

COMMITTEE:	Cabinet
DATE:	9 January 2003
SUBJECT:	2003/04 Budget
REPORT OF:	Director Of Finance And Corporate Services
Ward(s):	All
Purpose:	
Contact:	Sue McHugh, Director of Finance and Corporate Services telephone 01323 415104 or internally on extension 5104.
Recommendations:	Members are asked to consider the budget options set out in this report and formulate firm proposals for 2003/04 to be agreed by Cabinet on 6 th February and Council on 27 th February

1.0	<u>Introduction</u>	
1.1	<p>Cabinet on 5th December received a report on the progress of service and financial planning for 2003/04. Since then a great deal of work has been completed in order to arrive at a comprehensive assessment of options. Service and Financial Plans covering all of the Council's service areas have been produced by officers and reviewed by Members. Plans for cross cutting areas and corporate plans for the Council's Aims and Values have also been produced. These Plans have generated a large number of options for services, many of which would have implications for future years' budgets. Members are in the process of considering these options and Cabinet on 6th February will agree proposals for the financial year 2003/04 for recommendation to full Council.</p>	
1.2	<p>The aim of this report is to set out all the financial options identified by officers and their implications. Many Council Members from both political groups have been involved in discussions with service managers on these options. This report brings together the information that has been presented with the aim of encouraging further debate on the issues and enabling wider consultation.</p>	

1.3	Members will see that the growth options identified far exceed the resources available. Priorities will need to be determined in order to achieve affordable proposals for the new financial year. The inclusion of growth options in this report should not be taken as an indication that the growth can be provided for next year.			
2.0	General Fund Revenue Account			
	<u>Government grant allocation</u>			
2.1	The draft local government finance settlement 2003/04 was announced on 5 th December. The settlement incorporates changes to the Revenue Support Grant formula, including a “resource equalisation” adjustment. This brings the assumed levels of local authority spending and Council Tax levels more into line with actual levels nationally. The effect of this resource equalisation adjustment has been to generally increase local authority Formula Spending Shares (previously called Standard Spending Assessments) and Assumed National Council Tax (previously Council Tax for Standard Spending). The effect of this for Eastbourne is that, whereas previously we were considered to spend and raise Council Tax charges well above the Government’s assumed level, we are now below the assumed levels. The following table illustrates this:			
		<u>2002/03</u>	<u>2003/04</u>	
		Assumed	Actual	Assumed
		£000	£000	£000
	Total spend	13,117	14,275	15,355
	Assumed Band D Council Tax charge	96.87	131.14	181.32
	The components of the EBC Formula Spending Share for 2003/04 and the equivalent amounts for 2002/03 are as follows:			
		<u>2002/03</u>		<u>2003/04</u>
		<u>£000</u>		<u>£000</u>

Environmental protective and Cultural Services (EPCS)*	10,347	12,379
Rent allowance payments	1,052	1,148
Flood Defence	178	185
Coast Protection	198	229
Fixed costs	-	300
Capital Financing	<u>1,058</u>	<u>1,114</u>
	<u>12,833</u>	<u>15,355</u>

*** adjusted for benefit admin subsidy change**

As can be seen the two significant changes are the increase in the EPCS amount and the new allocation towards fixed costs. The 2002/03 EPCS figure is reduced by £284,000 of benefit administration costs which are to be funded from a specific grant in 2003/04.

The new formula for determining spending need has resulted in the following changes for the districts, within East Sussex:

	% Increase in FSS	% Increase in EPCS	% increase in Grant
Eastbourne	19.65	21%	3.0%
Hastings	24.38	24%	5.1%
Lewes	42.83	44%	9.0%
Rother	23.72	23%	3.4%

	Wealden	37.48	39%	3.0%
A key element of the EPCS formula is population. The 2003/04 settlement uses data from the 2001 census for the first time and the difference between the population estimates using this data and using previous estimates explains some of the variances.				
		Population Estimate For 2002/03 Settlement	Population Estimates For 2003/04 Settlement	% Change
	Eastbourne	92,654	89,834	-3.0
	Hastings	83,256	85,394	+2.6
	Lewes	87,491	92,257	+5.4
	Rother	92,031	85,458	-7.1
	Wealden	143,364	140,184	-2.2
The three authorities where the population estimate has reduced (Eastbourne, Rother, Wealden) have all received the minimum uplift.				
Attached to this report at Appendix D is a breakdown of the new EPCS calculation. The components are:				
- a basic amount per resident.				
- density and sparsity top ups.				

