publish details of efficiencies expected and achieved with the annual council tax bills. The Council figures will show ongoing (at least two years) efficiencies of £1.036 million in cashable savings for 2008/09. This translates into a saving of £36 per year (per Band D household) compared to the national average of £22.

34. The Government in the Pre-budget report identified that an additional £5bn of efficiency savings would be required from the public sector in this period. There are no details at the time of writing as to where these efficiencies are expected from.

35. The Council's Priority Income and Efficiency Review (PIER) process has identified significant savings that are now built into the three year planning process. Should savings in future years exceed targets, they will be available for re-investment.

36. The PIER process has been difficult due to the scale of budget savings that have needed to be identified in such a short period of time. The variations and reprioritisation of the budget result in a number of organisational changes within the Council. It should also be noted that in addition there is the ongoing administration review which is projecting further savings of £96,000 in 2009/10, over and above £83,000 originally budgeted in 2008/09.

37. Procurement provides opportunities for achieving efficiencies and to highlight value for money achievements. The Council employs a procurement officer to identify new opportunities and challenge existing practices. The Council has been involved in a number of joint procurement initiatives and makes good use of Framework agreements, and centralised purchasing consortiums. This remains a key area for efficiency reviews.

Area Based Grants

38. These grants provide the greatest opportunity for the Council to make a step change in service improvement over the next few years, albeit against a background of rising unemployment. The Council does have the opportunity with Area Based Grants to continue to tackle issues surrounding Worklessness, Community Safety and Cohesion.

39. This funding is for a limited 3 year period, with no certainty of any further funding in 2011/12 and beyond. A large number of staff are employed on the back of short term funding streams and therefore when their use is determined exit strategies will be required.

40. There is no requirement to spend the money within the next two years, but it can be reasonably expected that any Local Area Agreement reward money will depend upon the Council achieving targets set. In addition future allocations, should they be forthcoming, may be based to some degree on performance.

Area Based Grants	2008/09 £	2009/10 £	2010/11 £
Working Neighbourhoods Funds (WNF)	2,194,824	2,724,879	2,860,805
Local Enterprise Growth Initiative (LEGI), Plus Capital	2,020,250	307,285	802,982
Community Cohesion	49,412	90,588	140,000
Stronger Safer Communities- Greater	413,000	258,000	Nil

Hollington Partnership	281,000		
Youth Task Force Climate Change	25,000 22,500	25,000 22,500	25,000 22,500
Total	5,005,986	3,428,252	3,851,287

The total amounts to £12,285,525 (Plus Capital funding of £288,750, £99,715, and £204,018 = £592,483).

It is planned to spend all Area Based Grant by the end of 2010/11.

Other Grants

41. The Council has been successful in attracting a number of grants e.g. Homelessness (£125,000 p.a. for 3 years), Heritage Lottery funding for Stade Education, Safer Hastings Partnership Funding, and Future Cities (£453,031)

42. A new grant regime replaced the Planning Delivery Grant in April, namely the Housing and Planning Delivery Grant (£93,063 received in 2008/09). There is no certainty of similar amounts being received in future, but a similar sum has been assumed for budget purposes in 2009/10.

43. The Local Authority Business Growth Incentive scheme (LABGI) is currently being consulted upon, and whilst no additional resources are expected in 2008/09 the Council is expecting to receive half funding in 2009/10 and full funding in 2010/11 of some £54,000 p.a. under the new proposals. This is less than that received in 2007/08 (£98,000).

Revised Budget 2008/09

44. The original 2008/09 budget identified the use of £378,000 of reserves to balance the budget, of which £152,000 was in respect of budgets carried forward from an earlier year. Following the rapid increases in energy costs and general inflation, along with the decrease in income (e.g. land charges), initial estimates at the end of the second quarter highlighted a projected shortfall in 2008/09 of an additional £520,000. Savings in existing budgets have been identified to bring the Council's overall budget back into balance. In addition, any overtime has to be sanctioned at Director level as does the filling of any vacant posts.

