

COMMITTEE:	CABINET	
DATE:	9 FEBRUARY 2005	
SUBJECT:	COUNCIL'S BUDGET 2005/06	
REPORT OF:	DIRECTOR OF FINANCE AND CORPORATE SERVICES	
Ward(s):	All	
Purpose:	To agree detailed budget proposals for 2005/2006 covering general fund revenue, housing revenue, capital expenditure and treasury management for recommendation to full Council on 23rd February 2005.	
Contact:	Sue McHugh, Director of Finance and Corporate Services telephone 01323 415104 or internally on extension 5104.	
Recommendations:	Members are asked to recommend the following budget proposals to full Council:	
	1.	General fund expenditure, growth and savings proposals as set out in section 2 and Appendices A and B.
	1.	Use of 2005/06 Planning Delivery Grant as set out at 2.2.2.
	1.	Increase in Eastbourne Borough Council Council Tax charge of 2%, equating to a Band D charge of £194.00.
	1.	Additions to and allocations from the Strategic Change Fund as set out at 2.1.
	1.	Housing Revenue Account income and expenditure proposals as set out at Section 3 and Appendix D.

	1.	Capital expenditure and resourcing proposals as set out in Section 4 and Appendices E, F and G.
	1.	That the Council adopts the prudential indicators and limits for 2005/2006 to 2007/2008 set out in Appendix H.
	1.	That the Council adopts the Treasury Management Strategy for 2005/2006 set out in section 6 of the report and the treasury prudential indicators for 2005/2006 to 2007/2008 set out in Appendix I.
	1.	That the Council adopts the investment strategy 2005/06 contained in the treasury management strategy, and the detailed criteria included in Appendix J.

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Appendix J Budget Consultation Minutes

1.0	<u>Introduction</u>	
1.1	This report sets out budget proposals for 2005/06 covering each area of Council spending: General Fund, Housing Revenue Account (HRA) and Capital. In relation to each area the report sets out:	
	<ul style="list-style-type: none"> • The budget position in relation to 2004/05 and any implications for future years; 	
	<ul style="list-style-type: none"> • The resources available for 2005/06; 	
	<ul style="list-style-type: none"> • Feedback from consultation with the public and other stakeholders; 	

	<ul style="list-style-type: none"> · 2005/06 budget proposals; 	
	<ul style="list-style-type: none"> · Risks and contingencies; 	
	<ul style="list-style-type: none"> · The outlook for 2006/07 onwards. 	
1.2	The Council has developed financial strategies in relation to each area of Council spending in recent years:	
	<ul style="list-style-type: none"> · In relation to the general fund a five year strategy was initially developed and consulted on during 2003 and has been amended and developed over the past year (Cabinet July 2004). 	
	<ul style="list-style-type: none"> · In relation to the Housing Revenue Account business plans have been drawn up for the medium term. 	
	<ul style="list-style-type: none"> · In relation to Capital, the current strategy was agreed by Council in July 2003. 	
1.3	The Audit Commission's Annual Audit and Inspection Letter highlights the quality of the Council's Financial Strategy and budgetary framework as providing a strong environment for maintaining its financial standing.	
2.0	<u>General Fund Revenue Account</u>	
2.1	<u>2004/05 position</u>	
	The budget position for 2004/05 based on expenditure to 31 st December 2004 and the forecast outturn at 31 st March 2005 are as follows:	

	Budget to Date £000	Actual to date £000	Under/ Overspend £000	Forecas t Outturn £000
Chief Executive	998	977	Cr 21	Cr 9
Finance and Corporate Services	3,211	3,311	100	140
Housing, Health and Community Services	2,161	2,192	31	52
Economy, Tourism and Environment	4,053	3,863	Cr 190	Cr 198
Corporate Contingency	382	382	0	0
	10,805	10,725	Cr 80	Cr 15
The General Fund balance at 1 st April 2004 stood at £1 million, which is the recommended level. Any underspend at 31 st March 2005 will be added to the Strategic Change Fund.				
The current position on the Strategic Change Fund is as follows:				
			£000	
Balance at 1 st April 2004			120	
Approved allocations during 2004/05			(18)	
Additions during 2004/05			31	

