BODY:	**CABINET**
DATE:	**8th February 2006**
SUBJECT:	**Council Budget 2006/2007**

REPORT OF:	**Corporate Management Team**
Ward(s):	**All**
Purpose:	**To agree detailed budget proposals for 2006/2007 covering General Fund Revenue, Housing Revenue, Capital Expenditure and Treasury Management for recommendation to full Council on 22nd February 2006**
Decision Type:	**Key Decisions requiring approval of Full Council**
Contact:	**Bruce Bird, Acting Director of Financial Services telephone 01323 415146 (extension 5146)**
Recommendations:	**Members are asked to recommend the following budget proposals to full Council:**

i. General Fund net expenditure, growth and savings proposals as set out in section 2 and within Appendices A and B;

ii. An increase of 2.5% in the Council Tax for Eastbourne Borough Council to a Band D charge of £198.85;

iii. Housing Revenue Account income and expenditure proposals as set out at Section 3 and within Appendix D;

iv. Capital expenditure and resource proposals as set out in Section 4 and within Appendices E and F;

v. That Council adopts the prudential indicators and limits for 2006/2007, 2007/2008 and 2008/2009 set out within Appendix G;

vi. That Council adopts the Treasury Management Strategy for 2006/2007 set out in section 6 of the report and the treasury prudential indicators for 2006/2007, 2007/2008 and 2008/2009 set out within Appendix H;

vii. That Council adopts an investment strategy for 2006/2007 as contained in the treasury management strategy and the detailed criteria included within Appendix J.

1.0 Introduction

1.1 This report sets out budget proposals for 2006/2007 covering each area of Council spending, namely: General Fund Revenue Account, Housing Revenue Account and Capital. In relation to each area the report sets out:

- The budget position in relation to 2005/2006 and any implications for future years;
- The resources available for 2006/2007;
- Feedback from consultation with the public and other stakeholders;
- 2006/2007 budget proposals;
- Risks and contingencies;
- The outlook for 2007/2008 and beyond

1.2 The Council has developed financial strategies in relation to each area of Council spending in recent years:

- In relation to the General Fund, a five year strategy was initially developed and consulted on during 2003. This has been amended and developed over the past two years, most recently at Cabinet in July 2005
- In relation to the Housing Revenue Account, business plans have been drawn up, consulted on, and approved for the medium term, particularly as regards rent convergence and the achievement of decency standards.
- In relation to Capital, the current strategy was agreed by Council in July 2003. Recently this has been reviewed and tested through a formal public consultation exercise conducted before Christmas.

1.3 In addition to the budget proposals, this report also deals with the Council's requirements under the Prudential Capital Finance System, namely:

- Capital Expenditure and the Capital Financing Requirement
- Treasury Management Strategy
- Investment Strategy
- Treasury Management Prudential Indicators and Limits on Activity
- Treasury Management Performance Indicators

2.0 General Fund Revenue Account

2.1 2005/2006 position

2.1.1 The budget position for 2005/06 based on expenditure to 31st December 2005 and the forecast outturn at 31st March 2006 is as set out in the table below:

Department	Profiled Budget £'000	Actual Spend £'000	Variance To date £'000	Full Year Variance £'000
Chief Executive's	1,131	1,079	Cr 52	Cr 46
Housing, Health and Community Services	2,244	2,271	27	41
Finance and Corporate Services	3,421	3,505	84	139
Economy, Tourism and Environment	3,559	3,459	Cr 100	Cr 115
Corporate Costs	60	30	Cr 30	Cr 40
Total	10,415	10,344	Cr 71	Cr 21

A separate report on the Cabinet agenda today presents in more detail the financial position to the end of December together with a forecast outturn for the full year. It is the fifth in a series of regular budget monitoring reports for the current year.

These regular 'Finance Matters' reports explain the reasons for any significant variances in departmental spending throughout the year, and propose corrective action where necessary. Cabinet will recall that emerging revenue budget pressures were reported earlier in this financial year which have been addressed and are now corrected. This has led to the latest position where a surplus at 31st March 2006 is forecast. Any revenue budget underspend that does exist at the financial year-end will be added to the Strategic Change Fund.