45. The use of the General Reserve amounts to an estimated £923,556 in 2008/9. This figure includes the original predicted use of reserves, plus the carry forward of £549,000 from 2007/08.

46. It should be emphasised that in compiling the revised budget there remains considerable uncertainty in the levels of income and investment income expected in the last quarter of 2008/09 as property prices continue to fall and unemployment rises. These factors when combined with uncertainties surrounding Concessionary Travel and the finalising of a settlement in respect of the Foreshore Trust could result in a significant difference between the actual outturn position and the revised budget. The risk is mitigated by retaining sufficient reserves.

Budget 2009/10

47. The Revenue Budget Forward Plan compiled in January 2008 identified deficits of £276,000 in 2009/10 and £825,000 in 2010/11. Given the dramatic decline in some income streams, the higher than anticipated level of inflation in 2008/09 and interest rate forecasts, it became readily apparent by late summer that the position would be much worse than the earlier projections. The Medium Term Financial Strategy agreed by members in October 2008 highlighted the risks.

48. The budget process has addressed potential deficits of over £1million in 2009/10.

49. The key variances, savings and efficiencies identified are included in Appendix K.

50. The main service summaries and variations are highlighted in the appended directorate revenue budget summaries.

51. The net budget requirement (amount to be met from Revenue Support Grant and Collection fund) for 2009/10 is estimated at £17,040,000. This compares to a revised estimate of £16,473,000 for 2008/09 and represents an increase in expenditure of 3.44% (excludes use of Area Based Grants).

Budget 2010/11 and beyond

52. In making projections for 2010/11 and beyond, it has to be assumed that there will be little or no upturn in the economy. Should circumstances not alter the Council will need to continue to identify further significant efficiency savings. 2011/12 is further complicated by the potential loss of all Area Based Grant monies.

53. In order to attempt a more accurate projection against a background of constantly changing economic forecasts it is proposed to report these projections to the February Budget Cabinet meeting.

Service Pressures & Council Tax

54. Council Tax increases will be required to balance the budget. The ability of the Council to deliver service improvements will be dependent upon identifying compensating service reductions or further efficiency savings. The Council has a good record of lower than average tax increases.

Year	Hastings BC Tax Increase	National Average	CTax Band D
2004/05	4.5%	5.9%	196.44
2005/06	3.8%	4.1%	203.86
2006/07	2.4%	4.5%	208.75
2007/08	3.5%	4.2%	216.06
2008/09	3.5%	3.9%	223.62

55. In terms of service pressures, members are reminded that each £65,000 of additional revenue expenditure equates to 1% on the council tax. The government has made it clear that they expect to see Council Tax increases substantially below 5% in 2009/10 and will resort to capping if necessary.

56. The Council is unable to fully determine the Council tax liability until the precept requirements of East Sussex County Council, the Sussex Police, and the East Sussex Fire and Rescue Service are known. These are expected in February.

57. For information. The current rate of inflation is 3% (RPI, November 2008) and the State Pension increase from April 2009 should be 5%.

CAPITAL

58. The Capital programme analysed by service is attached.

59. The proposed programme satisfies the requirement that schemes meet the following criteria:-

(i) Contribute towards achieving the Council's Corporate priorities

and one or more of the following,

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

(iii) meet the objective of sustainable development

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

(v) Is an "invest to Save" scheme and reduces ongoing revenue costs to assist the revenue budget.

60. A comprehensive review of the existing capital programme has been undertaken resulting from the impact of reduced asset disposals. Whilst no new major Council funded capital schemes are proposed, capital funding of £450,000 does need to be earmarked for the communal bin scheme should the consultation and financial assessment show this scheme to be viable; a full report on this potential scheme will be forthcoming in 2009.

61. The Capital Programme in summary amounts to:-

	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m
Net Capital Expenditure	7.178	7.732	4.718	2.341

The 2008/9 programme has been revised from £9.019 million (including carry forward) to £7.178 million.

