

BODY: Scrutiny
DATE: 7 February 2011
SUBJECT: General Fund Revenue Budget 2011/12 and Capital Programme 2010/14.

REPORT OF: Chief Finance Officer
Ward(s): All
Purpose: To agree the detailed general fund budget proposals for 2011/2012 and Capital Programme 2010-2014.
Decision Type: Budget and Policy Framework
Contact: Alan Osborne, Chief Finance Officer,
Tel 01323 415149 or internally on ext 5149
Recommendations: Members are asked to recommend the following proposals to full Council:

- i. General Fund budget for 2010/11 (Revised) and 2011/12 (original) (**Appendix 1**) including growth and savings proposals as set out (**Appendix 2**)
- ii. No increase in the Council Tax for Eastbourne Borough Council resulting in an unaltered Band D charge of £224.19 for 2011/12
- iii. General Fund capital programme and financing 2010/14 as set out in (**Appendix 3**)

1.0 Introduction

- 1.1 This report sets out the general fund revenue budget proposals for 2011/12 and a three year capital programme 2010/14.
- 1.2 The Housing Revenue Account 2011/12 and associated three capital programme, together with rent setting for 2011/12 is subject of a separate report elsewhere on this agenda.
- 1.3 The Council revised its medium term financial strategy (MTFS) in July 2010 and the Cabinet recommended a resulting draft 2011/12 budget proposal in December.
- 1.4 The medium term financial strategy and resulting draft budget has been subject to extensive consultation as reported in December.
- 1.5 The budget is the product of various plans and strategies as part of an integrated corporate planning process and is linked principally to:
 - The MTFS
 - Asset Management Plans

- The Corporate Plan
- Workforce Strategy
- Service Plans
- Treasury Management Strategy
- Sustainable Service Delivery Strategy
- Agile Working Programme
- DRIVE corporate change programme

1.6 The Chief Finance Officer has a legal responsibility to give positive assurances on:

- The robustness of the estimates used in the budget
- The level of reserves

If the recommendations of this report are agreed then these assurances will prevail.

2.0 **Summary of Recommended Budget Proposals**

2.1 The budget proposals include:

- No increase in the Council Tax in 2011/12
- Overall savings totalling £1.7m (9.5%)
- Efficiency savings of £1.4m (7.7%)
- Inflation of £0.6m (3.3%)
- Service Growth of £0.2m
- All recurring expenditure met from ongoing resources
- General Reserves averaging of £4m (against a minimum recommended of £2m)
- Strategic Change Fund £0.8m
- A three year capital programme based on corporate priorities
- Three year service and financial planning linked to initiatives under the DRIVE programme such as Agile Working and Sustainable Service Delivery Strategy

2.2 The budget represents a further reduction in financial risk by:

- Building on a sound outturn position
- Balancing the base budget requirement without needing to use reserves
- Identifiable and deliverable savings with accountability and no general unspecified targets
- Reserves well above the minimum level
- Having no speculative budget increase in interest receipts
- Continued zero basing of reward grants
- Substantial progress towards the three year targets set out in the MTFS

3.0 **2011/12 Resources**

3.1 Government Formula Grant and Council Tax Grant

- 3.2 The grant settlement of £7.540m represents a reduction of £2.880m (£1.332m after adjusting for concessionary fares transfer) which is a 12.8% cut in cash terms plus the effect of inflation.
- 3.3 In addition to the formula grant the Government is financing the cost of a 2.5% increase in council tax (£203,000) for the next four years. It is not clear what will happen beyond that period.
- 3.4 Council Tax
- The proposal for no increase in council tax for 2011/12 would result in an unchanged Band D rate of £224.19.
- 3.5 The Council has to give an indication of likely future council tax rises, it is still expected that council tax will rise by no more than 2.5% per annum for each of the next three years.
- 3.6 Within this context for 2011/12, the Council will raise £8.241m from its share of the council tax. This is determined by multiplying the council tax base of 36,758 Band D equivalent dwellings by the Band D tax rate of £224.19.
- 3.7 Summary - 2011/12 Resources

A summary of the resources available is shown below:

Source:	<u>£'m</u>
Government Formula Grant	(7.540)
Council Tax Grant	(.203)
Council Tax	(8.241)
Collection Fund Surplus	(.009)
Total Resources Available	(15.993)

- 3.8 In order to achieve a balanced budget, the Council will need to set a net expenditure budget for 2011/12 of £15.993m in line with the available resources set out above.
- 3.9 In December the Cabinet put forward its draft budget proposals, the main movements since then are summarised below:

Item	£'000 Dr	£'000 Cr	Notes
Additional loss of RSG	220		(£931k v £1151k reduction)
Interest payable by HRA to General Fund	74		The "Item 8" - announced subsequently
Housing Subsidy / Overpayment recovery		(362)	As per Month 6 performance report - now quantified
Balance to be found reported in December	22		Removal of balancing figure
Growth and savings items (per appendix2)	6		Itemised in appendix 2
Increase in contingency	40		Now £114k pure contingency in addition to pay awards and contract inflation
	362	(362)	