	- top ups for in-commuters and day visitors.		
	- deprivation top ups.		
	- area cost adjustment.		
	The calculation for each of the other districts in East Sussex is also shown for comparative purposes, together with the total FSS per resident.		
	<u>Medium Term Financial Forecast</u>		
2.2	The five year medium term financial forecast for the General Fund has been updated and is attached as Appendix A . Forecast resources for 2003-2004 is estimated at £14.630 million. This is made up as follows –		
		<u>2002/03</u>	
		<u>£000</u>	
		<u>2003/04</u>	
		<u>£000</u>	
	Revenue Support Grant (RSG)	9,877	9,881
	Housing Benefit Administration Subsidy	0	344
	Council Tax	4,335	4,405
	Council Tax Surplus	63	0
	<u>Forecast resources</u>	<u>14,275</u>	<u>14,630</u>

	<p>Housing Benefit Administration Grant has to date been paid 50% within RSG and 50% as a Specific grant. With effect from 2003-2004 it will be paid 100% as a Specific grant as part of Government's new financing arrangements for local authorities.</p> <p>The full amount of Administration Grant for next year is £676,000. The £344,000 shown above is the amount which would previously have been included within RSG.</p> <p>For comparative purposes, our year on year increase in Government funding is £10.225 million (£9.881 million plus £344,000) against £9.877 million - an increase of 3.5%.</p>	
	<p>The amount of money budgeted from Council Tax for Eastbourne Borough Council for 2002-2003 is £4.335 million. This is the sum of Band D at £131.14 multiplied by the taxbase of 33,058.</p> <p>For the purpose of the forecast for 2003-2004, Band D remains at its current level whilst the taxbase has been increased up to 33,595. This is the current best estimate of the likely taxbase for 2003-2004 to be recommended to Council for approval on 22nd January 2003.</p>	
	<p>The estimate of any Council Tax Surplus to be applied in 2003-2004 has not yet been undertaken. This will be calculated in early January and the result should be available at the meeting. Any surplus declared will add to the forecast resources.</p>	
	<p>The forecast resources for 2004/05 onwards assume a 3% increase in grant each year, in line with the floor for 2003/04. Eastbourne Borough Council's level of grant allocation before application of the floor for 2003/04 is £9,168,000, some £713,000 below the actual level. This implies that Eastbourne Borough Council is likely to receive the minimum uplift in future years.</p>	
2.3	<p>Forecast spend for 2003-2004 – before the consideration of growth and savings - is estimated at £16.637 million.</p> <p>In summary this is made up as follows -</p>	
		2003/04
		£000
	2002-2003 current net expenditure	14,275
	Unavoidable cost increases	714
	Unavoidable contract pressures	1,657

	One-off and time limited items	(66)
	Committed growth items	22
	Best Value reviews	28
	Service changes	7
	<u>Forecast spend</u>	<u>16,637</u>
	Unavoidable cost increases cover pay awards and other pay costs, contract and price inflation, the rising costs of insurance, and the General Fund's increasing share of Treasury Management costs.	
	Unavoidable contract pressures cover Cleansing and other contract increases approved by Cabinet on 5 th December 2002.	
	The other items shown above - one-off and time limited items, committed growth items, Best Value reviews and Service changes - are those items that fall out of, or are added onto, the current budget. This is where Council has previously given approval to future years budget changes.	
	Much more detailed information of the items included within the Forecast spend for 2003-2004 is contained within Appendix A .	
	<u>Required Growth to Maintain Service</u>	
2.4	Officers have identified a wide range of areas within their responsibility which they believe require growth so that they can maintain their services at the levels which Council has currently determined. These are detailed at Appendix B . The total value of these growth bids is £2.104 million which are summarised as follows -	
		<u>£000</u>
	Chief Executive	132

	Finance and Corporate Services		42
	Tourism and Leisure		798
	Housing Health and Community Finance		693
	Planning Regeneration and Amenities		396
	Corporate Aims and Values		43
	Total		2,104
	<p>Many of these growth bids are consistent with the difficulties experienced this year and reported to Members as part of the regular cycle of budget monitoring reports. Chiefly this relates to unachievable income targets and spending pressures that have arisen during 2002/03 but were not budgeted for, particularly as regards Housing Benefits. There are many other items within this list of bids which Members will need to review for themselves in making their judgement on the composition of next year's revenue budget.</p>		
	<u>Growth to achieve Performance Improvement</u>		
2.5	<p>Through the Service and Financial Planning process officers have also been asked to identify growth which they believe will lead to demonstrable and sustainable improvement in the performance of their services. These are also detailed at Appendix B.</p> <p>The total value of these growth bids is £944,000 which are summarised as follows -</p>		
			£000
	Chief Executive		138
	Finance and Corporate Services		12
	Tourism and Leisure		197
	Housing Health and Community Finance		121

