

<b>Body:</b>	<b>Scrutiny</b>
<b>Date:</b>	<b>6 February 2012</b>
<b>Subject:</b>	<b>General Fund Revenue Budget 2012 / 13 and Capital Programme 2011 / 15</b>
<b>Report Of:</b>	<b>Chief Finance Officer</b>
<b>Ward(s)</b>	All
<b>Purpose</b>	To agree the detailed general fund budget proposals for 2012 / 2013 and Capital Programme 2011 / 2015.
<b>Recommendation:</b>	Members are asked to support the following proposals to Cabinet and Full Council: <ul style="list-style-type: none"> <li>(i) General Fund budget for 2011 / 12 (Revised) and 2012 / 13 (original) (<b>Appendix 1</b>) including growth and savings proposals for 2012 / 13 as set out in <b>Appendix 2</b>.</li> <li>(ii) No increase in the Council Tax for Eastbourne Borough Council resulting in an unaltered Band D charge of £224.19 for 2012 / 13.</li> <li>(iii) General Fund capital programme and financing 2011 / 15 as set out in <b>Appendix 3</b>.</li> </ul>
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## **1.0 Introduction**

- 1.1 This report sets out the general fund revenue budget proposals for 2012 / 13 and a three year capital programme 2011 / 15.
- 1.2 The Housing Revenue Account 2012 / 13 and associated capital programme, together with rent setting for 2012 / 13 is subject of a separate report elsewhere on this agenda.
- 1.3 The Council revised its medium term financial strategy (MTFS) in July 2011 and the Cabinet recommended a resulting draft 2012 / 13 budget proposal in December 2011.
- 1.4 The MTFS and resulting draft budget has been subject to extensive consultation as reported to Cabinet and Scrutiny in December.
- 1.5 The budget is the product of various plans and strategies as part of an integrated and 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 2012 / 13
- Overall savings totalling £1.222m (8% of the net budget)
- Efficiency savings of £0.899m (6%)
- Inflation of £0.606m (4%)
- Recurring service growth of £0.299m
- Non recurring service investments £0.568m
- All recurring expenditure met from recurring resources
- General Reserves averaging in excess of £4m (against a minimum recommended of £2m)
- Strategic change fund £0.4m
- Regeneration reserve of £0.7m
- Repairs and maintenance reserve of £0.8m
- Capital receipts of £0.5m invested in new capital schemes

2.2 The budget represents management of financial risks 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 unidentified 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 in July 2010 and 2011

## **3.0 2012 / 13 Resources**

3.1 Government formula grant and council tax grant

- 3.2 The grant settlement of £6.806m represents a reduction of £0.772m which is a 10% cut in cash terms plus the effect of inflation. This is on top of the 12.8% reduction in 2011 / 12. In aggregate terms this represents around 75% of the planned reduction over the life of the current parliament.
- 3.3 In addition to the formula grant the Government is financing the cost of a 2.5% increase in council tax (£206,000) for the one year only. This is in addition to the current year's freeze grant (£203,000) which is guaranteed for the lifetime of the parliament.
- 3.4 The Government awarded the Council £187,000 of new homes bonus in 2011 / 12 which is guaranteed for six years. In addition a further £190,000 for 2012 /13 has been awarded which will be added to the economic regeneration reserve to be used for future schemes to promote growth.
- 3.5 Council Tax
- 3.6 The proposal for no increase in council tax for 2012 / 13 results in an unchanged Band D rate of £224.19 for the Council (14% of the total bill).
- 3.7 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.
- 3.8 Within this context, for 2012 / 13, the Council will raise £8.292m from its share of the council tax. This is determined by multiplying the council tax base of 36,986 Band D equivalent dwellings by the Band D tax rate of £224.19.
- 3.9 Summary – 2012 / 13 Resources

A summary of the resources available is shown below:

<b>Source:</b>	<b>£'m</b>
Government formula grant	(6.806)
New Homes Bonus (first tranche)	(0.187)
Council tax grant	(.412)
Council Tax	(8.292)
Collection Fund Surplus	(0.009)
<b>Total Resources Available</b>	<b><u>(15.706)</u></b>

- 3.10 In order to achieve a balanced budget without using reserves, the Council will need to set a net expenditure budget for 2012 /13 of £15.706m in line with the resources set out above.
- 3.11 In December the Cabinet put forward its draft budget proposals, the main movements since then are itemised below:

<b>Item</b>	<b>£'000</b>
Reduced charge to the HRA	6

Increase in contingency	36
Increase in available funding/other	(33)
Reduced inflation	(6)
Saving on telephone allowances	(3)
Total	0

#### 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.

<b>Grant</b>	<b>2012 / 13 £'000</b>
Housing & Council Tax Benefit Subsidy (yet to be confirmed)	53,651
Housing Benefit Administration	998
Homelessness	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. A new system of universal credits is due to start in 2013/14 however responsibility for council tax credit will be devolved to Councils at 9/10 of the current cost ( i.e. c£9m of c£10m) The Council will need to design a scheme during 2012/13 that meets the financial constraint and protects pensioners. Cabinet will be updated during 2012/13.

4.3 Housing Benefit Administration:

This is to fund the cost to Eastbourne of administering the national Housing and Council Tax Benefits Scheme. This represents a reduction of 5% from the 2011/12 funding.