2.1.2 The position on the Strategic Change Fund at 31st December 2005 is as follows:

	£'000	£'000
Balance at 1st April 2005		133
2005/2006 Budget allocation		70
Allocation from General Fund Working Balance		233
Windfall Gain - Insurance Claim		13
		449
Less: Theatres/Leisure procurement	40	
Less: Redundancy costs	103	
Less: Budget consultation	12	
		155
Balance at 31st December 2005		294

There remain further calls on the Strategic Change Fund between now and 31st March 2006, principally from redundancy costs, that will reduce the current balance. It is important for the delivery of the changes that the Council wishes to make that the balance on the fund is robust. Corporate Management Team recommends that the Council goes forward into 2006/2007 with a minimum balance of £200,000.

The General Fund balance at 1st April 2005 stood at £1.233 million. Following transfer of £233,000 into the Strategic Change Fund this has now reduced to £1 million in line with the recommended level.

2.2 2006/2007 Resources

2.2.1 At its meeting on 14th December 2005, Cabinet received a report on Financial Strategy/Budget 2006/07 which included the proposed government grant settlement for 2006/2007. As instructed by Cabinet, the Acting Director of Financial Services responded to the Office of the Deputy Prime Minister (ODPM) during the consultation period to highlight the shortfall in the proposed grant increase when compared with spending pressures faced by the Council. Particular emphasis in the response was given to the shortfall arising from Government's decision to change the current half-fare statutory concessionary travel scheme into a free travel scheme from 1st April 2006.

Whilst at the time of writing this report the final grant settlement for 2006/2007 has yet to be confirmed, the letter of reply from ODPM to the Council's response provides no comfort that the provisional settlement figure will change upwards. For the purposes of this report therefore, the provisional grant settlement figure is assumed to be the final figure.

2.2.2. The provisional grant settlement was announced on 5th December 2005. It set out figures for a 2 year settlement, for 2006/2007 and for 2007/2008, which is a helpful promised development. Government has announced its intention to move to 3 year settlements from 2008/2009 following the next comprehensive spending review in 2007. It is worth pointing out however that even with 2 and 3 year settlements future figures may be subject to change from data revisions, so a degree of understanding is required that these forward figures remain provisional.

The new grant system has changed further. Government has moved away from the notional spending and tax elements of the previous system, to a new system based on cash amounts of grant. So Government has moved from an assessment of how much it determines each authority needs to spend (Formula Spending Shares, or FSS), to a determination of how much grant each authority needs as support from Government to deliver services locally.

The new formula grant distribution system, as it is called, is built on four main elements (colloquially, known as the 'four block' model). These four blocks are:

1. Relative Needs Amount – this block is based on formulae which are similar in structure to the previous FSS. It is designed to reflect the relative needs of individual authorities in providing services, and to distribute a share of grant on that basis.

2. Relative Resource Amount – this block produces a negative figure. It takes account of the fact that areas that can raise more income locally require less support from Government to provide services. It is a form of equalisation based on levels of council tax base.

3. Central Allocation – this block provides for a share of grant to be distributed on a per head basis.

4. Floor Damping – this block provides protection to authorities affected by detrimental grant changes so that all authorities receive at least a guaranteed minimum increase in grant when compared with the previous year on a like for like basis. The guaranteed minimum increase is determined each year by Government.

The following table sets out the Council's provisional grant figures under this new 'four block' model for both 2006/2007 and 2007/2008:

	2006/2007 £m	2007/2008 £m
Relative Needs Amount	5.914	5.925
Relative Resource Amount	-2.342	-2.485
Central Allocation	6.104	6.525
Total Assessed Grant	9.676	9.965
Add: Floor Damping	0.250	0.180
Total Grant Receivable	**9.926**	**10.145**

On a 'like for like' basis Government has increased grant for 2006/2007 by £289,000, or 3%. For 2007/2008 the increase is £267,000, or 2.7%. These are the minimum guaranteed increases for District Councils. However, the Council continues to need the addition of floor damping grant in order to achieve the minimum, just as it did under the previous system.

For 2006/2007, in addition to the 'like for like' minimum increase which effectively is Government's contribution to inflationary cost increases, new money has been included within the settlement to finance new functions. This is exemplified within the following table:

	2006/2007 £m
Total Grant Receivable	9.926
Less: Minimum increase	-0.289
	9.637
Less: 2005/2006 Grant Receivable	8.987
Extra Grant for New Functions	0.650

This means that Government has provided £650,000 towards the additional costs of new functions, chief amongst which is the additional cost of concessionary travel estimated at £882,000 by the scheme consultants.