		Cabinet on 15 th December received a confidential report on human resources implications of the 2005/06 budget and Medium Term Financial Strategy. This identified a number of areas where redundancies are possible with associated costs to be borne by the Council. Any costs are not quantified at this stage but would be a charge on the 2004/05 budget or Strategic Change Fund as necessary.	
2.2		<u>2005/06 Resources</u>	
2.2.1		Cabinet on 15 th December received a report on the proposed government grant settlement for 2005/06. As requested, I have written to the Office of the Deputy Prime Minister (ODPM) to highlight the shortfall in the proposed grant increase when compared with the spending pressures the Council faces. The level of government grant has now been confirmed at the level originally proposed.	
		As previously reported, the grant for 2005/06 is £8,987,345, an increase of £242,627 compared to 2004/05. This includes £23,423 relating to civil contingences, which were previously funded from specific grant. On a “like for like” basis the allocation has increased by £219,204 or 2.5%.	
		The settlement includes £666,000 of “floor protection” i.e. the grant we receive would be reduced by this amount if the current policy of providing a minimum uplift for all Councils were to change.	
2.2.2.		On 15 th December 2004 ODPM issued consultation documents on proposed Planning Delivery Grant Allocations for 2005/06 and Changes to the System of Planning Fees. There are a number of elements to the proposed Planning Delivery Grant allocations:	
		i. A targeted allocation relating to high housing demand and growth, which for Eastbourne Borough Council is £78,444.	
		ii. A targeted allocation relating to “e” planning, which for Eastbourne Borough Council is £20,909.	
		iii. Performance related allocations relating to meeting planning targets and performance improvement. The allocations range from £100,000 - £400,000 depending on numbers of decisions and performance.	
		iv. A minimum allocation for all Councils relating to plan-making and dependent on submission of Local Development Schemes by the deadline of 28 th March 2005 of £52,010.	

	Allocations will be split 75% revenue, 25% capital, in order that a proportion should be used for investment in systems. As in previous years, the grants are not ringfenced (i.e. Councils are not required to spend it on planning services).	
	Consultation ended on 28 th January and allocations (excluding the element relating to plan making) are expected to be confirmed during February and paid in April. Allocations relating to plan-making are also expected to be confirmed during April. The allocation for Eastbourne Borough Council is expected to be in the region of £300,000 (£250,000 revenue and £50,000 capital). Of the revenue element £97,000 is earmarked for Town Centre Redevelopment and staffing requirements, as reported to Cabinet in October. ODPM has also confirmed that Planning Delivery Grants will continue in future years and intends to announce the 2006/07 allocations in November 2005.	
	In relation to Planning fees ODPM is responding to representations from local government that Planning fees should meet the costs of providing the service. Overall average increases in fees of 39% are proposed for 2005/06, with the largest increases for major applications. However, taking account of the forecast level of applications for 2005/06 no change to the overall budgeted level of income is proposed.	
2.2.3	On 9 th December 2004 the Department of the Environment, Food, and Rural Affairs (DEFRA) announced a three year targeted local authority Waste Performance and Efficiency Grant. The grant is not ringfenced but is intended to support new and more efficient ways to deliver waste reduction and increase recycling and diversion from landfill. Nationally, local authorities will receive £40m in 2005/06, £105m in 2006/07 and £110m in 2007/08. DEFRA is considering making single allocations to countywide, county/district waste partnerships from 2006/07 onwards in order to encourage joint working. Decisions on the future of the grant beyond 2007/08 will be taken in the context of Spending Review 2006.	
	The allocation for Eastbourne Borough Council for 2005/06 is £29,546. The national funding has been split between local authorities using a formula based on population, adjusted to take account of commuters and day visitors and variations in waste operatives' wage costs. The same formula will be used for years two and three, which would suggest that Eastbourne Borough Council may receive approximately £70-£80,000 for each of those years.	
2.3	<u>Consultation</u>	
2.3.1	During 2003 the Council undertook very comprehensive public consultation to inform the development of the Medium Term Financial Strategy. This included a leaflet to all households which attracted over 3,000 responses, and in-depth interviews with individuals and groups to establish their priorities for growth and savings and views on Council Tax levels (Simalto). This exercise has provided a picture of residents' and stakeholders' perceptions and priorities that is of continuing relevance. In view of this, consultation during 2004 has been more focused and has not involved the same levels of expenditure as were incurred during 2003. Feedback on consultation during 2004 was provided to December Cabinet. On 24 th January 2005 business and community groups attended a meeting to comment on the budget proposals. The minutes of that meeting are attached at Appendix K.	
2.3.2	The key messages from consultation are:	
	· Keeping down Council Tax levels is a high priority for residents:	