4.0 **Specific Grants**

4.1 In addition to the general grant distributed through the formula grant system, which is given towards financing the Council's net expenditure, The Government also provides some specific grants. These specific grants will fund in part or in full, service costs. For 2011/12 Government has, to date, announced the following specific revenue grant allocations:

Specific Grant	2011/12 £m
Housing & Council Tax Benefit Subsidy – (To be confirmed)	51.780
Housing Benefit Administration	1.056
Homelessness	0.187

4.2 Housing & Council Tax Benefit Subsidy:

As part of a national scheme delivered locally, this grant is intended to reimburse the Council for the awards of benefit it makes to eligible tenants in both the private and public rented sector, and to eligible council tax payers. Not only is this by far the largest single specific grant that the Council receives, but it is performance related. The Council has improved its performance in recent years and therefore able to make a significant saving to the council tax payer.

4.3 Housing Benefit Administration:

This is to fund the cost to Eastbourne of administering the national Housing and Council Tax Benefits scheme.

4.4 Homelessness:

This is intended to assist with prevention and to find alternative accommodation other than bed and breakfast. Homelessness grant of £187,000 per annum has been confirmed for the year 2011/12.

4.5 Concessionary Fares

Responsibility for administering the scheme passes to East Sussex County Council (ESCC) from 1 April 2011, this Council will continue to provide a service to applicants in respect of applications and renewals and be reimbursed by ESCC. All financial risk for the scheme will transfer, however this Council will remain liable for any successful claims from operators relating to periods up to this date.

5.0 **Budget Movements**

The detailed budget proposals are set out in **(appendix 1)** which shows, in detail, the movement from the 2010/11 budget of £18.422m to the 2011/12 proposed budget of £15.993m. This movement is summarised below:

Movement from 2010/11 Base Budget	£'000	£'000
Change in resources:		
Main government grant	2677	
Council tax – increase in tax base/collection	(51)	
		2626
Cost pressures:		
Inflation	615	
Other unavoidable cost increases and changes in income	15	
Service Growth for Priorities	219	
		849
Savings:		
Service alterations	(37)	
Increased Income	(148)	
Other changes	(142)	
		(327)
Efficiency savings		(1419)
Transfer of Concessionary Fares		(1729)
TOTAL		(0)

- 5.2 Since the budget proposal approved by Cabinet in December, the main movements are shown in **Appendix 2**. The most significant change to the proposal as reported to the meeting was the Government grant settlement, however this and other minor changes are offset in full by other savings, principally in the housing benefit subsidy and overpayments budget as outlined in 4.2.
- 5.3 If Cabinet approves the proposals set out in the report it will be able to recommend to Council on 23 February a balanced budget in line with available resources of £15.993m summarised in 3.7.
- 5.4 The Council now follows a three year financial planning cycle and the service and financial plans have been set out in detail for 2011/12 and indicatively for future years.
- 5.5 The Government has set out a four year programme of reductions in funding and the Councils MTFs already takes account of this. The change programmes in place such as Agile and the SSDS and the rest of the DRIVE programme will deliver savings over and above the minimum in order to create headroom for investment in priority services. Substantial benefits realisation has already been shown in the service plans.

6.0 **Risks, Contingencies and Reserves**

- 6.1 All budgets contain an element of financial risk. The Council sets an operational budget with careful consideration of known risks, but accepts that this cannot cover every eventuality. As a consequence the Council sets a contingency budget and holds a minimum level of general reserve as a hedge against additional and significant financial turbulence.

6.2 Principal Risks

The key areas of financial risk that the Council faces in the operation of its 2011/12 budget are:

- Housing and Council Tax Benefit Subsidy Performance;
- Increased rate of inflation on goods and services;
- Income from services linked to customer choice (theatres, tourism; sports centres, car parking);
- Demand led services (e.g. bed and breakfast);
- Loss of events sponsors ;
- Legal and other costs of employment cases;
- Costs of significant planning and/or licensing appeals;

On an exception basis, information on each of the risk areas identified above, together with any new and significant risks that may emerge over the course of the year, will be included in each financial performance report to Cabinet during the 2011/12 financial year.

6.3 Contingency

The 2011/12 budget includes a single corporate contingency of £114,000 to allow for unbudgeted expenditure or reductions in income. This is in addition to the known inflation and projected pay awards that have been built into the service budgets.

6.4 Reserves

6.5 Part 2 of the 2003 Local Government Act requires the Chief Finance Officer to report on the adequacy of the proposed financial reserves, and determine the minimum level required. 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 Council's earmarked reserves are reviewed at least annually for adequacy. If at any time the adequacy is in doubt the Chief Finance Officer is required to report on the reasons, and the action, if any, that he considers appropriate.