For 2007/2008 grant will increase by £219,000 or 2.2% in actual cash terms, which is below the guaranteed minimum increase. This is because Government has adjusted our 'base' position downwards by £87,000 to arrive at a 'like for like' basis for the purposes of calculating the minimum uplift. The reason for this downward adjustment is not known as the data provided by ODPM via its web site does not contain sufficient detail. One of the general criticisms of the new grant model is that year on year changes are more opaque and impenetrable than under the previous system.

2.2.3 In addition to the general grant distributed through the new formula grant system, Government has announced specific revenue grant allocations for 2006/2007, with some indicative figures for 2007/2008. These are set out within the following table:

Specific Grant	2006/2007 £m	2007/2008 £m
Housing Benefit Administration	1.022	1.049
Planning Delivery	0.231	N/A
Homelessness	0.110	0.110
Waste Performance and Efficiency	0.077	0.080

Housing Benefit Administration - From 1st April 2006 the Department for Works and Pensions (DWP) will combine three current funding streams into one fixed annual amount, and use a revised distribution methodology. Of the three current funding streams, two are fixed (benefit administration and verification framework compliance) and one is variable (fraud incentive). Under the new formula calculation the Council should be receiving £1.049m for 2006/2007. However, due to the introduction of a cap for 'gaining' authorities in order to provide transitional protection to those who would otherwise lose grant in cash terms, Eastbourne will receive £1.022m. DWP says that this represents a 1.4% increase over the assessed base. However, the reality is that it is actually over £2,000 less than is provided in the Council's 2005/2006 budget. The reason for the reduction is the loss of the variable grant element around Fraud Incentive which currently rewards those authorities that are more pro-active in this particular area. For 2007/2008 under DWP proposals, Eastbourne should enjoy an increase of £27,000 up to its assessed amount of £1.049m. By way of caution, DWP has stated that the 2007/2008 figures are purely illustrative at this stage and will change in line with data revisions and decisions on the overall grant settlement for that year.

Planning Delivery – ODPM has announced via its web site the distribution of part of its national cash limited allocation for 2006/2007. Eastbourne's share has been set at £231,000. This is purely for the Development Control element of the grant. Further announcements will be made in due course for the award of grant for the Plan Making and Information Technology elements, which will be reported to Cabinet when received. In total, this will provide significant funding to continue with the initiatives that have seen our planning performance improve over recent years. However, grant for 2006/2007 is not expected to reach the level of this year's overall allocation of £459,000. This is not because the Council's performance has not continued to improve, but rather because improvements made by other authorities have been relatively faster as many have had much farther to travel. For 2007/2008 Planning Delivery grant is expected to continue but no announcement on individual grant awards has been made at this stage.

Homelessness – this is welcome confirmation of the continuation of the current level of grant, albeit that the value is not keeping pace with inflation. It helps to support the work of the housing team in developing initiatives to prevent homelessness, and in seeking suitable temporary and sustainable accommodation where prevention cannot be avoided.

Waste Performance and Efficiency - the Department of the Environment, Food, and Rural Affairs (DEFRA) has announced forward allocations of its 3-year targeted grant. For 2006/2007 the Council will receive £77,000, rising to £80,000 in 2007/2008. This compares with £30,000 for 2005/2006. For each of the 3 years the award is a mix of capital and revenue grant allocated in proportions determined by DEFRA. For 2006/2007 the allocation is 50/50.

2.3 Consultation

2.3.1 On 21st September 2005 Cabinet authorised consultation on the Council's emerging budget proposals and priorities so that the results from the survey, together with other public feedback, could be considered before final decisions were taken in February 2006.

This work was undertaken during Autumn 2005 by SMSR Limited, an independent research company. In addition to its work on the Council's revenue and capital budget proposals, the company was commissioned to identify residents prepared to join a 1,000 strong citizens' panel for the purposes of future consultation exercises. SMSR Limited presented the results of its survey at a meeting on 12th December to which all Members were invited.

