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Appendix 1
to the council budget and setting of the council tax for 2013/14 report (item 07)

Minute extracts

Meeting: **Scrutiny**
Date: **4 February 2013**

18 General Fund Revenue Budget 2013-2014 and Capital programme 2012-2016

(N.B. paragraphs summarising budget report omitted)

Members discussed monies allocated to preventing homelessness, economic regeneration, use and County co-ordination of business rates, the new homes bonus and improvements to 'diesel alley' in conjunction with the regeneration of the Arndale Centre.

Noted.

Meeting: **Scrutiny**
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19 HRA Revenue Budget and Rent Setting 2013/14 and HRA Capital Programme 2012/16.

(N.B. paragraphs summarising budget report omitted)

Members discussed water charges with regard to what Eastbourne Homes Ltd were doing to promote water use efficiency within the stock, particularly, in shared accommodation where meters were not fitted, calculations for bad debt provision and garage rents. Members asked if the fraud team would be willing to consider the subletting garages as part of their review into the rental of Council owned properties. Members were advised that the review of the Eastbourne Homes contract would consider the delivery of the housing function including the quality and cost of the provision.

Noted.

Meeting: **Cabinet**
Date: **6 February 2013**

***87 General fund revenue budget 2013/14 and capital programme 2012/16** (Cabinet, 12 December 2012, page 217, minute 64).

87.1 Cabinet considered the report of the Chief Finance Officer setting out the general fund revenue budget proposals for 2013/14 and a 3-year capital programme 2012/16. The medium term financial strategy (MTFS) had been revised in July 2012 and the Cabinet had agreed a draft 2013/14 budget proposal last December. The MTFS and resulting draft budget had been subject to extensive consultation and previously reported to Cabinet and the Scrutiny Committee.

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

- The medium term financial strategy
- Asset management plans
- The corporate plan
- Workforce strategy
- Treasury management strategy
- Service plans
- Housing revenue account business plan
- DRIVE corporate transformation programme
- Sustainable service delivery strategy
- Agile working programme

The Chief Finance Officer had a legal responsibility to give positive assurances on the robustness of the estimates used in the budget and the level of reserves. He commented that if the recommendations in his report were agreed then these assurances would prevail.

87.3 The budget proposals included:

- 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 of £0.302m.
- Non recurring service investments of £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 as at 31 March 2014 were:

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

87.4 The budget represented 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 national non-domestic rate (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.

87.5 The underlying methods of local government financing were changing significantly from 2013/14 and included 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.

87.6 For Eastbourne the headline figures were:

- 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).

87.7 Due to growth in the NNDR base, the Council would retain £3.5m of business rates which was £0.6m above the safety net and £0.4m higher than the government's 'start up assessment'. In addition to the formula grant, the government was financing the cost of a 1% increase in council tax (£83,000) for the one year only. The government had also announced that Eastbourne would receive £557,000 in total of 'new homes bonus' due to the growth in housing in the area, of this £432,000 would be transferred to the regeneration reserve to fund economic initiatives. The grant was paid in tranches for six years; the 2013/14 figure included 3 tranches (approximately £185,000 per tranche).

87.8 No increase in council tax for 2013/14 was proposed and this would result in an unchanged band D rate of £224.19 (14% of the total council tax bill). A summary of the resources available was given, as 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)
Local council tax support (LCTS) transition grant	(0.033)
Council tax	(7.281)
Collection fund surplus	(0.022)
Total resources available (rounded)	**(17.405)**

In order to achieve a balanced budget without using reserves, the Council would need to set a net expenditure budget for 2013/14 of £16.267m. Therefore net contributions to reserves of £1.138m were included in the recommended budget (£17.405m less £16.267m).

87.9 In December the Cabinet put forward their draft budget proposals, the main movements since then were detailed in appendix 2 to the report and summarised below:

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

In addition to the general grant distributed through the formula grant system, the government had also provided some specific grants as follows:

Grant	**2013/14 £m**
Housing benefit subsidy	c. (40.000)
Housing benefit administration	(0.949)
New burdens funding	(0.080)
Household collection grant	(1.298)

87.10 As part of a national scheme delivered locally, housing and council tax benefit subsidy grant was intended to reimburse the Council for the awards of benefit made to eligible tenants in both the private and public rented sector, and to eligible council tax payers. Not only was this by far the largest single specific grant that the Council received, but it was performance related. The Council had improved its performance in recent years. A new system of universal credits was due to start in October 2013 with caseload moved to the Department for Work and Pensions and responsibility for council tax benefit devolved to a local level. Housing benefit administration grant to fund the cost of administering the national housing benefit and local council tax support schemes would be reduced by 5%.