6.6 Officers will always seek to contain any unforeseen additional costs within allocated annual budgets, including the contingency budget, or from the utilisation of earmarked reserves. However, it is proposed that in addition to these the minimum level of general reserves be set at £2m based on the following:

6.7

Risk	£'m
Unexpected Events e.g. flooding, major storm in excess of Bellwin Scheme provision	0.5
Significant financial overruns e.g. prior year negative Housing Benefits subsidy adjustments (1% of claim)	0.5
Exceptional fluctuations in income that have a major corporate impact e.g. loss of major sponsor close to an event (3% of income)	0.3
Cost of providing priority services during an incident or emergency in excess of insurance cover	0.3
Exceptional fluctuations in costs or demand that have a major corporate impact e.g. fuel costs	0.2
Cost of significant breach of legislation e.g. health and safety, human rights	0.2

6.8 The overall proposed minimum level of £2 million is the same as the previous year and in line with the risk assessment outlined above. It is the view of the Chief Finance Officer that this level of reserves remains adequate to meet the current commitments and proposals detailed within this report and any unforeseen expenditure that cannot met by external resources.

6.9 Should the budget recommendations be followed, the level of general fund reserve is projected at £3.7m in 2012 (**Appendix 1**) In addition to acting as a potential buffer against future grant settlements, this should create further opportunities for one off investments in the future.

6.10 Strategic Change Fund:

In 2008/9 the Council set up a strategic change fund to assist with the DRIVE programme. The balance of the fund at 1.4.11 is projected at £0.8m (**Appendix 1**) and will be used to implement further phases of the DRIVE programme. Any use of the fund is approved by the Cabinet subject to the scheme of delegation.

6.11 Earmarked Revenue Reserves:

The Council has been following a process of consolidating its reserves into the corporate reserves above. This better facilitates corporate priority planning.

6.12 The Chief Finance Officer is required to report specifically on the robustness of the budget estimates. In 2009 the Council's integrated service and financial planning process has been improved. A key objective of the process is to enable service managers to identify cost pressures, risks and other potential budget problems for consideration by Chief Officers and Members. The Chief Finance Officer is satisfied that this process provides a robust basis for identifying appropriate budget estimates.

7.0 **Capital Programme 2010-2014**

7.1 The principles for formulating the capital programme were set out in the draft budget report submitted to Cabinet on 15 December 2010 and the new block allocations approved at that meeting have been added to the existing 3 year rolling programme. The updated programme is attached at (Appendix 3) for approval.

7.2 The Following new resources were allocated to the Councils priorities for future allocation

Council Priority	Services	Amount (£'000)
Sustainable Performance	Corporate Services (Asset Management)	250
Thriving Communities	Community Services	200
"	Tourism and Leisure	150
Quality Environment	Environment & Planning	150
	TOTAL	750

7.3 A total of £202,000 has been allocated from the block allocations for additional individual schemes that have now been developed and added to the programme, also two further schemes totalling £42,000 being financed from Section 106 contributions have been added. These are highlighted in (**Appendix 3**)

- 7.4 The Cabinet has approved in principle a project for the installation of Solar Panels to generate sustainable energy. A provisional sum of £18.5m has been added to the capital programme over a two year period. This is subject to the final business case and details on the governance structure to oversee the project will be finalised in due course.
- 7.5 The Council has a policy of only using unsupported borrowing for schemes that are invest to save and can generate enough savings or additional income to service the financing costs.
- 7.6 The Housing Revenue Account capital programme is set out in another report on the agenda and once approved will be amalgamated with the general fund programme.
- 7.7 No uncertain future capital receipts have been factored into the available resource so there will be opportunities to supplement the programme as the three year period progresses. Potential disposals will be identified by the asset management plans.
- 8.0 **Consultation**
- 8.1 The Councils medium term financial strategy and the resulting draft budget proposal for 2011/12 as reported to Cabinet in December have been subject to wide and varied consultation. The outcome of which was reported to the Cabinet in December. The Scrutiny Committee held a finance event in October and has been invited to comment on the budget proposals.

9.0 **Implications**

9.1 **Financial**

The financial implications of all budget proposals are set out throughout the report and/or within its Appendices.

9.2 **Human Resources**

Implications have been discussed with Members through the detailed service and financial planning process, and where appropriate with the local Branch of Unison. Specific staff briefings have taken place as necessary.

9.3 **Environmental**

Both capital and revenue budget proposals include improvements to the maintenance of Council buildings and open spaces across the town. These include a number of energy efficiency initiatives to reduce usage, cost and emissions. Consultation with residents demonstrates that these types of initiatives are well supported and are seen as high priority areas for new investment.

10.0 **Conclusion**

10.1 The Council is well placed financially to meet the demands on its services as well as the reductions in Government support over the medium term.

Contact officer:

Alan Osborne

Chief Finance Officer

Background Papers:

The Background Papers used in compiling this report were as follows:

Cabinet reports:

15 December 2010

- Council Tax Base for 2011/12

- Draft Budget Proposals 2011/12

- Consultation on Council priorities

14 July 2010 – Medium Term Financial Strategy

- Sustainable Delivery Strategy

March 2010 – Agile Working Programme

To inspect or obtain copies of background papers please refer to the contact officer listed above.