2.3.2 The key messages from the consultation survey results are:

- 2/3rds of residents are not willing to pay more than a 2.5% increase in council tax to spend more than proposed on the Council's priority areas;
- over 1/3rd support the principle of charging enough to break-even on car parking, sports facilities, green waste and theatre shows. Another 1/3rd support the principle of charging a small amount to contribute to the costs of car parking and green waste. And 1/3rd support the principle of charging to run Theatre shows at a profit;
- a very high percentage (ranging from 73% up to 98%) support the Council's priorities to invest new revenue money in recycling, enforcement, parks, community engagement, and voluntary sector support. Residents' priority ranking for investment was in the order listed.
- a very high percentage (ranging from 75% up to 91%) support the Council's priorities to invest new capital money in the seafront, affordable housing, theatres, private sector housing, and leisure centres. Residents' priority ranking for investment was in the order listed.

2.3.3 The survey results clearly show strong support for the Council's proposals and priorities, and confirm comments made to the Council previously by residents and other stakeholders.

2.3.4 On 24th January 2006 business and community representatives attended a meeting to comment on the budget proposals. The minutes of that meeting are attached at Appendix K.

2.4 Budget Proposals

2.4.1 At its meeting on 14th December 2005, Cabinet received a report on Financial Strategy/Budget 2006/07 and made a number of decisions in relation to growth and savings arising from the service and financial process. Following consideration in January of the final service and financial plan for Support Services, together with a number of other changes and improvements that have emerged since December, 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 Growth

Members have indicated that they wish to support the following growth to improve services to residents:

- £115,000 for maintenance enhancements in our Parks and on the Downland, and for the disposal of green waste;
- £49,000 to enhance services for the public at our Customer Contact Centre to meet rising levels of demand and activity;
- £40,000 to develop initiatives for private sector housing, including online booking for the Home Choice service;
- £38,000 to develop the Recycling service through publicity and promotion and through cardboard and extra plastics banks;
- £30,000 to meet the requirements of the Community Development Strategy with the Council's strategic partners;
- £25,000 to expand the successful Enforcement team from 3 officers up to 4;
- £21,000 to provide a pump priming budget for Community Projects;
- £20,000 to continue investment in the 10 year Office Modernisation strategy;
- £15,000 to maintain current standards of grass cutting on highway verges;
- £10,000 to increase cyclical maintenance of the Seafront;
- £5,000 to provide an inflationary increase for Community grants;
- £5,000 for new initiatives to tackle the impact of Difficult Properties across the town;
- £5,000 to promote the take up of Benefits and to develop outreach work across the town.

DEFRA Waste Performance and Efficiency Revenue Grant of £38,000 will contribute to the funding of the above growth.

2.4.3 Savings Proposals

Details of savings arising from the service and financial planning process conducted in the Autumn were provided to and approved by Cabinet in December 2005. Since then 3 more proposals have emerged from the service and financial plan for Support Services, and 1 has emerged in respect of car parking.

A complete list of all savings is set out within Appendix B.

The 3 additional savings that have emerged from the service and financial planning process are:

Savings	£'000
College Road office costs (now leased)	39

Energy and water costs (from invest to save)	25
1 Grove Road facility fee (from lessee)	21

An additional saving has arisen from car parking at Hyde Gardens. Cabinet will be aware that it was not intended to increase charges at the Council's off-street car parks as part of the 2006/2007 Budget. However, East Sussex County Council is intending to increase its charges for on-street parking in Hyde Gardens which rather forces this Council's hand to do likewise, given that the two Councils have previously worked in tandem to agree charges so that customers are not presented with two differing sets at the same location. As a result of the necessary dovetailing of the Council's charges with those proposed by the County Council, officers' estimate that additional income of £45,000 will be realised.

Given that this additional income was unplanned, Members have indicated that they would like to use £21,000 to provide a pump priming budget for one-off support for Community Projects. The remainder can be added to the Strategic Change Fund in 2006/2007, as is the usual practice for 'windfall gains', together with a further saving of £8,000 arising from a reduction in the previously estimated inflation figures now that the actual index figures are known. Overall, this means that £32,000 can be added to the Strategic Change Fund in 2006/2007 which will help support delivery of the Council's future ambitions.

2.4.4 Council Tax Charge

If all of the year on year budget changes outlined above are agreed by Cabinet, the annual Band D Council Tax charge for Eastbourne Borough Council will increase from £194.00 up to £198.85. This is a 2.5% increase in line with the Council's strategy, an increase of less than 10p a week at Band D.