62. The draft capital programme shows the status of the schemes

c denotes schemes which are committed
u denotes schemes which are in the programme but as yet uncommitted
n denotes schemes that are new

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

63. Incremental Impact on Band D Council Tax

In determining the affordability of new capital proposals the Council is required to consider the incremental impact on the Council Tax for future years. The impact is expressed in Band D equivalent amounts on the Council Tax. The purpose is to give the Council the opportunity to consider options for capital proposals and to highlight the potential future financial burden of capital investment decisions. Some capital investments could generate efficiency savings which go part way to mitigating the revenue implications of the capital programme. The resultant Council Tax impact could be positive for some schemes. There are at present no new proposals with a revenue impact.

64. There is a need to maintain assets to avoid higher maintenance costs and declining assets. This is vital where the Councils commercial estate is involved if rental streams are to be maintained and industry is to be attracted to the area in a period of economic down turn. The full Renewals and Repairs programme is attached in Appendix J.

Minimum Revenue Provision (MRP)

65. Local authorities are required each year to set aside some of their revenues as provision for debt repayment. Unlike depreciation which is reversed out of the accounts, this provision has a direct impact on the Council Tax requirement. The provision is in respect of capital expenditure that is financed by borrowing or credit arrangements e.g. leases. The Council is required to make a “Prudent Provision” which basically ensures that revenue monies are set aside to repay the debt over the useful life of the asset acquired.

66. For 2008/09 the authority is recommended to adopt the following policies in determining the MRP :-

(i) For any expenditure carried out after 1 April 2008 financed by supported borrowing (where the government provides support in the annual grant settlement) the authority will adopt the regularity method; this is where the MRP will be 4% of the adjusted Capital Finance Requirement.

(ii) For Capital expenditure carried out after 1 April 2008 financed by unsupported borrowing (i.e. financed by the authority) the authority will adopt the asset life (Equal instalment) method. This is where the MRP is based on the Capital expenditure divided by a determined asset life to give equal annual instalments. Once determined the asset life and hence the repayments cannot be amended. As with the existing MRP scheme provision for debt commences in the year following the one in which expenditure is incurred. However there is one exception in the case of a new asset e.g. swimming pool where MRP would not have to be charged until the year after the asset came into service. This is effectively an “MRP holiday” and as such could make some schemes more affordable in the short term.

(iii) MRP in 2008/09 – The MRP for 2008/09 is the ongoing MRP plus provision for completed schemes in 2007/08 financed by borrowing. The Council is however still able to make an adjustment for the commutation of old housing grants and as such can reduce this figure by £117,000 for 2008/09 only. The figure for 2008/09 has been determined as £199,000.

(iv) MRP in 2009/10 – An MRP statement on the policy to be adopted must be agreed by full Council prior to the start of the financial year and as such will in future be included in the annual Treasury Management Strategy. The MRP for 2009/10 is the ongoing MRP (estimated at £217,000) plus provision for completed schemes in 2007/08 and 2008/09 which are financed by borrowing of £147,000.

Reserves and Balances

67. In setting the budget for 2008/09 forward projections for the use of the General Reserves in each of the following two years were produced; These amounted to £175,000 and £50,000 respectively. Given the economic climate and the current level of reserves it is proposed that the General Reserve will not be used in 2011/12

68. The Local Government Act 2003 (Part 2) requires the Chief Finance Officer to report on the adequacy of the proposed financial reserves, and determine the minimum level required when setting the annual budget. There is no statutory minimum requirement, but reserves must be set at a prudent level given the activities of individual Councils and potential liabilities that they face or may face in the future i.e. a risk based approach. The strategic reasons for holding reserves are:-

(i) A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing

(ii) A contingency to cushion the impact of unexpected events or emergencies

(iii) A means of building up funds to meet known or potential liabilities (provisions are used for liabilities with uncertain timings or amounts). Such reserves are referred to as Earmarked Reserves.

