

Body:	Cabinet
Date:	6 February 2013
Subject:	General Fund Revenue Budget 2013/14 and Capital Programme 2012/16
Report of:	Chief Finance Officer
Ward(s)	All
Purpose	To agree the detailed General Fund budget proposals for 2013/2014 and Capital Programme 2012/2016.
Decision Type:	Key Decisions requiring approval of Full Council
Recommendation:	Members are asked to recommend the following proposals to Full Council: <ul style="list-style-type: none"> (i) General Fund budget for 2012/13 (Revised) and 2013/14 (original) (Appendix 1) including growth and savings proposals for 2013/14 as set out in Appendix 2. (ii) No increase in the Council Tax for Eastbourne Borough Council resulting in an unaltered Band D charge of £224.19 for 2013/14. (iii) General Fund capital programme and financing 2012/16 as set out in Appendix 3.
Contact:	Alan Osborne, Chief Finance Officer, Telephone 01323 415149 or internally on extension 5149. E-mail address: alan.osborne@eastbourne.gov.uk

1.0 Introduction

- 1.1 This report sets out the general fund revenue budget proposals for 2013/14 and a rolling three year capital programme 2012/16.
- 1.2 The Housing Revenue Account 2013/14 and associated capital programme, together with rent setting for 2013/14 is subject of a separate report elsewhere on this agenda.
- 1.3 The Council revised its medium term financial strategy (MTFS) in July 2012 and the Cabinet recommended a resulting draft 2013/14 budget proposal in December 2012 following the service and financial planning process in the autumn.
- 1.4 The MTFS and the draft budget have been subject to extensive consultation as reported to Cabinet and Scrutiny in December.

1.5 The budget is the product of various plans and strategies as part of an integrated and corporate planning process and is linked principally to:

- The MTFS
- Asset Management Plans
- The Corporate Plan
- Workforce Strategy
- Treasury Management Strategy
- Service Plans
- HRA business plan
- DRIVE corporate transformation programme
- Sustainable Service Delivery Strategy
- Agile Working Programme

1.6 The Chief Finance Officer has a specific legal responsibility to give positive assurances on:

- The robustness of the estimates used in the budget
- The level of reserves

If the recommendations of this report are agreed then these assurances will prevail.

2.0 Summary of recommended budget proposals

2.1 The budget proposals include:

- No increase in the Council Tax in 2013 / 14
- Overall savings totalling £1.807m (11.5% of the net budget)
- Efficiency savings of £1.483m (9.4% of the net budget)
- Inflation of £0.370m (2.4%)
- Other recurring service growth of £1.104m
- Additional available capital finance £0.302m
- Non recurring service investments £0.393m
- All recurring expenditure met from recurring resources
- General Reserves averaging in excess of £3.5m (against a minimum recommended of £2m)
- Capital receipts of £0.8m invested in new capital schemes

Projected earmarked reserves at 31.3.14:

- Strategic change fund £1m
- Economic Regeneration reserve of £0.6m
- Repairs and maintenance (capital programme) reserve of £0.2m

2.2 The budget represents management of financial risks by:

- Building on a balanced outturn position
- Balancing the base budget requirement without needing to use reserves
- Identifiable and deliverable savings with accountability and no general unidentified targets
- Reserves well above the minimum level

- Zero basing of reward grants
- Prudent calculation of the council tax and NNDR base
- Exceeding the targets set by the MTFS prior to the current Comprehensive Spending Review (2011-15) by £0.5m
- Providing the funding required for the DRIVE change programme to deliver the future savings required by the MTFS

3.0 2013/14 Resources

3.1 Government Funding

3.2 The underlying methods of Local Government financing are changing significantly from 2013/14.

3.3 The new system of Local Government finance has made the following changes:

- The retention of a proportion of business rates
- The localisation of council tax benefit
- The amalgamation of some specific grants into the main grant distribution mechanism
- The introduction of "top ups and tariffs" to redistribute non domestic rates
- The introduction of a "safety net" mechanism to manage the transition by top slicing the amount of grant available nationally.

3.4 For Eastbourne the Headline figures are:

- A reduction in formula grant from £6.8m to £6.4m (5.8%)
- The inclusion of homelessness grant (£182,000) and the original 2011/12 council tax freeze grant (£206,000) in the above.
- Funding for the localisation of council tax benefit of £1.188m
- A "tariff" of £9.7m of business rates (£12.9m received, £3.2m retained)
- A "safety net" of £2.951m for retained business rates.
- A further cut in baseline funding of £1m for 2014/15 offset by any retained element of business rate growth (currently £0.4m but subject to volatility)

3.5 Due to growth in the NNDR base, the Council will retain £3.5m of business rates which is £0.6m above the safety net and £0.4m higher than the Government's "start up assessment".

3.6 In addition to the formula grant the Government is financing the cost of a 1% increase in council tax (£83,000) for the one year only.