2.4.5 Efficiency Targets

Cash releasing savings of over £1 million contribute to balancing the budget and keeping the Council Tax increase to 2.5%. This equates to over 6% of the current (2005/2006) budget. It includes £522,000 of efficiency savings (over 3.2% of current budget) and £538,000 of income generated savings (over 3.3% of current budget). 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. Eastbourne Borough Council continues to outperform this target.

2.5 Contingencies and Risks

2.5.1 The proposed level of general balances is £1 million. This is in line with recent years. In the view of the Acting Director of Financial

Services this continues to be set at an appropriate level to provide cover for unforeseen eventualities.

2.5.2 The base budget for 2006/2007 currently contains a provision for contingencies of £220,000. This is based on an assessment of the key areas of financial risk that the Council faces. These are considered to be:

- Income from trading services (theatres, seafront attractions, car parking);
- Fees from services linked to the property market (Development Control, Building Control and Local Land Charges);
- Housing and Council Tax Benefit Subsidy;
- Liquor and entertainment licensing costs and income;
- Support services provided to new service delivery vehicles (Eastbourne Homes Ltd, Wealden and Eastbourne 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.

New risks for 2006/2007 have emerged through the service and financial planning process. These additional risks arise from:

- the potential for awards of costs against the Council from successful planning appeals;
- the potential for awards of costs against the Council from successful licensing appeals;
- the potential for initial start up costs in 2006/2007 in advance of the implementation of the Gambling Act 2005 during calendar year 2007;
- the potential loss of events sponsors

As a result of these potential additional risks, Corporate Management Team recommends that an additional provision of £150,000 be added to the contingency budget to provide extra cover and protection in the event of 'call off'. This can be financed from the repayment of the Council's pump priming investment into the Town Centre Regeneration project. In the event that this additional provision is not required for any of these specific risks, it will become available for alternative use by Council.

Information on each of the risk areas, as well as on the use of the £370,000 contingency budget, will be included in each Finance Matters budget update report to Cabinet during the course of the 2006/2007 financial year.

2.5.3 The Council has been exposed to significant risks in relation to Housing and Council Tax Benefits Subsidy over recent years. Whilst the claims for 2001/2002 and 2002/2003 have been settled by the Department for Work and Pensions (DWP) without financial penalty, the claim for 2003/2004 is not yet settled. In addition, the claim for 2004/2005 is still undergoing testing by the Audit Commission. Cabinet has been kept informed of the progress on resolving issues with the 2003/2004 claim through the 2005 series of Finance Matters reports. Based on DWP policy in relation to incorrectly paid benefit this could result in a potential loss of subsidy anywhere in a range £0 - £67,000. No provision has been made for any loss of subsidy arising from either of the above claims. Any loss would need to be borne by the corporate contingency budget initially, or by withdrawal from balances.

2.5.4 The Acting Director of Financial Services is required to report specifically on the robustness of the budget estimates. The Council's service and financial planning process has been running for four years and is a well established and developed appraisal process. 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. The Acting Director of Financial Services is satisfied that this process, together with work undertaken on corporate budgets, provides a robust basis for identifying appropriate budget estimates.

2.6 2007/2008 and beyond

The Medium Term Financial Strategy forecast to 2010/2011 is attached at Appendix C. Further savings are required each year of £794,000 for 2007/2008, £1,211,000 for 2008/2009, £919,000 for 2009/2010 and £954,000 for 2010/2011. These figures have been prepared on the basis of:

- the provisional grant award for 2007/2008 followed by an annual increase of 2% for each of the following 3 years;
- a growth in the council tax base of 1.5% annually;
- an increase in Council Tax of 2.5% each year;
- provision of an additional £250,000 each year to provide improved services to residents;
- provision of an additional £100,000 above forecast cost increases for further unavoidable pressures;
- changes from one-off and time limited costs and savings.

It is intended that the Council will continue with its current strategy for bridging the funding gap, namely:

- savings from efficiency
- savings from income generation
- savings from procurement

Key work programmes and initiatives that are intended to be undertaken in 2006/2007 to contribute towards the required savings targets for 2007/2008 and beyond are:

- East Sussex Benefits options appraisal
- East Sussex Council Tax/Business Rates options appraisal
- East Sussex Fraud Partnership appraisal
- Concessionary Fares cost review
- Support Services efficiency review
- Tourism efficiency review

Further potential contributions to future savings requirements will be identified and reported to Cabinet later in the year as plans for 2007/2008 and beyond are developed.