87.11 The detailed budget proposals were set out in appendix 1 to the report and showed in detail the movement from the 2012/13 budget to the 2013/14 proposed budget. The movements were as summarised below:-

Movement from 2012/13 base budget	**£'000**	**£'000**
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)	123	(28)
Cost increases:		
Inflation	370	
Other unavoidable costs increases and changes in income	634	
Service growth for priorities	772	1,776
Savings:		
Efficiency savings	(1,483)	
Service alterations	(24)	
Increased Income	(300)	
		(1,807)
Other net changes		59
Total		**(0)**

Details of proposed growth and savings were given in full in appendix 2 to the report. The proposals set out in the report would allow full Council on 20 February to approve a balanced budget in line with available resources and without the need to use reserves.

87.12 The Council now followed a rolling 3-year financial planning cycle and the service and financial plans had been set out in detail for 2013/14. The next MTFS was due in July and would project forward a further 3 years and continue to provide the basis of service and financial planning for the medium term. It was noted that the high level of the savings required for the next MTFS had already been identified. Further reports to Cabinet would detail the business plans under the Council's transformation programme (DRIVE). The government had set out a revised 4-year programme of reductions in funding and the Council's current MTFS already took this into account. The change programmes in place, such as the agile working programme and the sustainable service delivery strategy (SSDS) and the rest of the DRIVE programme, would deliver savings over and above the minimum in order to create headroom for investment in priority services.

87.13 The report also detailed the principal financial risks the Council was likely to face, as follows:

- 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.

87.14 A single corporate contingency of £444,000 for unbudgeted expenditure or reductions in income had been allowed. This was in addition to the known inflation that had been built into service budgets. The Government had announced a 1% cap on pay rises in 2013/14 therefore £135,000 had been included in the contingency. Further, the Council's general fund reserves were anticipated to amount to £3.5m in March 2014 as compared with the Chief Finance Officer's minimum recommended level of £2m.

87.15 The following reserves had been set aside in addition to the general reserve in order to facilitate projects under the DRIVE programme. The available balances at 31 March 2014 were projected to be:

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

The Council had followed a process of consolidating its reserves into the corporate reserves above. This better facilitated corporate priority planning. The only other reserves that the Council held had specific obligations attached (e.g. Section 106/partnership contributions).

87.16 The principles for formulating the capital programme were set out in the budget report to Cabinet last December and the updated programme was given in appendix 3 to the report and showed a revised budget of £6,792m in 2012/13; £13.883m in 2013/14; £8,789m in 2014/15; and £7.639m in 2015/16, aligned with known available resources. The Council had a policy of only using borrowing for schemes that were 'invest to save' and could generate enough savings or additional income to service the financing costs. In addition to schemes that qualified for borrowing, the Council had a further £850.000 of capital receipts to apply to the programme. No uncertain future capital receipts had been factored into the available resource so there would be opportunities to supplement the programme as the 3-year period progressed. Potential disposals would be identified through the asset management plans.

87.17 The HRA capital programme was set out in another report on the agenda (minute 88 below) and was financed entirely from HRA resources. Once approved it would be amalgamated with the general fund programme.

87.18 Councillor Mattock commented that the steps taken by the Council in previous years had ensured the making of significant efficiency savings allowing the Council to adjust to the reduced levels of government funding, the impact of inflation and growth in demand for services without recourse to cuts to front line services, with no increase in the borough's proportion of the council tax for fourth year running and increased spending in a number of priority areas. On behalf of the Cabinet she expressed her thanks to the Chief Finance Officer, his team and other council staff who had helped in the preparation of this budget.

*87.19 **Resolved (budget and policy framework):** (1) That full Council, at their meeting on 20 February 2013, be recommended to approve the following:

(a) A general fund budget for 2012/13 (revised) and 2013/14 (original) as set out in appendix 1 to the report, including growth and savings proposals for 2013/14 as set out in appendix 2 to the report.

(b) No increase in the council tax for Eastbourne Borough Council resulting in an unaltered 'Band D' charge of £224.19 for 2013/14.

(c) A general fund capital programme and financing 2012/16 as set out in appendix 3 to the report.

Meeting: **Cabinet**
Date: **6 February 2013**

***88 Housing revenue account (HRA) revenue budget and rent setting 2013/14 and HRA capital programme 2012/**16 (Cabinet, 8 February 2012, page 267, minute 96).

88.1 Cabinet considered the report of the Senior Head of Community and Chief Finance Officer in respect of the rents, service and other charges to be set for all of the council's housing tenants. The report outlined the revenue account budget proposals for 2013/14 and housing capital programme 2012/16 and arrangements for agreeing Eastbourne Homes Limited's (EHL) management fee and delivery plan.

