

<b>COMMITTEE:</b>	CABINET	
<b>DATE:</b>	5 SEPTEMBER 2002	
<b>SUBJECT:</b>	CIVIC BUDGET 2002-2003 : UPDATE	
<b>REPORT OF:</b>	DIRECTOR OF FINANCE AND CORPORATE SERVICES	
<b>Ward(s):</b>	All	
<b>Purpose:</b>	1. To update Members on the budget position to the end of July, the projected forecast of the outturn for the full financial year, and the options available to achieve a balanced budget.	
	2. To agree amendments to the capital programme.	
<b>Contact:</b>	Sue McHugh, Director of Finance and Corporate Services, Telephone No. 01323 415104 or internally on extension 5104.	
<b>Recommendations:</b>	Members are asked to -	
	i) note that general fund revenue net expenditure is over budget at the end of July by £201,000	
	ii) note that general fund revenue net expenditure is currently forecast to be £540,000 over budget at 31 <sup>st</sup> March 2003	
	iii) approve the repayment of a £3.5m loan to the Public Works Loan Board and delegate the timing of the repayment to the Director of Finance and Corporate Services.	
	iv) instruct officers to investigate further the options available to balance the general fund revenue account by utilising uncommitted budgets as contained within the report	

	v) agree to freeze expenditure at Appendix A pending a further update in October.	
	vi) instruct each Director, together with their respective Cabinet Member, to meet with the Director of Finance and Corporate Services and the Cabinet lead member for finance, to examine how their departmental budget can be delivered within the approved target.	
	vii) approve the amended general fund capital programme for 2002-2003 at Appendix C.	
	viii) approve the release of essential health and safety schemes from the urgent works programme.	
<b>1.0</b>	<b><u>Introduction</u></b>	
<b>1.1</b>	Cabinet Members receive regular information on the Council's financial position to enable them to monitor performance and agree appropriate action to ensure spending is in line with budget. This update follows the August Cabinet report informing Members that potentially the general fund revenue account could be overspent by £544,000.	
<b>1.2</b>	This report shows the position after one third of the financial year has been completed, but at the start of the critical weeks for the Tourism Department in generating income during the school summer holidays.	
<b>2.0</b>	<b><u>April – July Monitoring General Fund Revenue Account</u></b>	
<b>2.1</b>	<b><u>Spend to date and Forecast Outturn</u></b>	
	As reported in the August Finance Briefing the position at 31st July 2002 is shown in the table below followed by an update on the key risk areas at paragraph 2.3. A separate table shows the movement of the predicted outturn from the end of June to the end of July.	

<b>General Fund</b>	<b>Budget</b>	<b>Profile</b>	<b>Actual</b>	<b>Variance</b>
<b>Department</b>	£'000	£'000	£'000	£'000
Chief Executive	2,375	589	574	Cr. 15
Housing, Health & Community	2,651	697	745	48
Finance	4,260	1,715	1,836	121
Tourism & Leisure	2,147	885	871	Cr. 14
Finance & Corporate Services	3,127	855	848	Cr. 7
	(285)	61	129	68
Planning, Regeneration and Amenities				
Corporate Costs				
<b>Total</b>	<b>14,275</b>	<b>4,802</b>	<b>5,003</b>	<b>201</b>
The key risk areas within each department are explained in more detail in section 2.3.				
<b>Movement on forecast outturn</b>	At 30 <sup>th</sup> June £'000	At 31 <sup>st</sup> July £000	Movement £'000	
Department				
Chief Executive	19	1	Cr. 18	
Housing, Health and Community	300	232	Cr. 68	
Finance				

Tourism and Leisure	131	168	37
Finance and Corporate Services	3	3	0
Planning, Regeneration and Amenities	Cr. 9	Cr. 14	Cr. 5
Corporate Costs	100	150	50
<b>Total</b>	544	540	Cr. 4
<b>2.2 Contingency Budget</b>			
<p>The budget includes a contingency of £134,000. This sum is largely earmarked for any national pay award in excess of the 3% allowed for in service base budgets. Members of the Local Government Unions and the Employers side are being asked to agree a 3% increase from April with a further 1% increase from 1<sup>st</sup> October 2002. A minimum hourly rate of £5 has also been recommended for the lower paid. Costings are currently being undertaken on the effect of the increase in the minimum hourly rate.</p>			
<p><b>The outturn forecast assumes that the contingency will be spent in full.</b></p>			
<p>A summary of the financial implications of the proposed pay award for this year are:</p>			
<b>General Fund</b>	<b>£64,000</b>		
<b>HRA</b>	<b>£8,000</b>		
<b>Eastbourne Leisure</b>	<b>£22,000</b>		