3.0 **Housing Revenue Account (HRA)**

3.1 Current Financial Position

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. It is the fifth such regular report for the current year.

The latest position shows a surplus of £20,000 at 31st December 2005 which is forecast to increase to a surplus of £40,000 at 31st March 2006. 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 HRA working balance.

3.2 2006/2007 Budget Proposals

A separate report on the Cabinet agenda today entitled "Council Housing Rent Setting and Outline of Housing Revenue Account Budget for 2006/07" recommends the following:

- a 3.58% average increase for housing rents
- a 2.7% increase for garage rents
- a 2.7% average increase for service charges

The report provides detailed analysis of the factors that influence the above recommendations and it is not proposed to replicate them within this report

The 2006/2007 budget for the HRA is presented at Appendix D. It provides for matching income and expenditure of £13.745 million to produce a balanced budget.

3.3 Housing Subsidy

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 implement policy.

On a like for like basis, year on year subsidy has reduced by £313,000 overall. However, this masks some major changes as the following table shows:

	2005/06 £000	2006/07 £000	Change £000
Management and maintenance	5,453	5,835	+ 382
Charges for capital	3,229	3,240	+ 11
Rent	(9,891)	(10,576)	-685
Other items	58	48	- 10
Sub-total (housing element)	(1,151)	(1,453)	-302
Major repairs allowance (MRA)	2,590	2,579	-11
Total Housing Subsidy	**1,439**	**1,126**	**-313**

Management and maintenance subsidy has increased substantially in line with Government's commitment to invest more into the day to day running of Council housing. However, this is more than offset by the withdrawal of subsidy from the significant increase in the rent element. Government expects housing authorities to make good this subsidy rent loss through the increase in actual rents charged to tenants. This increase is driven by Government’s guideline rents setting policy as part of its ten year rent convergence strategy. The Council will continue to adhere to this strategy, which it has been following for the past 5 years.

The MRA has reduced slightly, primarily because of the reduction in dwelling stock through right to buy sales. Government’s distribution formula for this element of subsidy is based on the number of dwellings analysed over 13 archetypes to which an allowance per dwelling is applied. The MRA supports that element of capital investment which maintains the housing stock against normal wear and tear and deterioration (also known as depreciation).

3.4 Budget Proposals

The HRA budget for 2006/2007 is structurally very similar to that approved for 2005/2006.

The net overall reduction of £313,000 in subsidy will be fully offset by the net increase in rent and service charges income amounting to £435,000. The residual extra income of £122,000 will largely finance additional investment of £22,000 into repairs and maintenance and £106,000 into supervision and management.

Revenue support to the HRA capital programme in the provision of additional investment into the housing stock will be broadly the same in 2006/2007 (£700,000) as it was in 2005/2006 (£710,000).

The additional cost of servicing the HRA loan debt (£150,000) is largely offset by a reduction of £100,000 in the statutory transitional protection for the General Fund arising from the transfer of Rent Rebates out of the HRA from 1st April 2004.

3.5 Working balance

The proposed level of working balance is £500,000. This is in line with recent years. In the view of the Acting Director of Financial Services this is the appropriate level to provide cover for unforeseen events.

4.0 **Capital**

4.1 2005/2006 Programme

The 2005/2006 budget as shown in the separate Finance Matters budget update report on today's agenda incorporates schemes brought forward from 2004/2005. However, when compared on a like for like basis with the original 2005/2006 budget it is much reduced. This is because of the shortfall in capital receipts required to finance most of the General Fund expenditure programme. The Council's ambition to generate sufficient capital receipts from the disposal of surplus assets to finance approved expenditure has not been realised. Chiefly, this is because of time lags and valuation shortfalls, both of which are often due to the complexity of disposal particularly as regards surplus land holdings.

In contrast with General Fund schemes within the programme, the HRA capital budget is fully funded and many of its schemes are progressing well. However, significant slippage is forecast in the HRA programme which will be carried forward for delivery in 2006/2007.

Progress on those General Fund schemes that are fully resourced is very good and it is expected that the expenditure programme will be delivered very close to its target. As with the HRA programme, any slippage will be carried forward for completion in 2006/2007.