69. It should be noted that capital receipts can generally only be used for capital purposes.

70. The Council maintains a working balance in accordance with 68.(i) above in the sum of £500,000.

71. Reserves and movements thereof will be reviewed as part of the budget process. For the purposes of the strategy reserves at 1 April 2009 are estimated to consist of:-

Reserves	Estimated Balance at 31.3.09 £'000s
Capital Reserve	2,584
General Reserve	732
Renewals and Repairs Reserve	1,717
Risk Management Reserve	282
Industrial Dev Reserve	0
IT Reserve	249
On-Street Car Parking Surplus Reserve	97
Interest Equalisation Reserve	188
Other Reserves	8
Total	5,857

72. It is proposed that the under spend in 2007/08 which was transferred to General Reserves be used as follows: £200,000 to the Industrial Development Reserve to meet additional costs associated with the Foreshore Trust and £165,000 to the Renewals and Repairs Reserve to part finance Century House dilapidations costs.

73. The Council's earmarked reserves are reviewed at least twice a year for adequacy. If at any time the adequacy is in doubt the Deputy Chief Executive and Director of Corporate Resources is required to report on the reasons, and the action, if any, which he considers appropriate.

74. In addition to the bad debts provision which is calculated annually, the absolute minimum combined level of the Capital Reserve and the General Reserve that should be maintained to cover unexpected expenditure e.g. emergencies, potential over runs of gross expenditure and potential down turns in income, is as follows: -

    (i) 10% downturn in income (Sales, Fees and Rents) - £1.6m be retained
    (ii) 3% over run in expenditure (including Capital - £47m) - £1.4m be retained

    Total - £3.0m

75. In addition, given the changing economic environment and all the uncertainties described elsewhere, it is prudent to maintain the two reserves at a figure above the absolute minimum and wherever possible increase the level of reserves. Any under spends should be considered as opportunities to strengthen the reserves and improve services for the future - as and when the economic outlook removes some of the uncertainties.

Consultation

76. Over the last few years there has been consultation with the public and businesses on the Council's priorities and budget setting process. Focus Groups and the Citizens panel have completed questionnaires on priorities. The Place Survey results are expected in February 2009 which will influence priorities in future years. The budget plans will be considered by both Overview and Scrutiny Committees.

Risk Management

77. A number of risks are highlighted. These include reduced income, higher inflation, high energy prices, concessionary fares, enhanced demand for Council services, delays in asset disposals, and the employment of staff based on short term grant funding streams.

78. In addition the Council could lose an estimated £130,000 p.a. in revenue; plus a claim for prior years' income should a further claim submitted by the Foreshore Trustees be determined to be valid. This will be the subject of a further report to a future Cabinet meeting.

79. The Council has sought, and will continue to seek, efficiency savings, revised and rescheduled the capital programme, reviewed fees and charges, and will look to preserve and enhance where possible the existing level of reserves. The Council also needs to ensure that it continues to invest in its people, its IT services and particularly its commercial assets in order to take advantage of any upturn in the economy.

80. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to members on the robustness of the estimates and the adequacy of the Reserves when considering the budget and Council Tax. It is the view of the Deputy Chief Executive and Director of Corporate Resources that the processes followed and the information systems used are sound and that the regular reporting and involvement of senior managers in managing budgets provides sufficient assurance that the resultant estimates are as robust as present economic circumstances allow.

Policy Implications

81. The Council's key strategic priorities are streamlined.

Economic/ Financial Implications

82. The report supports the alignment of corporate priorities with available resources, produces a robust and balanced budget for 2009/10, retains a significant Capital programme, and provides the opportunity to use Area Based Grant monies to meet local need.

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

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Area(s) Affected

Central Hastings, East Hastings, North St. Leonards, South St. Leonards

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	Yes
Crime and Fear of Crime (Section 17)	Yes
Risk Management	Yes
Environmental Issues	Yes
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes

Supporting Documents

Cabinet Report, November 2008, Medium Term Financial Strategy 2009-10 to 2011-12
Cabinet Report, December 2008, The Economic Downturn and the Use of Area Based Grants to Counter Recessionary Effects in Hastings

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