4.4 Homelessness:

This is intended to assist with prevention and to find alternative accommodation other than bed and breakfast.

4.5. New Homes Bonus:

This was started in 2011/12 (£187,000) and is guaranteed for six years. A further £190,000 has been awarded for 2012/13. The Council's policy as outlined in the MTFs is to use the additional grant for economic regeneration initiatives. A separate reserve has been set aside for that purpose.

#### 5.0 Budget movement 2011/12 to 2012/13

5.1 The detailed budget proposals are set out in **(Appendix 1)** show in detail the movement from the 2011/12 budget to the 2012/13 proposed budget. The movements are summarised below:-

5.2	<b>Movement from 2010/11 Base Budget</b>	<b>£'000</b>	<b>£'000</b>
	<b>Change in resources:</b>		
	Main government grant	772	
	Council tax – increase in tax base/collection	(51)	
	Council tax/New homes grants	<u>(396)</u>	325
	<b>Cost pressures:</b>		
	Inflation	606	
	Other unavoidable costs increases and changes in income	114	
	Service growth for priorities	<u>185</u>	905
	<b>Savings:</b>		
	Efficiency savings	(899)	
	Service alterations	(43)	
	Increased Income	<u>(280)</u>	
			(1222)
	<b>Other</b>		<u>(8)</u>
	<b>Total</b>		<b>(0)</b>

5.3. Since the draft budget proposals approved by Cabinet in December, movements since are shown in **(Appendix 2)**. There are no material changes to the draft budget.

5.4. If Cabinet approves the proposals set out in the report it will be able to recommend to Council on 22 February a balanced budget in line with available resources of £15.707m summarised in 3.7.

5.5 The Council now follows a three year financial planning cycle and the service and financial plans have been set out in detail for 2012/13 and indicatively for 2013/14. The next MTFS due in July will project forward a further three years and continue to provide the basis of service and financial planning for the medium term.

5.6 The Government set out a four year programme of reductions in funding and the Councils current 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 show in the service plans and further significant contributions to efficiency are projected over the medium term.

## **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

6.3 The key areas of financial risk that the Council faces in the operation of its 2012/13 budget are:-

- Housing and Council Tax Benefit Subsidy Performance
- 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)
- Legal challenges
- 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 2012/13 financial year.

6.4 Contingency

6.5 The 2012/13 budget includes a corporate contingency budget of £222k to allow for unbudgeted expenditure or reductions in income. This is in addition to the known inflation that has been built into the service budgets. The Government has announced a 1% cap on pay rises in 2012/13, should the employers recommend an award up to this amount it will be met from this contingency.

6.6 Reserves

6.7 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.

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

6.9	<b>Risk</b>	<b>£m</b>
	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 (2.5% 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
<b>TOTAL</b>	<b>2.0</b>

6.10 The overall proposed minimum level of £2 million is the same as the current 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 be met by external resources. It should be noted that the changes to the benefits system and local retention of business rates timetabled for 2013/14 and beyond will necessitate a review of the minimum level of reserves.

6.11 Should the budget recommendations be followed, the level of general fund reserve is projected at £3.7m in 2013 (**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.

6.12 Earmarked Reserves:

6.13 The following reserves have been set aside in addition to the general reserve in order to facilitate projects under the DRIVE programme. The available balances at 1.4.12 are projected to be:

<b>Reserve</b>	<b>Purpose</b>	<b>Amount £'000</b>
Strategic Change	To fund internal projects under DRIVE	441
Repairs and Maintenance	To support the Asset Management Plan	759
Economic Regeneration	To promote economic growth	672

6.14 Other earmarked revenue reserves:

6.15 The Council has been following a process of consolidating its reserves into the corporate reserves above. This better facilitates corporate priority planning. The only further reserves that the Council holds have other obligations attached (e.g. Section 106/partnership contributions).

6.16 The Chief Finance Officer is satisfied that the integrated budget and corporate planning process provides a robust basis for identifying appropriate budget estimates and appropriate level of reserves.

## **7.0 Capital Programme 2011-2015**

7.1 The principles for formulating the capital programme were set out in the draft budget report submitted to Cabinet on 15 December 2011. The proposed new schemes to be financed from the Council's own resources are listed below. The updated programme is attached at **(Appendix 3)**.

7.2 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.

7.3 In addition to schemes that qualify for borrowing the Council had a further £500k of capital receipts to apply to the programme.

7.4 The Housing Revenue Account capital programme is set out in another report on the agenda and is financed entirely from HRA resources. Once approved will be amalgamated with the general fund programme.

7.5 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.

7.6 New schemes that have been added to the programme are show in **bold** in appendix 3.

## **8.0 Consultation**

8.1 The Council's medium term financial strategy and the resulting draft budget proposal for 2012/13 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**

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

### **9.3 Human Resources**

9.4 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.

### **9.5 Environmental**

9.6 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.

Alan Osborne  
Chief Finance Officer

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### **Background Papers:**

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

Cabinet reports:  
December 2011

- Council Tax Base for 2012/13
- Draft Budget Proposals 2012/13
- Consultation on Council priorities
- Sustainable Service Delivery Strategy

July 2011 – Medium Term Financial Strategy

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