	Planning Regeneration and Amenities		138
	Corporate Aims and Values		338
	<u>Total</u>		<u>944</u>
	Members will need to review for themselves the detailed bids contained within Appendix B as part of their decision making when setting next years revenue budget and the consequent level of Council Tax.		
	<u>Savings Opportunities</u>		
2.6	Officers have also identified savings opportunities which they believe Members should consider as part of budget setting. These are also detailed at Appendix B . The total value of these savings is £843,000 which are summarised as follows -		
			<u>£000</u>
	Chief Executive		16
	Finance and Corporate Services		76
	Tourism and Leisure		322
	Housing Health and Community Finance		334
	Planning Regeneration and Amenities		95
	<u>Total</u>		<u>843</u>

	<p>Members need to be aware that some of these savings opportunities are linked to growth items, in that officers are seeking to realign budgets with the custom and practice of how and where money is actually being generated and spent in the delivery of services. Officers are also linking growth and savings where new money will be received for reinvestment in a particular service, e.g. Housing Benefits.</p> <p>Members need to be aware of these linkages when considering the overall package of options for next year's budget.</p>	
	<u>Contingencies, Balances and Reserves</u>	
2.7	In its White Paper “Strong Local Leadership – Quality Public Services” the Government set out plans to reinforce local authorities’ financial responsibilities. These plans included:	
	<ul style="list-style-type: none"> · An invitation to CIPFA (the Chartered Institute of Public Finance and Accountancy) to provide up to date professional guidance on reserves. 	
	<ul style="list-style-type: none"> · A new statutory duty on the chief financial officer to report, at the time the Council Tax is set, on the robustness of the budget calculations and the adequacy of resources. 	
	<ul style="list-style-type: none"> · An enabling power for the Secretary of State to specify a statutory minimum level of reserves. 	
	These proposals are included in the Local Government Bill and CIPFA has issued draft Guidance on factors which need to be considered as part of assessing the adequacy of balances. These are summarised in the table below.	
	Budget assumptions	Financial standing and management
	The treatment of inflation and interest rates.	The overall financial standing of the authority (level of borrowing, debt outstanding, Council Tax collection rates etc.)
	Estimates of the level and timing of capital receipts.	The authority’s track record in budget and financial management.

	The treatment of demand led pressures.	The authority's capacity to manage in-year budget pressures.	
	The treatment of efficiency savings/productivity gains.	The strength of the financial information and reporting arrangements.	
	The financial risks inherent in any significant new funding partnerships, major outsourcing deals or major capital developments .	The authority's virement and end of year procedures in relation to budget under/overspends at authority and departmental level.	
	The availability of other funds to deal with major contingencies .	The adequacy of the authority's insurance arrangements to cover major unforeseen risks.	
	The guidance also supports the use of strategic and operational risk assessments in anticipation of the new corporate governance reporting arrangements which are being introduced.		
	In setting the 2003/04 budget members have indicated that they intend to set aside an appropriate contingency to cover those financial risks which are not specifically covered elsewhere. The amount of the contingency required will need to be assessed in the context of other budget proposals.		
	<u>Council Tax Implications</u>		

2.8	<p>The level of next year's Council Tax, and the extent to which it increases over this year's figure, is dependent upon many factors. None of these are firm yet.</p> <p>However, based on what we do know in terms of the provisional settlement, the likely taxbase, and the medium term financial forecast, the forecast Band D requirement for 2003-2004 will be £190.86.</p> <p>Members decisions of the officers growth bids and savings options as set out within Appendix B, will clearly vary this figure.</p> <p>However, Members may themselves have additional areas of the Council's budget that they wish officers to explore as a way of dealing with and potentially limiting the size of the increase. Members are invited to indicate where they might wish the officers to undertake further work and consultation in this respect.</p>	
3.0	Housing Revenue Account	
3.1	<p>Housing Revenue Account (HRA) services have equally been engaged in the Service and Financial Planning process, chiefly through the plan for the Housing Management Division. In parallel with this exercise, officers have been working on the other issues that affect HRA budgeting, for example, the Government's subsidy determinations which play such a dominant part in the process.</p>	
	<p>Officers have identified the following key factors which will inform the composition of the 2003-2004 HRA -</p>	
		£000
	Additional income from rent increase	(170)
	Pay awards and other pay costs	113
	Contract and price inflation	135
	Maintenance savings from stock reduction	(43)
	Savings from handback of HMS properties	(10)
	Ongoing reduction in treasury management costs	(200)
	HRA subsidy gains	(52)