	<ul style="list-style-type: none"> •All stakeholders expect the Council to deliver savings from improved efficiency, including different ways of delivering services, in preference to cuts in services. 	
	<ul style="list-style-type: none"> · There is much less opposition to increasing income, particularly by reducing subsidies for specialist leisure interests, than to cuts in services. 	
	<ul style="list-style-type: none"> · Maintaining the quality of the local environment, including parks and gardens, is a very high priority for local people and there is considerable opposition to cuts in this area. 	
	<ul style="list-style-type: none"> · Measures to reduce waste and improve recycling, particularly for green waste, are very popular. 	
	<ul style="list-style-type: none"> · Improvements in the quality and availability of housing are also a high priority. 	
	<ul style="list-style-type: none"> · There is concern about cuts that may damage the tourism industry and also about crime and anti social behaviour. 	
2.4	<u>Budget Proposals</u>	
2.4.1	Cabinet in December made a number of decisions in relation to growth and savings and further decisions are now required. Details of all proposed budgets are attached at Appendix A with growth and savings at Appendix B.	
2.4.2	<u>Growth</u>	
	Members have indicated that they wish to support the following growth:	
	<ul style="list-style-type: none"> · £102,000 to implement green garden waste and plastics recycling services. 	
	<ul style="list-style-type: none"> · £10,000 to increase the tourism awareness advertising campaign. 	
	<ul style="list-style-type: none"> · £15,000 to increase expenditure on enforcement and replace the street warden scheme for which government funding has ended. 	
	<ul style="list-style-type: none"> · £10,000 increase in the budget for voluntary sector grants. 	
	<ul style="list-style-type: none"> · £70,000 to implement procurement proposals for services including theatres, leisure services, seafront attractions. 	

	<ul style="list-style-type: none"> · £120,000 to commence planning led improvements at Key Council-owned land holdings, with a commitment to similar investment for 2006/07 and 2007/08. 	
	<ul style="list-style-type: none"> · £2,000 for an event to mark the 60th anniversary of VE/VJ. 	
	<ul style="list-style-type: none"> · £15,000 to continue Towner on the Town art outreach work. 	
	<ul style="list-style-type: none"> · £40,000 for staff recruitment, development and training. 	
	<ul style="list-style-type: none"> · £8,000 for countywide traveller management services. 	
	<ul style="list-style-type: none"> · £9,000 for land maintenance improvements. 	
	<ul style="list-style-type: none"> · £7,000 to continue funding towards Christmas lights. 	
	<ul style="list-style-type: none"> · £7,000 for shoreline exclusion buoys to protect bathers. 	
	£120,000 of Planning Delivery Grant and the £29,546 Waste Performance and Efficiency Grant will contribute to the funding of the above growth.	
	<u>Recycling</u>	
	Details of the new recycling services were presented to Cabinet in December and agreed by full Council on 19 th January.	
	<u>Enforcement</u>	
	Following the ending of government funding for the Community Street Warden (CSW) Service, a sum of £100,000 incorporating significant budget growth, is being used to create a new team of Council Enforcement Officers who will operate throughout Eastbourne.	
	Proposals reflect the fact that since the development of the current CSW Service which operates in only three areas of the town, Sussex Police have now deployed a team of 12 Police Community Support Officers (PCSOs) together with additional powers, in local areas throughout the whole of Eastbourne.	

	<p>The Council's new Enforcement Team will target nuisance and anti-social behaviour, working closely with existing staff and partners to provide a more robust and responsive enforcement role for the Council. Their introduction will be accompanied by the creation of an additional Crime Reduction Partnership (CRP) role, focusing specifically upon high priority young offenders.</p>	
	<p>In addition to taking account of the changing role and growing number of Police Community Support Officers (PCSOs) and wider Crime Reduction Partnership objectives, our four new staff will add considerable teeth to existing Council services. They will allow us to prioritise and respond to a wide range of nuisance and anti-social behaviour issues, as well as programme high profile initiatives in response to the serious needs and concerns of local residents.</p>	
	<p><u>Procurement</u></p>	
	<p>The Council's procurement programme includes implementation of new management arrangements during 2005/06 for theatres, leisure services and seafront attractions. The new arrangements are expected to deliver benefits including capital investment, revenue savings and reduced risk in future years. However, there are costs associated with implementation of changes, including specialist legal, financial and consultancy services which the Council funds through the Strategic Change Fund. As set out in Section 2.1, the balance on the Strategic Change Fund stands at £133,000 which is not considered adequate to cover potential demands during 2005/06. Therefore an additional £70,000 will be added to the Fund to meet these costs. This will bring the opening balance on the fund at 1st April 2005 to £203,000. Members are asked to agree an initial allocation from this fund of up to £30,000 to fund the next stage of work on theatres, in advance of Cabinet's consideration of the way forward in April.</p>	
	<p><u>Planning Improvements at Council-owned land holdings</u></p>	
	<p>The Council owns a number of sites around the town that are currently not being optimised and that could make a significant contribution to the Council's regeneration priority. The growth allocated will be used to carry out the complex analysis and pre planning surveying and consultation that will be required to bring forward development options for approval by Council. Initially this work will commence with an options appraisal for Fisherman's Green. Any proposals will be subject to full public consultation before any decisions are taken.</p>	
2.4.3	<p><u>Savings Proposals</u></p>	
	<p>Details of all savings were provided to December Cabinet and are summarised at Appendix B.</p>	
2.4.4	<p><u>Council Tax Charges</u></p>	
	<p>As a consequence of the above decisions the Band D Council Tax charge for Eastbourne Borough Council will increase from £190.20 to £194.00, a 2% increase.</p>	