4.2 2006/2007 Resources

4.2.1 The Council's ambition for its Capital Programme will be constrained by the likelihood of capital resources.

Government has announced some provisional capital resources for 2006/2007 and these are set out below:

	£000
HRA Major Repairs Allowance	2,579
Disabled Facilities Grant	279
DEFRA Waste Performance and Efficiency Grant	38
Coast Protection Grant	50
	2,946

These may be varied, or added to, once final announcements are received.

Announcement from Government of the amount of supported capital expenditure available to the HRA in 2006/2007 and beyond awaits the outcome of the housing inspection of Eastbourne Homes Limited conducted recently by the Audit Commission.

Government has announced already that there will be no supported capital expenditure for the General Fund. Instead, Government prefers to support discrete service areas through specific capital grants, as indicated by the list above.

4.2.2 In addition to Government resources, the Council is able to provide some revenue support to its capital programme. The HRA is able to provide £700,000 from its revenue budget, whilst the General Fund can draw on £150,000 from earmarked revenue reserves to support specific schemes on an invest to save basis.

4.3 Budget Proposals

4.3.1 As a result of existing commitments, new commitments that have emerged through the service and financial planning process, and the feedback from public consultation, a more detailed capital expenditure programme is set out at Appendix E for Cabinet scrutiny and approval.

The key elements of the programme are set out below:

	£000
Council Housing	3,279
Cultural Centre	2,420
Seafront	212
Affordable Housing	781
Private Sector Housing	665
Parks Gardens & Recreation Grounds	85
Other schemes	1,226
Total Capital Expenditure Programme	**8,668**

4.3.2 Details of the affordable housing programme for 2005/2006 are attached as Appendix F. This demonstrates a very significant return on the Council's investment into affordable housing, as well as the multiplier effect of not only the Council's capital cash injection but also the enabling role of officers who work with funding partners to realise these schemes. Cabinet can expect a minimum of over £8 million worth of affordable housing investment in Eastbourne for 2005/2006 (74 units), with the possibility that this could rise to nearer £12 million (103 units).

For 2006/2007 the potential exists for another investment of £12 million (125 units) depending upon the success of funding bids to the Housing Corporation for £4.2 million.

4.4 Contingencies and Risks

The key risks in relation to the 2006/2007 programme are around:

- Under-achievement of capital receipts. Notwithstanding the application of a risk factor discount of 40%, a target of nearly £5m remains challenging. As in previous years, expenditure programmes will not be released until receipts are secured.
- Management of significant programmes, for example the Cultural Centre. Progress on these schemes will be closely monitored and reported regularly to Cabinet, so that the overall programme can be adjusted if necessary.
- The level of Government support for meeting decency standards on the Council's housing stock and the ability of Eastbourne Homes Limited to deliver a very substantial programme over a short period of time.

4.5 2007/2008 and beyond

4.5.1 Given that the current Capital Strategy is now over three years old, and that many of the influencing factors have changed over that period of time, Corporate Management Team will be undertaking a review in advance of assessing future prospects. It is intended to report back to Cabinet in Spring/early Summer to allow a new Capital Strategy to be approved before the commencement of budget planning for 2007/2008 and beyond.

5.0 Prudential Capital Finance System

5.1 Introduction

The Prudential Code of Practice is published by the Chartered Institute of Public Finance and Accountancy (CIPFA). It operates through the provision of prudential indicators that highlight particular aspects of capital expenditure planning. Each indicator provided during the 2005/2006 budget process has been updated and provided for the next three years and set out within Appendix G. This is in accordance with the Prudential Code that requires the Council to approve certain mandatory prudential indicators.

5.1.1 In setting its prudential indicators, the Council is required to have regard to the following matters:

- 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 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.

5.1.3 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 2006/2007 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.

5.1.4 In addition, part of the treasury strategy requirement 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 G.

5.2 Capital Expenditure and the Capital Financing Requirement

Until any allocation of supported borrowing is made by Government the Council's capital expenditure plans will be entirely financed by resources such as capital receipts, capital grants, and revenue contributions. Any element that cannot be financed immediately from other sources impacts upon 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 G. This forms one of the required prudential indicators.

5.2.1 A certain level of capital expenditure may 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 (if any) supported by Government.

5.2.2 A key risk of the Council's forward capital expenditure plans is that the level of government support has been estimated at zero currently, 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.