	<u>Saving</u>		<u>(227)</u>
	<p>In addition to these unavoidable factors, officers have identified growth and savings options for the HRA which are detailed within the Housing Health and Community Finance Department pages in Appendix B. One of the growth options does not yet have a figure attached to it - ALMO start up costs - as these are not yet known. If Members give approval to expenditure on this major project a contingency sum will need to be held within the HRA.</p>		
	<p>It is clear from the table above that notwithstanding Members determination of the growth bids, savings options, and contingency for ALMO, that the HRA for 2003-2004 will enjoy a surplus.</p> <p>It is recommended that whatever level of saving is ultimately determined by Members, it be used as a revenue contribution to capital to finance the Council's commitment to meeting the decent homes targets for its own stock, as quickly as possible. This is consistent with the HRA Business Plan that Council has already approved and which the Government Office of the South East (GOSE) has commended.</p>		
3.2	<p>Officers will be bringing a detailed rent setting report to Cabinet in February for Members to determine the level of housing rents and other charges to apply for 2003-2004. Initial indications are that the recommended average increase will be around 2.9%, although this is still subject to detailed calculations in line with Government guidelines on rent setting. For the purposes of calculating the additional income of £170,000 set out in the table above, an average of 2.9% has been used.</p>		
4.0	<p><u>Capital</u></p>		
4.1	<p>The Office of the Deputy Prime Minister has announced the draft allocations of Credit Approvals for 2003-2004.</p>		
	<p>In making those announcements the Office of the Deputy Prime Minister has stated that Eastbourne's Housing performance is considered to be "above average" compared with other Local Authorities in the South East.</p>		
	<p>The majority of the single capital pot Basic Credit Approval for 2003-2004 is allocated on a "needs" basis with the balance being at Ministers discretion.</p>		
	<p>The 2003-2004 allocation is as follows :-</p> <p style="text-align: center;">£'000</p>		

	Total Basic Credit Approval	1,803	
	Of which – Housing BCA (£1,113,000 is for HRA stock in order to attract subsidy)	1,318	
	Available as a non housing capital resource	485	
	The above allocations exceed those received in recent years and consequently those previously built into the capital strategy.		
	The service and financial planning process has identified capital growth bids in addition to the requirements already included in the capital strategy. Members are invited to refer to Appendix C to review any new capital growth bids identified through this process.		
5.0	<u>Consultations</u>		
5.1	Members from both political groups have been involved in detailed discussions with officers regarding their service plans, growth bids and savings proposals. Copies of all draft plans are available for Members to inspect. The Service and Financial Planning process has also been considered by Scrutiny Committee on 9 th December. Public consultation is also planned and in progress. All households have received information on the new cleansing contracts via individually mailed leaflets. These leaflets invite members of the public to comment on how the increased costs of the new contract should be paid for, whether from increasing Council Tax bills or cutting other services. Comments received from members of the public will be reported to Cabinet in February. A copy of this report is being sent to business and community groups for comments and a meeting to discuss options will be held during January. Comments received will be reported to Cabinet in February alongside firm budget proposals.		
6.0	<u>Implications</u>		
6.1	The options set out in this report have significant implications for staff and for the services the Council is able to provide and these will need to be considered as part of final decisions. The financial implications are covered throughout the report.		
7.0	<u>Summary</u>		
7.1	The report sets out detailed budget options as a result of the service and financial planning process to date.		

<p>Sue McHugh</p> <p>Director of Finance and Corporate Services</p>	
<p>Background Papers:</p> <p>The Background Papers used in compiling this report were as follows:</p> <p>(If no background papers used, write "none".)</p> <p>To inspect or obtain copies of background papers please refer to the contact officer listed above.</p>	
<p>Cabinet 030109 2003-04 Budget1</p>	