	<b>Coastline Caterers</b>	<b>£2,000</b>	
2.3	<b><u>Key Risk Areas</u></b>		
2.3.1	<b><u>Eastbourne Leisure</u></b>		
	<p>Although income has improved at the start of the school holidays it is unlikely that the £16,000 shortfall on the outside attractions sector of Eastbourne Leisure's business will be recovered. Income expectations are at their height during the school summer holidays. Officers are aiming to contain the Sovereign Centre reduction in income through reduced spending as has been the case in previous years.</p>		
2.3.2	<b><u>Coastline Caterers</u></b>		
	<p>Like Eastbourne Leisure, income targets have not been met as a result of a mix of poor weather conditions and a reduction in visitor numbers. A reduction in the conference trade has also led to shortfalls in income. The outturn forecast still remains at a shortfall of up to £100,000. August is a critical month for the seafront trading activities of Coastline Caterers. The results for this month have the potential to impact on the partial recovery or otherwise of the full year forecast.</p>		
	<p>A financial review of Coastline Caterers has been undertaken. It is now proposed that the outsourcing of the seafront catering, along with all other options, should be fully explored with the aim to ensure long-term stability and investment for the services.</p>		
	<p>To assist this process and provide a wider vision, L &amp; R Consulting has been appointed to plan, implement and manage the project.</p>		
	<p>The following timetable has been prepared, which is considered to be achievable for the process to be completed in time for the beginning of the 2003 summer season:</p>		
	August	-	Outline Action Plan
	September	-	Strategy Adoption
		-	Building Condition Surveys
		-	Informal Commercial Consultations

		-	Preparation of overall 'portfolio' offer	
		-	Agree package & contract type	
	October	-	Invitation for expressions of interest	
	November	-	Specification and despatch of partnership tender documents	
	January	-	Receipt of tender submissions	
		-	Report to Cabinet	
	February	-	Appointment of Partner(s)	
	April 2003	-	Contract(s) start	
	The buildings currently used for the provision of the catering service will have to be surveyed to ascertain their condition to inform the tender process.			
	The fee payable to L & R Consulting for assisting the Council with this process is £26,600. There may also be a cost for the buildings to be surveyed if this cannot be completed internally. It is proposed that these costs are drawn down from the Strategic Change Fund to enable the above timetable to be achieved.			
	<b>2.3.3 Benefits Subsidy</b>			
	The benefits section has now brought its work up to date and the payment trend analysis here is beginning to become clearer. While there will be an overspend against current budget, it will be less than the £200,000 originally estimated last month. The current analysis indicates an overspend of between £100,000 and £175,000, but for the purposes of the forecast outturn the worst case scenario has been assumed. Progress is being made on the billing and recovery of outstanding benefit payments from within the Sx3 software systems. Successful collection of HB overpayments will also improve the subsidy position. Officers are continuing to refine budget monitoring in this complicated area.			
	In the last month the Department for Work and Pensions has also announced that it intends to increase subsidy to councils that are Verification Framework compliant (as Eastbourne is). There are, however, no details of how much additional subsidy this may bring.			

2.3.4	<b><u>Weekly Incorrect Benefits Scheme</u></b>		
	While the situation is little changed compared to last month, officers are continuing to make good progress with their Professionalism in Security (PINS) training and a number of cases are being prepared for sanction work (which includes some potential prosecutions). Achieving sanctions against fraudsters brings subsidy 'rewards', which will help to reduce the £100,000 estimated shortfall.		
	Officers are also working very closely with their counterparts in Wealden District Council and the Counter Fraud Investigation Service to prepare a funding bid that, if successful, will also provide additional funding for the Fraud Investigation Team. The outcome of this £40,000 bid is likely to be known by the end of September.		
	The first quarter's figures have now been supplied to the Department for Work and Pensions and this will help the Department to identify whether the funding of the scheme is working as expected. If the problems that Eastbourne is facing are mirrored elsewhere there may be pressure for the Department to review the funding formula.		
2.3.5	<b><u>Treasury Management Costs</u></b>		
	The forecast outturn is for costs of £150,000 above budget. This is as a result of the continuing shift of costs away from the Housing Revenue Account (HRA), and onto the General Fund.		
	The reasons behind this shift were outlined in the first monitoring report brought to Cabinet on 1 <sup>st</sup> August 2002, and are reiterated in the separate Treasury Management report on today's agenda.		
	In seeking to implement the action plan approved by Cabinet at its last meeting, officers have been working with the Council's treasury management advisors - Butlers - on options to reduce the overspend. Specifically, at a meeting held on 14 <sup>th</sup> August, a number of potential options were analysed and discussed. The favoured option, which I recommend to Cabinet today, is to repay a loan to the Public Works Loan Board of £3,500,000 running at 10.375% which matures in September 2008.		
	The financial implications of repaying this loan are as follows -		
			£'000
	Annual Interest savings		363