2.4.5	<u>Efficiency Targets</u>	
	Cash releasing savings of £1,025,000 contribute to balancing the budget and keeping the Council Tax increase to 2%, equal to 6.7% of the current budget. This includes £551,000 of efficiency savings, equal to 3.5% of current budget. The Government expects local authorities to achieve a target of 2.5% efficiency per year in total, of which 1.25% should be cash releasing savings.	
2.5	<u>Contingencies and Risks</u>	
2.5.1	The proposed level of general balances is £1 million. This is in line with recent years. In my view this is the appropriate level to provide cover for unforeseen events.	
2.5.2	The budget contains a provision for contingencies of £220,000. As in previous years, this is based on an assessment of the key areas of financial risk that the Council faces. The key financial risks are considered to be:	
	· Income from trading services (theatres, seafront attractions, parking).	
	· Fees from services linked to property market (Development Control, Building Control and Local Land Charges).	
	· Housing and Council Tax Benefit Subsidy.	
	· New liquor and entertainment licensing.	
	· Transition to new service delivery arrangements (ALMO, Lifeline)	
	· Legal and other costs of employment cases.	
	· Demand led services (bed and breakfast, concessionary fares).	
	· Areas subject to in-year cost/price fluctuation (investments, energy costs).	
	· Strategic Change Projects (Town Centre redevelopment, Cultural Centre, Customer Contact Centre).	
	· E-Government efficiency targets.	

	Information on each of the above areas will be included in each budget update report during the course of the year.	
2.5.3	The Council has been exposed to significant risks in relation to Housing and Council Tax Benefits due to problems with claims processing from 2000 onwards. Cabinet has previously been advised that the claims for 2001/02 and 2002/03 have now been settled by Department of Work and Pensions without deductions for incorrectly paid benefit. Cabinet and the Department of Work and Pensions have been made aware that there could be some continuation of these problems for the 2003/04 claim. The Audit Commission have now completed the audit of the 2003/04 claim and have identified two cases where Rent Officer Determinations were not in place for parts of the year. If the Department of Work and Pensions extrapolate these errors to establish an estimate of total incorrectly paid benefit the total subsidy at risk would amount to £333,969. Based on the Department of Work and Pensions policy in relation to incorrectly paid benefit this could result in a potential loss of subsidy in the range £0 - £67,000. To date the Department of Work and Pensions has accepted Eastbourne Borough Council's case that the problems with Rent Officer Determinations were a one off due to work backlogs linked to the introduction of new computer systems during 2001. No provision has been made for any loss of subsidy arising from the above. Any loss would need to be borne by the corporate contingency budget or balances.	Subsidy
2.5.4	I am required to report specifically on the robustness of the budget estimates. The Council's Service and Financial Planning process has now been running for three years. A key objective of the process is to enable service managers to identify cost pressures, risks and other potential budget problems for consideration by Corporate Management Team and Members. I am satisfied that this process together with work done on corporate budgets provides a robust basis for identifying appropriate budget estimates.	
2.6	<u>2006/07 onwards</u>	
	The Medium Term Financial Strategy forecast to 2009/10 is attached at Appendix C. Further savings of £947,000 are required for 2006/07, £1,843,000 for 2007/08, £2,812,000 for 2008/09 and £3,832,000 for 2009/10. Key work programmes and initiatives that are intended to contribute towards these targets are:	
	<u>2006/07</u>	
	· Theatres outsourcing	
	· Printing options appraisal	
	· Benefit Fraud options appraisal	
	· Payroll options appraisal	
	· Leisure facilities outsourcing	

	· Seafront activities outsourcing	
	· Local Authority Business Growth Incentive Scheme (LABGI)	
	· Performance Reward grant of up to £307K from contribution to ESCC Public Service Agreement	
	<u>2007/08</u>	
	· Council Tax/Business Rates options appraisal	
	· Benefits options appraisal	
	· Performance Reward Grant of up to £307K	
	· Local Authority Business Growth Incentive Scheme	
	<u>2008/09 and Subsequent Years</u>	
	· Procurement Strategy	
	· Parking Decriminalisation	
	· Local Authority Business Growth Incentive Scheme	
	Other potential contributions to future savings requirements longer term include Town Centre Redevelopment.	
	A review of the forecast to 2009/10 will be carried out in preparation for 2006/07 budget setting and reported to Cabinet in the Spring.	
3.0	<u>Housing Revenue Account</u>	