If Government does announce any level of supported borrowing for 2006/2007 this will impact on the prudential indicators and limits set out within this report. In that event, a further report will be brought to Cabinet recommending that Council adopts revised indicators and limits for the three years 2006/2007, 2007/2008 and 2008/2009 in order to maintain compliance with the requirements of the Prudential Code of Practice.

5.2.3 The Council's budget planning for 2006/2007 has not included the option to borrow to finance capital expenditure. 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 housing rent.

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.

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.

Members may wish to review this in future years as circumstances change, but for 2006/2007 no unsupported borrowing will be taken.

As a consequence, the incremental impact of capital investment decisions on the levels of council tax for 2006/2007 is nil at Band D. For weekly housing rents, the incremental impact is nil.

6.0 **Treasury Management Strategy**

6.1 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.

6.1.1 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.

6.1.2 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.

6.1.3 A key requirement of this report is to explain both the risks, and the management of the risks, associated with the treasury service.

6.1.4 This strategy covers:

- 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 The current treasury position

The expected impact of the planned capital expenditure decisions on the Council's debt and investment position is shown within Appendix G. This highlights both the current treasury position and the expected movement in debt and investment levels over the next three years.

6.3 The expected movement in interest rates

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 officers throughout the year.

Medium-Term Rate Forecasts – Annual Averages %

	Base Rate %	5-year Gilt %	20-yr Gilt %
2005/2006	4.6	4.2	4.3
2006/2007	4.3	4.4	4.5
2007/2008	4.5	4.5	4.5
2008/2009	4.8	4.8	4.7

6.4 Borrowing and Debt Strategy

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 continue to take a cautious approach to its treasury strategy.

6.4.1 Long-term fixed interest rates and base rates are expected to rise in small incremental steps over the next three years within a relatively benign environment. Under the delegated powers available to the Acting Director of Financial Services in the Council's Financial Procedure rules, he will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking account of both known and likely risks.

6.4.2 With increasing interest rates any debt restructuring activity is likely to take place later in the financial year in order to maximise discount gains and reduce exposure to premia payments. Officers will monitor prevailing rates for any opportunities that may arise during the year.

6.5 Investment Strategy

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:

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.

- 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 The Acting Director of Financial Services 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.

- 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)

- Bank Subsidiary and Treasury Operations – the Council will use these only where they are wholly owned and the parent bank has the necessary ratings outlined above.

- Building Societies – the Council will use any Society with assets in excess of £1 billion

- Money Market Funds rated AAA

- UK Government (including gilts and the Debt Management Office)

- Local Authorities, Parish Councils etc

- 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 2006/2007, after a further expected reduction in base rate. 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 periods with fixed investment rates to lock in good value and security of return. Under delegated powers, the Acting Director of Financial Services will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking account of both known and likely risks.

6.6 Treasury Management Prudential Indicators and Limits on Activity

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 2006/2007 to 2008/2009 are set out within Appendix H.

6.7 Performance Indicators

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:

- 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

The results of these indicators will be reported in the Treasury Annual Report.

7.0 **Consultations**

7.1 Consultation on the General Fund revenue and capital programmes is set out in section 2.3. The HRA budget proposals have been consulted on via Tenants Advisory Group.

8.0 **Implications**

8.1 Financial

The financial implications of all budget proposals are set out throughout the report.

8.2 Human Resources

Cabinet has received reports previously on the HR implications of a number of savings proposals, many of which have been implemented during the 2005/2006 financial year. Additional HR implications have been discussed with Members through the service and financial planning process, and where appropriate with the local Branch of Unison.

Growth proposals include an additional £40,000 for recruitment and retention, £20,000 to undertake a pay review in line with negotiated national agreements reached with Unison, and £25,000 for an additional post within the Enforcement team.

8.3 Environmental

Reducing waste in the environment is one of the priorities proposed in the report, which includes specific plans to introduce cardboard banks and more plastics banks to improve recycling services. Both the capital and the revenue budgets include proposals to improve the maintenance of open spaces within the town. Consultation with residents demonstrates that all of these initiatives are well supported and seen as high priority areas for new investment.

9.0 **Summary**

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.

Contact officer:
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Background Papers:

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

Cabinet report 13th July 2005 – Financial Strategy
Cabinet report 21st September 2005 – Financial Strategy/ 2006/07 budget
Cabinet 31st October 2005 – Financial Strategy/2006/07 Budget
Cabinet report 14th December 2005 –Financial Strategy/Budget 2006/07

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