	Annual loss of investment interest		140
	One off cost of Premium on repayment		1,027
	Annual loss of interest on financing Premium		40
	<p>Repayment of this loan would reduce the gap between our debt and our credit ceiling. As a consequence, the largest share of the interest savings - £300,000 in a full year - would fall to the General Fund. The full amount of savings does not pass to the General Fund because the impact of a fall in the consolidated rate of interest passes some of these savings across to the HRA. And the saving of £63,000 for the HRA results in a £ for £ reduction in HRA subsidy.</p>		
	<p>The annual loss of interest on using set aside receipts to repay the loan rather than for investment, would fall entirely to the General Fund.</p>		
	<p>The premium would be split between the HRA and General Fund based on their respective credit ceilings at 1<sup>st</sup> April 2002 - approximately an 86/14 split. The HRA share of the premium - £887,000 - would be written off over the remaining life of the loan in accordance with statutory regulations. This equates to £148,000 for each full year. But, all of this amount would be eligible for HRA subsidy so that it would have no net effect on the HRA.</p>		
	<p>In contrast, the General Fund share of the premium - £140,000 - falls to be financed as a one off in the year. Consistent with earlier recommendations, it is proposed that this be financed from the strategic change fund.</p>		
	<p>The annual loss of interest on using cash to pay the premium rather than for investment would fall to be split between the HRA and the General Fund on the same basis as the premium.</p>		
	<p>Assuming that this loan were to be repaid on 1<sup>st</sup> October 2002, the financial implications of repaying this loan can be summarised as follows -</p>		
	Current Year 2002-2003	General Fund	HRA
		£'000	£'000
	Interest saving	150	31



	Loss of investment interest	-70	0
	Cost of Premium	-140	-74
	Loss of investment interest on premium	-3	-17
		-63	-60
	Use of strategic change fund	140	0
	HRA Subsidy	0	43
	Gain/Loss(-)	77	-17
Given that the strategic change fund has more commitments than it can finance - to the tune of £76,000 - the gain to the General Fund will be used as an offset.			
There will be a real cost to the HRA of £17,000 but given the budget savings it has been, is currently, and will continue to be making on capital charges - estimated at £300,000 for the current year - this can be contained well within budget. It is wholly legitimate for the HRA to bear its share of treasury management transactions - both gains and losses - the large majority of which is equalised through the HRA subsidy mechanism.			
The annual financial implications for future years - up to September 2008 - can be summarised as follows -			
	Future Years	General Fund	HRA
		£'000	£'000
	Interest saving	300	63
	Loss of investment interest	-140	0

Cost of Premium	0	-148
Loss of investment interest on premium	-6	-34
	154	-119
HRA Subsidy	0	85
Gain/Loss(-)	154	-34
The gain to the General Fund will ensure that the current year budget problem will be eliminated for next year and beyond.		
The net additional cost to the HRA can be contained within its existing budget.		
The risks and rewards of repaying this loan are as follows –		
Risks		
§ Adding additional premia to the existing amounts due to be written off to the HRA in future years. In the event of LSVT, the residual sum would most likely fall as a cost to the General Fund. At 1 <sup>st</sup> April 2002 premia of £1.7 million remains outstanding		
§ Adding additional costs to the HRA, net of subsidy, even though this can be contained within the existing budget		
Rewards		
§ From 2003-2004, eliminating the General Fund treasury management revenue budget problem		
§ Narrowing the gap between our overall debt and our overall credit ceiling		