3.1	<u>Current Financial Position</u>	
	A separate report on the Cabinet agenda today presents the financial position to the end of December together with a forecast outturn for the full year. This is the fifth such regular report for the current year.	
	The latest position shows an underspend of £356,000 at December. This is forecast to be £150,000 underspent at outturn. Recent history suggests that forecast outturn figures are generally prudent.	
	Any under or overspend at year-end will be added to or drawn from the Housing Revenue Account working balance.	
3.2	<u>2005/06 Budget Proposals</u>	
	A separate report on the Cabinet agenda today entitled "Council Housing Rent Setting and outline of Housing Revenue Account Budget for 2005/06" recommends the following:	
	<ul style="list-style-type: none"> • a 2.75% average increase for housing rents • a 2.5% increase for garage rents • a 2.5% average increase for service charges 	
	The report provides very detailed analysis of the factors that influence the above recommendations and it is not proposed to replicate them within this report	
	The 2005-2006 budget for the Housing Revenue Account is presented at Appendix D. It provides for matching income and expenditure of £13,663,000 to produce a balanced budget.	
	Members will be aware that this will be the second financial year in which rent rebates are paid for out of the General Fund and not the HRA. As a consequence both the gross expenditure and gross income are much reduced compared to the actuals shown in the 2003-2004 column of Appendix D.	
	Where benefit is not subsidised at 100% there may be a cost to the general fund. This cost is partially protected by a transitional protection scheme, which will operate at 50% of a defined threshold in 2005/06, but reduce to 0% from 2006/07 onwards. For 2005-2006 a provision of £400,000 has been made but year on year these costs will reduce until they eventually cease.	
3.3	<u>Housing Subsidy</u>	

	The principal driver for determining the HRA budget continues to be housing subsidy. This is because Government views housing as a national service delivered locally and consequently uses the housing subsidy mechanism to influence policy.			
	On a like for like basis, year on year subsidy has increased by £548,000 overall. However, this masks some major changes as the following table shows:			
		2004-05	2005-06	Change
		£000	£000	£000
	Management and maintenance	5,195	5,493	+ 298
	Major repairs allowance	2,533	2,590	+ 57
	Charges for capital	2,935	3,188	+ 253
	Rent	(9,897)	(9,890)	+ 7
	Other items	125	58	- 67
	Total	891	1,439	+ 548
	Management and maintenance has increased substantially in line with Government's commitment to offset the loss of subsidy from charges for capital. This allows additional funding to be directed into these areas of the budget. An increase of £100 per property has been allowed for the maintenance allowance compared with an extra £11 per property for management expenditure. It is important to note that the net charge also includes loss of subsidy through reduced stock numbers as a consequence of sales through the right to buy scheme.			
	The major repairs allowance has increased by less than the average Government inflation indicator. The formula is now based on 13 archetypes (as opposed to 11 in the previous years). This allowance supports the investment through capital expenditure of measures to meet the decent homes standard.			
	Each year the Government sets the guideline rents to which it adjusts the subsidy levels by withdrawing the equivalent amount in subsidy. Currently we are about to enter the fourth year of the transition of the move towards rent convergence over the ten year period.			

3.4	<u>Budget Growth</u>	
	The subsidy determination for 2005/06 provided an increase in subsidy for the HRA of £548,000 of which £300,000 was for management and maintenance.	
	Repairs and Maintenance has been increased by £423,000 to £3,529,000, and Supervision and Management by £362,000 to £3,661,000.	
	An extra £210,000 will be used to support the HRA capital programme, providing a total of £710,000 additional investment in the housing stock.	
3.5	<u>Budget Savings</u>	
	The main area of saving compared with the 2004-2005 budget is capital finance charges that have reduced by £250,000. Principally this is because the HRA no longer has to provide a contribution to the deferred purchase account as the balance of the loan will be paid off at the end of March 2005.	
	The contribution the HRA makes to the General Fund for Rent Rebates is reduced by £100,000 as the phasing adjustment for non-limitation deductions is halved.	
3.6	<u>Working balance</u>	
	The proposed level of working balance is £500,000. This is in line with recent years. In my view this is the appropriate level to provide cover for unforeseen events.	
4.0	<u>Capital</u>	
4.1	<u>2004/05 Programme</u>	
	The 2004/05 revised budget shown in the separate budget update report on today's agenda incorporates schemes brought forward from 2003/04, and is reduced by schemes rescheduled into 2005/06.	
	The HRA capital budget is on target and on course to be delivered in full.	
	The progress on the General Fund Capital schemes has always been very much dependent upon the generation of capital receipts. There has been a significant reduction in the number of sales through the right to buy scheme. The larger capital receipt required to support the release of more schemes in the current financial year is now expected in 2005/06.	