3.7 The Government has announced that Eastbourne will receive £557,000 in total of "New homes bonus" due to the growth in housing in the area, of this £432,000 is to be transferred to the Regeneration reserve to fund economic initiatives. The grant is paid in tranches for six years, the 2013/14 figure includes 3 tranches (approximately £185,000 per tranche)

3.8 Council Tax

- 3.9 The proposal for no increase in council tax for 2013/14 results in an unchanged Band D rate of £224.19 for the Council (14% of the total bill).
- 3.10 The Council has to give an indication of likely future council tax rises, it is still expected that council tax will rise by no more than 2.5% per annum for each of the next three years.
- 3.11 Within this context, for 2013/14, the Council will raise £7.281m from its share of the council tax. This is determined by multiplying the council tax base of Band D equivalent dwellings by the Band D tax rate of £224.19.
- 3.12 In addition, there is a distribution of £22,000 payable to EBC due to a collection fund surplus.
- 3.13 Summary – 2013/14 Resources

A summary of the resources available is shown below:

Source:	£'m
Government formula grant	(4.613)
Retained business rates	(3.518)
New Homes Bonus	(0.557)
Council tax freeze grant	(.083)
Grant for weekly household collection	(1.298)
LCTS transition grant	(0.033)
Council Tax	(7.281)
Collection Fund Surplus	<u>(0.022)</u>
Total Resources Available (Rounded)	<u>(17.405)</u>

- 3.14 In order to achieve a balanced budget without using reserves, the Council will need to set a net expenditure budget for 2013/14 of £16.267m. Therefore net contributions to reserves of £1.138m are included in the recommended budget. (£17.405m less £16.267m)
- 3.15 In December the Cabinet put forward its draft budget proposals, the main movements since then are itemised below and detailed in **Appendix 2:**

Item	£'000
Cost of localisation of council tax	10
Additional capital financing	99
Net additional resources available	<u>(109)</u>
Total	<u>0</u>

4.0 Specific Grants

- 4.1 In addition to the general grant distributed through the new formula grant system, which is given towards financing the Council's net expenditure, the Government also provides some specific grants. These specific grants will fund in part or in full, service costs.

Grant	2013/ 14 £m
Housing Benefit Subsidy	(40.000)*
Housing Benefit Administration	(0.949)
New burdens funding	(0.080)
Household collection grant	(1.298)

* Approximate

4.2 Housing Benefit Subsidy:

As part of a national scheme delivered locally, this grant is intended to reimburse the Council for the awards of benefit it makes to eligible tenants in both the private and public rented sector. Not only is this by far the largest single specific grant that the Council receives, but it is performance related. The Council has improved its performance in recent years.

A new system of universal credits is due to start in October 2013 which will see the caseload moved to the Department for Work and Pensions. Responsibility for council tax benefit has now devolved to a local level.

4.3 Housing Benefit Administration:

This is to fund the cost to Eastbourne of administering the national Housing Benefit and local Council Tax Support schemes. This represents a reduction of 5% from the 2012/13 funding.

4.4 Homelessness:

This is intended to assist with prevention and to find alternative accommodation other than bed and breakfast. This grant has now been subsumed into the main grant system.

4.5. New Homes Bonus:

This began in 2011/12 (£187,000) and is guaranteed for six years. A further £190,000 has been awarded for 2012/13 and £180,000 in 2013/14 making a total payable of £557,000 in 2013/14. The Council's policy as outlined in the MTFS is to utilise the additional grant for economic regeneration initiatives. A separate reserve has been set aside for that purpose.

5.0 Budget movement 2012/13 to 2013/14

5.1 The detailed budget proposals are set out in **(Appendix 1)** show in detail the movement from the 2012/13 budget to the 2013/14 proposed budget. The movements are summarised below:-

5.2	Movement from 2012/13	£'000	£'000
	Base Budget		
	Change in resources:		
	Main government grant	2,369	
	Retained business rates	(3,518)	
	Council tax – decrease in tax base/collection	998	
	Council tax grant (decrease)	<u>123</u>	(28)

Cost increases:		
Inflation	370	
Other unavoidable costs increases and changes in income	634	
Service growth for priorities	<u>772</u>	1,776
Savings:		
Efficiency savings	(1,483)	
Service alterations	(24)	
Increased Income	<u>(300)</u>	(1,807)
Other net changes		<u>59</u>
Total		<u>(0)</u>

5.3 If Cabinet approves the proposals set out in the report it will be able to recommend to Council on 20th February a balanced budget in line with available resources without the need to use reserves.

5.4 The Council now follows a rolling three year financial planning cycle and the service and financial plans have been set out in detail for 2013/14. The next MTFS due in July will project forward a further three years and continue to provide the basis of service and financial planning for the medium term. It should be noted that at a high level the savings required for the next MTFS have already been identified, further reports to Cabinet will detail the business plans under the transformation programme (DRIVE)

5.5 The Government has set out a revised four year programme of reductions in funding and the Council's current MTFS already takes account of this.

The change programmes in place such as Agile and the SSDS and the rest of the DRIVE programme are projected to deliver savings over and above the minimum in order to create headroom for investment in priority services.

6.0 Risks, Contingencies and Reserves

6.1 All budgets contain an element of financial risk. The Council sets an operational budget with careful consideration of known risks, but accepts that this cannot cover every eventuality. As a consequence the Council sets a contingency budget and holds a minimum level of general reserve as a hedge against additional and significant financial turbulence.