	§ Preserving low interest PWLB loans which can be used to generate discounts in future and which would be helpful in eliminating post LSVT residual premia	
	§ Reducing our exposure to low interest earning deposits	
	§ Implementing our approved treasury management strategy	
	My recommendation therefore is to repay this loan at the earliest opportunity, commensurate with when market conditions are most favourable, and that Cabinet delegates the timing of this to me.	
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<b>2.3.6</b>	<u>Savings contained within current projections</u>	
	The latest outturn forecast for <b>Tourism &amp; Leisure</b> incorporates savings already identified to minimise the overspend. The Director of Tourism and Leisure reports as follows:	
	“The predicted shortfall (overspend) for the year-end is £168,000. This includes £100,000 for Coastline Caterers trading shortfall and a further £45,000 for catering commissions income shortfall, a result of the income shortfall experienced by Coastline Caterers. Other income shortfalls include TIC (£12,000), Towner Art Gallery (£5,000), Hampden Park Bar Trading (£6,000) and Leisure Contract Trading (£16,000). All of these were predicted and are part of the black hole brought forward into this year.	
	Also included in the shortfall are Beachy Head Countryside Centre (£15,000) and Theatre Management (£20,000).	
	The Department has already identified a limited amount of savings to offset some of these shortfalls to give a projected shortfall of £168,000.	
	It is difficult to judge the trading outcome over the next 6-8 weeks, which could provide some surplus income to help offset this shortfall. Conversely, if trading is very poor it will only add to the shortfall. Officers will be able to give an update of trading performance for August at today’s meeting.	
	It is very unlikely that the Department will generate an additional £168,000 surplus over the rest of the financial year to meet the anticipated shortfall. It will only achieve a balanced budget if the remainder of the repairs budgets are not spent. At present only emergency repairs are taking place but as stated above, a complete freeze on spending is required to meet the shortfall“.	

	The Tourism and Leisure Department has already identified an amount of savings to offset income shortfalls to give a net projected shortfall of £168,000. Such savings include £13,000 from the Awareness Campaign to offset a shortfall in guide income.	
	In <b>Housing, Health and Community Finance</b> underspends on housing strategy (£5,000) street wardens (£5,000), lifeline leases (£13,000) and environmental health (£5,000) have already been utilised to contain potential overspending to £232,000.	
<b>2.3.7</b>	<b><u>Action Plan To Eliminate Overspend</u></b>	
	<b>Potential Underspends</b>	
	Officers during their monthly cycle of monitoring meetings identified options that would generate savings to be used against the potential budget forecast. This list of items is shown at appendix A and total £140,000.	
<b>2.3.8</b>	<b><u>Other Potential Risk Areas</u></b>  A planning appeal is due to be held next February. Whilst detailed costings are still underway, initial figures suggest that it could cost up to £50,000 to defend. This has not yet been factored into the forecast outturn figures.  There are possible contingent liabilities that could arise depending on the outcome of this appeal, although these would happen in the next financial year if they happen at all.  There is also a contingent liability arising from the ongoing consideration of issues consequent on the termination of employment of a former employee.	
<b>3.0</b>	<b><u>Capital Programme</u></b>	
<b>3.1</b>	<b>Corporate Management Team has undertaken an exercise to re-profile the General Fund capital programme to align spending plans with the latest forecast of when capital receipts will be generated from future asset sales.</b>	

3.2	<p><b>The new general fund capital programme is shown at Appendix C and Members are asked to approve the amended programme.</b></p> <p><b>For Members information, the original programme is attached at Appendix B.</b></p>	
3.3	<p><b>Members' approval is also requested for essential health and safety schemes to be released from the urgent works programme. A separate schedule will be provided to Cabinet today detailing these schemes, which will only commence when capital resources have been received.</b></p>	
4.0	<p><b><u>Consultations</u></b></p>	
4.1	<p>Not relevant for this report.</p>	
5.0	<p><b><u>Implications</u></b></p>	
5.1	<p>There are no other relevant implications for this report.</p>	
<p><b>Sue McHugh</b></p> <p><b>Director of Finance and Corporate Services</b></p>		
<p><b>Background Papers:</b></p> <p>Civic Budget 2002-2003</p> <p>Revenue and Capital Monitoring Report – Cabinet 1<sup>st</sup> August 2002</p>		