	There has been an increase in usable receipts from a recent upturn in right to buy sales in December and January. However it may not be possible to match expenditure with these resources before 31 March as most capital projects have a long lead in time (including private sector grant payments). Any unused resources will be carried forward to 2005/06 with slippage from the relevant schemes. To date there is known slippage of £3,179,000 which is shown in the Capital Strategy (Appendix G)		
4.2	<u>2005/06 Resources</u>		
4.2.1	The Government has announced the following capital resources for Eastbourne Borough Council for 2005/06.		
		£000	
	HRA Supported borrowing	1,085	
	HRA Major Repairs Allowance	2,590	
	Disabled Facilities Grant	259	
	General Fund Housing Supported Borrowing	336	
	E-Government	150	
	Coast Protection Support	30	
		<u>4,450</u>	
4.2.2	Usable capital receipts from asset disposals are forecast to be £8,147,000. All disposals for 2005/06 have previously been approved by Cabinet.		
4.2.3	£710,000 of HRA revenue reserves are available to support the HRA capital programme.		
4.3	<u>Budget Proposals</u>		

4.3.1	Members have indicated that they wish to approve the capital expenditure programme set out at Appendix E. The key elements are:		
		£000	
	Schemes brought forward from 2004/05	3,179	
	Council housing	4,385	
	New affordable housing	1,402	
	Disabled Facilities Grants	500	
	Private Sector housing renewal	507	
	I.T. and E-Government	450	
	Cultural Centre	200	
	Maintenance/Health and Safety	1,062	
	Other	158	
		11,843	
4.3.2	The draft 2005/06 HRA capital programme focuses mainly on decency related expenditure, with 10% on non-decency related expenditure.		
	There will be increased budgets for central heating and insulation and replacement of domestic boilers.		
	The replacement windows programme will be announced later in the year when funding is received through the move to the Arms Length Management Organisation (ALMO).		

4.3.3	Eastbourne received a good allocation of funding from the Housing Corporation in the last Approved Development Programme (ADP) bidding round.	
	Details of the affordable housing programme are attached as Appendix F. Nearly £5.5 million was received in ADP grant, with a further £5.8 million being contributed by Housing Associations.	
4.3.4	The maintenance programme includes £400,000 of repairs to leisure facilities, the need for which has been identified through best value reviews of these services. It also includes backlog repairs to a number of parks, gardens and playgrounds. The intention is to provide ongoing revenue funding to maintain those facilities from 2006/07 onwards. Detailed requirements will be developed over the coming year.	
4.4	<u>Contingencies and Risks</u>	
	The key risks in relation to the 2005/06 programme are:	
	· Under-achievement of capital receipts. The current receipts forecast shows most receipts secured in the early part of the year. However, as in previous years, expenditure programmes will not be released until receipts are secured.	
	· Management of significant new programmes, particularly the Cultural Centre and completion of Winter Garden re-roofing. Progress on these schemes will be closely monitored and reported regularly to Cabinet, so that the overall programme can be adjusted should this prove necessary.	
	· The forecast level of capital receipts provides £1,464,000 of resources in excess of those required to fund the programme, which provides a contingency against the above risks.	
5.0	<u>Prudential Capital Finance System</u>	
5.1	<u>Introduction</u>	
	This is the second full year of the operation of the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code. The Prudential Code operates through the provision of prudential indicators that highlight particular aspects of capital expenditure planning. Each indicator provided during the 2004/05 budget process has been updated and provided for the next three years. These are shown within Appendix H. This is in accordance with the Prudential Code that requires the Council to approve certain mandatory prudential indicators.	

5.1.1	<p>In setting its prudential indicators, the Council is required to have regard to the following matters:</p> <ul style="list-style-type: none"> • Affordability, e.g. implications for council tax and housing rents • Prudence and sustainability, e.g. implications for external borrowing • Value for money, e.g. option appraisal • Stewardship of assets, e.g. asset management planning • Service objectives, e.g. strategic planning • Practicality, e.g. achievability of future plans 	
5.1.2	<p>The purpose of the prudential indicators is to provide a framework for capital expenditure decision making. They highlight the level of capital expenditure, the impact on borrowing and investment levels, and the overall controls in place to ensure the activity remains affordable, prudent and sustainable.</p>	
5.1.3	<p>Within the overall capital expenditure framework there is a clear impact on the Council's treasury management activity, either through increased borrowing levels or the application of investment balances. As a consequence the treasury management strategy for 2005/06 is included within this report to draw out the expected treasury management activity. This report also includes the treasury prudential indicators. The production of the treasury management strategy is a requirement of the CIPFA Code of Practice on Treasury Management.</p>	
5.1.4	<p>In addition, part of the treasury strategy requirements is the formulation of an investment strategy. Investment guidance issued by the Office of the Deputy Prime Minister (ODPM) in March 2004 overlaps into the Code of Practice requirements. The reporting requirements of the ODPM guidance has therefore been incorporated into the treasury management strategy, with the detailed criteria included within Appendix H.</p>	
5.2	<p>Capital Expenditure and the Capital Financing Requirement</p>	
	<p>The Council's capital expenditure plans will be partially financed by resources such as capital receipts, capital grants, and revenue contributions. The remaining element that can not be immediately financed from other sources will impact on the Council's underlying need to borrow (the Capital Financing Requirement, or CFR). The summary capital expenditure, financing and the impact on the CFR are shown within Appendix H. This forms one of the required prudential indicators.</p>	
5.2.1	<p>A certain level of capital expenditure will be supported by Government; anything above this level will be unsupported and will need to be financed from the Council's own resources. The remaining element of the Council's capital expenditure plans that can not be immediately financed from other sources such as capital receipts, capital grants, and revenue contributions, will be financed by the amount of borrowing supported by Government.</p>	
5.2.2	<p>A key risk of the Council's forward capital expenditure plans is that the level of government support has been estimated and is therefore subject to change. Similarly some of the estimates for other sources of funding, such as capital receipts, may also be subject to change over time.</p>	