6.2. Principal Risks

The key areas of financial risk that the Council faces in the operation of its 2013/14 budget are:-

- Housing Benefit Subsidy Performance
- Inflation on goods and services
- Income from services linked to customer choice (theatres, tourism; sports centres, car parking)
- Demand led services (e.g. bed and breakfast)

- Legal challenges
- Costs of significant planning and/or licensing appeals
- The welfare reform programme

On an exception basis, information on each of the risk areas identified above, together with any new and significant risks that may emerge over the course of the year, will be included in each financial performance report to Cabinet and Scrutiny during the 2013/14 financial year.

6.3 Contingency

The 2013/14 budget includes a corporate contingency budget of £444,000 to allow for unbudgeted expenditure or reductions in income. This is in addition to the known inflation that has been built into the service budgets. The Government has announced a 1% cap on pay rises in 2013/14 therefore £135,000 has been included in the contingency.

6.4 Reserves

Part 2 of the 2003 Local Government Act requires the Chief Finance Officer to report on the adequacy of the proposed financial reserves, and determine the minimum level required. There is no statutory minimum requirement, but reserves must be set at a prudent level given the activities of individual Councils and potential liabilities that they face or may face in the future i.e. a risk based approach. The Council's earmarked reserves are reviewed at least annually for adequacy. If at any time the adequacy is in doubt the Chief Finance Officer is required to report on the reasons, and the action, if any, that he considers appropriate.

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

6.5	Risk	£m
	Unexpected Events e.g. flooding, major storm in excess of Bellwin Scheme provision	0.5
	Significant financial overruns e.g. prior year negative Housing Benefits subsidy adjustments and costs of welfare reform	0.5
	Exceptional fluctuations in income that have a major corporate impact e.g. loss of major sponsor close to an event (2.5% of income)	0.3
	Cost of providing priority services during an incident or emergency in excess of insurance cover	0.3
	Exceptional fluctuations in costs or demand that have a major corporate impact e.g. fuel costs	0.2
	Cost of significant breach of legislation e.g. health and safety, human rights	0.2

The overall proposed minimum level of £2 million is the same as the current year and in line with the risk assessment outlined above. It is the view of the Chief Finance Officer that this level of reserves remains adequate to meet the current commitments and proposals detailed within this report and any unforeseen expenditure that cannot be met by external resources.

Should the budget recommendations be followed, the level of general fund reserve is projected at £3.5m by March 2014 (**Appendix 1**). In addition to acting as a potential buffer against future risks, this should create further opportunities for one off investments in the future.

6.6 Earmarked Reserves:

The following revenue reserves have been set aside in addition to the general reserve in order to facilitate projects under the DRIVE programme. The available balances at 31.3.14 are projected to be (**Appendix 1**):

Reserve	Purpose	Amount £'m
Strategic Change	To fund internal projects under DRIVE	1.0
Repairs and Maintenance (capital programme)	To fund emergency repairs and maintenance (revenue)	0.227
Economic Regeneration	To promote economic growth	0.587

6.7 Other earmarked revenue reserves:

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

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

7.0 Capital Programme 2012-2016

7.1 The principles for formulating the capital programme were set out in the draft budget report submitted to Cabinet on 12th December 2012. The proposed new schemes to be financed are shown in **bold** in at (**Appendix 3**).

7.2 The Council has a policy of only using borrowing for schemes that are invest

to save and can generate enough savings or additional income to service the financing costs.

- 7.3 In addition to schemes that qualify for borrowing the Council had a further £850k of capital receipts to apply to the programme.
- 7.4 The Housing Revenue Account capital programme is set out in another report on the agenda and is financed entirely from HRA resources. Once approved it will be amalgamated with the general fund programme.
- 7.5 No uncertain future capital receipts have been factored into the available resource so there will be opportunities to supplement the programme as the three year period progresses. Potential disposals will be identified by the asset management plans.

8.0 Consultation

- 8.1 The Council's medium term financial strategy and the resulting draft budget proposal for 2013/14 as reported to Cabinet in December have been subject to wide and varied consultation. The outcome of which was reported to the Cabinet in December. The Scrutiny Committee held a finance event in October and has been invited to comment on the budget proposals.

9.0 Implications

9.1 Financial

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

9.2 Human Resources

Implications have been discussed with Members through the detailed service and financial planning process, and where appropriate with the local Branch of Unison. Specific staff briefings have taken place as necessary.

9.3 Environmental

Both capital and revenue budget proposals include improvements to the maintenance of Council buildings and open spaces across the town. These include a number of energy efficiency initiatives to reduce usage, cost and emissions. Consultation with residents demonstrates that these types of initiatives are well supported and are seen as high priority areas for new investment.

10.0 Conclusion

- 10.1 The Council is well placed financially to meet the demands on its services as well as the reductions in Government support over the medium term.

Alan Osborne
Chief Finance Officer

Background Papers:

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

Cabinet reports:

December 2012

- Council Tax Base for 2013/14
- Draft Budget Proposals 2013/14
- Consultation on Council priorities

July 2012 – Medium Term Financial Strategy

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