5.2.3	<p>The Council's budget planning for 2005/06 has not included the option to borrow to finance capital expenditure above the level of Government support. If the Council was to choose to do so this would be classed as unsupported borrowing and would need to be financed by an increase in council tax or in weekly housing rent.</p> <p>The General Fund medium term financial strategy makes no allowance for the cost of unsupported borrowing. Any such costs would need to be consistent with its key strategic objectives, particularly to be affordable within the level of any council tax increase.</p> <p>The HRA strategy is very clearly focussed on achieving at least a 2 star ALMO inspection rating to provide the shortfall in capital resources required to meet the decent homes standard. The HRA business plan makes no provision for additional unsubsidised costs to finance unsupported borrowing.</p> <p>Members may wish to review this in future years as circumstances change, but for 2005/06 no unsupported borrowing will be taken.</p> <p>As a consequence, the incremental impact of capital investment decisions on the levels of council tax for 2005/06 is £1.03 at Band D. For weekly housing rents, the incremental impact is nil.</p>	
6.0	<u>Treasury Management Strategy</u>	
6.1	<p>The treasury management service is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. Whilst the prudential indicators explained above consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions. There are also specific treasury prudential indicators.</p>	
6.1.1	<p>The Council's activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management). This Council adopted the Code of Practice on Treasury Management on 27th February 2002. At the same meeting, Council adopted a treasury management policy statement. This adoption complies with one of the requirements of the Code.</p>	
6.1.2	<p>Financial regulation C16 requires an annual strategy to be reported to Cabinet outlining the expected treasury activity for the forthcoming financial year. A further report is produced after the year-end to report on actual activity for the financial year just ended.</p>	
6.1.3	<p>A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service.</p>	

6.1.4		<p>This strategy covers:</p> <ul style="list-style-type: none"> · The current treasury position · The expected movement in interest rates · The Council's borrowing and debt strategy · The Council's investment strategy (in compliance with ODPM guidance) · Treasury performance indicators · Specific limits on treasury activities · Local treasury issues 				
6.2		<u>The current treasury position</u>				
		<p>The expected impact of the planned capital expenditure decisions on the Council's debt and investment position is shown within Appendix H. This highlights both the current treasury position and the expected movement in debt and investment levels over the next three years.</p>				
6.3		<u>The expected movement in interest rates</u>				
		<p>Our treasury management advisors, Butlers, have provided us with the following medium-rate interest forecasts. These are formed from their analysis of key current national and international indicators, and their assessment of likely future trends from the information and indicators available to them. It should be noted that all forecasts are subject to change over time as key indicators move. Butlers regularly review and update their forecasts, and supply revised interest rate forecasts to my officers throughout the year.</p> <p><u>Medium-Term Rate Forecasts – Annual Averages %</u></p>				
			Base Rate	5-year Gilt	20-yr Gilt	
			%	%	%	
	2004/05	4.6		4.8	4.9	
	2005/06	4.6		4.7	4.8	
	2006/07	4.3		4.5	4.6	

	2007/08	4.8	5.0	5.1	
6.4	<u>Borrowing and Debt Strategy</u>				
	The introduction of the Prudential Code and uncertainty over future interest rates increases the risks associated with the treasury strategy. As a result the Council will take a cautious approach to its treasury strategy.				
6.4.1	Long-term fixed interest rates and base rates are expected to remain relatively flat over the next three years, but with a noticeable dip in the middle year. Under the delegated powers available to me in the Council's Financial Procedure rules, I will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that if base rates are relatively cheap in 2005/06 borrowing will be taken early but kept short pending longer-term rates falling.				
6.4.2	With increasing interest rates any debt restructuring is likely to take place later in the financial year. My officers will monitor prevailing rates for any opportunities that may arise during the year.				
6.5	<u>Investment Strategy</u>				
	The main principle governing the Council's investment criteria is the security and liquidity of its investments over what those investments will yield. Return on investment will be an important consideration, subject to adequate security and liquidity.				
6.5.1	After this main principle the Council will ensure:				
	<ul style="list-style-type: none"> It has sufficient liquidity in its investments. For this purpose it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested. 				
	<ul style="list-style-type: none"> It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparts with adequate security, and monitoring their security. This is set out in detail in the Specified and Non-Specified investment sections within Appendix J. 				
6.5.2	I will maintain a counterpart list in compliance with the criteria set out below, and will revise the criteria and submit it to Council for approval as necessary. This criteria is separate to that which chooses Specified and Non-Specified investments as it selects which counterparts the Council will choose rather than defining what its investments are.				

		<ul style="list-style-type: none"> · Banks – the Council will use banks which have at least the following Fitch (or equivalent) ratings: - Short Term = F1 - Long Term = A - Individual / Financial Strength = C (Fitch/Moody's only) - Support = 3 (Fitch only) 	
		<ul style="list-style-type: none"> · Bank Subsidiary and Treasury Operations – the Council will use these where the parent bank has the necessary ratings outlined above. 	
		<ul style="list-style-type: none"> · Building Societies – the Council will use all Societies with assets in excess of £500 million 	
		<ul style="list-style-type: none"> · Money Market Funds rated AAA 	
		<ul style="list-style-type: none"> · UK Government (including gilts and the Debt Management Office) 	
		<ul style="list-style-type: none"> · Local Authorities, Parish Councils etc 	
		<ul style="list-style-type: none"> · Supranational institutions 	
	6.5.3	In the normal course of the Council's cash flow operations it is expected that both specified and non-specified investments will be utilised for the control of liquidity as both categories allow for short-term investments. The use of longer-term instruments (greater than one year from inception to repayment) will fall in the non-specified investment category. These longer-term instruments will not be permitted within the Council's investment strategy.	
	6.5.4	Expectations on shorter-term interest rates, on which investment decisions are based, show a likelihood of remaining stable during 2005/2006, with a risk of falling after this. The Council's investment decisions are based on comparisons between the rises priced into market rates against the Council's (and its advisors) own forecasts. It is likely that investment decisions will be made for longer periods with fixed investment rates to lock in good value and security of return. Under delegated powers, I will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above.	
	6.6	<u>Treasury Management Prudential Indicators and Limits on Activity</u>	

		There are four treasury prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position. However if these are set to be too restrictive they will impair the opportunities to reduce costs. The indicators are:	
		•Upper limits on variable rate exposure – this indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.	
		•Upper limits on fixed rate exposure – similar to the previous indicator this covers a maximum limit on fixed interest rates.	
		•Maturity structures of borrowing – these gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.	
		•Total principal funds invested - these limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end	
	6.6.1	The treasury management prudential indicators and limits on activity for the three years 2005/06 to 2007/08 are set out within Appendix I.	
	6.7	<u>Performance Indicators</u>	
		The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. These are distinct historic indicators, as opposed to the prudential indicators that are predominantly forward looking.	
	6.7.1	Examples of performance indicators used for the treasury function are: <ul style="list-style-type: none"> · Debt – Borrowing - Average rate of borrowing for the year compared to average available · Debt – Average rate movement year on year · Investments – Internal returns above the 7 day LIBID rate <p>The results of these indicators will be reported in the Treasury Annual Report for 2004/05.</p>	
	7.0	<u>Consultations</u>	

7.1	Consultation on the general fund revenue and capital programmes is set out in section 2.3. The HRA programmes have been consulted on via Tenants Advisory Group.	
8.0	<u>Implications</u>	
8.1	<u>Financial</u>	
	The financial implications of all budget proposals are set out throughout the report.	
8.2	<u>Human Resources</u>	
	Cabinet in December received a confidential report on HR implications of a number of savings proposals. There are no additional savings identified in this report. Growth proposals include additional funding for recruitment, retention and training of staff.	
8.3	<u>Environmental</u>	
	Reducing waste in the environment is one of the priorities proposed in the report, together with plans to introduce green garden waste and plastics recycling services. Both capital and revenue budgets include proposals to improve the maintenance of open spaces within the town.	
9.0	<u>Summary</u>	
9.1	The report sets out comprehensive information on the Council's finances together with details of budget proposals developed in consultation with Members for approval by Cabinet and subsequent consideration by full Council.	
	Sue McHugh	
	Director of Finance and Corporate Services	

Background Papers:

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

Cabinet report 14th July 2004 – Financial Strategy 2005/06 – 2008/09 – 14th July 2004.

Cabinet report 1st September 2004 – Financial Strategy 2005/06 – 2008/09.

Cabinet report 15th December 2004 – 2005/06 Budget and Medium Term Financial Strategy

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

Cabinet 050209 Council Budget 2005-06