88.2 From the 1 April 2012 the way that council social housing was financed changed and the housing revenue account (HRA) became self financing. This meant that expenditure had to be entirely supported from rental and other income. The main tool for the future financial management of the HRA was the 30-year business plan which had been approved by the Cabinet on 8 February 2012. The 2013/14 budget showed a deficit of £103,150 which was mainly due to the one off factors of having 53 rent weeks in the year and a revenue contribution to capital. Without these additions the account would be in surplus by £115,000, representing just 0.92% of gross expenditure. This meant that after taking into account the risks on inflation, interest rates, rents and benefits changes it continued to be essential that the HRA adopted a long term efficiency plan over the next few years in order to protect services to tenants and ensure continued best value.

88.3 The major changes between the 2012/13 and the 2013/14 budgets were:

- Income increases and expenditure reductions:
- Effect of rent and service charge review -£511,450
- Extra rent week -£250,000
- Continuing effect of lower interest rates -£104,150
- Fall out of premia for early debt repayment in prior years -£76,900
- Preliminary reduction in EHL Management Fee -£200,000

Increase in expenditure

- Increase in provision for bad debts, as a result of increased risk to rent collection from benefit changes £339,100
- Council tax on sheltered accommodation remaining empty £179,330
- EHL commissioned regeneration activity £200,000
- Under occupation scheme £35,000
- Revenue contribution to capital £468,150

88.4 The total HRA debt outstanding was £37m of which £30m was external debt and was at fixed interest rates. The remaining £7m was internally borrowed from reserves. Cash flow projections indicated that this internal borrowing would have to be replaced during 2013/14 by external debt and was therefore subject to the risk of future interest rate increases. The Council's treasury management advisors were predicting that the current low levels of interest rates would continue into 2013/14 and the budget had been prepared on that basis.

88.5 The HRA business plan was based on a policy for a minimum level of HRA balance of £1m to maintain a prudent level of reserve to ensure that the HRA remained sustainable in the longer term and was able to deal with any risks posed by the current economic climate. The current level of balance would decrease in the short term in order to support the capital programme but would start to increase again from 2016/17 onwards. The balance would remain above the recommended minimum throughout.

88.6 Rent increases were subject to national policy on rent convergence. In December 2001 the Council had adopted a policy of achieving convergence, based on consultation with its tenants at the time. Under the HRA self-financing settlement the government had assumed that rent convergence was achieved in 2015/16. To avoid any large variation in the rent level from one year to the next, the government proposals limited any changes to individual tenants' rents to a maximum of £2 per week, plus RPI plus 0.5% each year. The RPI for September 2012 was 2.6% and this plus the 0.5% increase gave a formula rent increase of 3.1% for 2013/14. For 2012/13 the average weekly rent levied over 52 weeks a year was £71.57. After allowing for the damping mechanism referred to above, the average rent for 2013/14 for the HRA properties would be £74.51, an increase of 4.3 %. Details of proposals for service charges in shared blocks, heating costs in older persons' accommodation, water and sewerage charges and garage rents were also given in the report. The amounts were be set at a level to recover the expected actual cost incurred for the respective properties in the forthcoming year, or, in the case of garage rents, in line with the average increase in housing rents.

88.7 The HRA capital programme was appended to the report and had been prepared to meet the Council's strategies, as adjusted to reflect the availability of resources, relating to decent homes, remodelling of sheltered housing and major works. Total budgeted expenditure for 2013/14 was £7,115,100 and included expenditure of £4.7m in 2012/13.

88.8 Negotiations were in progress to reduce the management fee paid to EHL for the year 2013/14 by up to £200,000. Should these negotiations be successfully concluded, the management fee would be circa £6.8m. As reported in the minute below (89) discussions were currently taking place with EHL over the company developing additional HRA based regeneration activity. If agreed, this was likely to result in an additional payment of £200,000 to EHL to meet the costs of this work for the period 2013/14.

88.9 Rent increases were subject to national policy on rent convergence. In December 2001 the Council had adopted a policy of achieving convergence, based on consultation with its tenants at the time. Additional consultation was carried out through a meeting Eastbourne Homes' Residents Scrutiny Panel held in January 2013. Changes to the HRA funding arrangements for 2012 and thereafter were referred to in the winter 2011 issue of Open House, sent to all residents. The Council was obliged to ensure that all tenants were given 28 days notice of any changes to their tenancy including changes to the rent they pay.

*88.10 **Resolved (budget and policy framework):** (1) That full Council, at their meeting on 20 February 2013, be recommended to approve the following:

(a) The HRA budget 2013/14 and revised 2012/13, as set out in appendix 1 to the report;

(b) that rents are set in line with the rent convergence target of 2016 set by government resulting in an average increase in rents of 4.3%;

(c) that service charges for older persons' sheltered accommodation currently available for let are increased by 4.3% in order to recover actual cost;

(d) that water charges are set at a level designed to recover the estimated cost of metered consumption;

(e) that garage rents are set to increase by 4.3% in line with the average increase in housing rent;

(f) that delegated authority be granted to the Senior Head of Community, in consultation with the lead Cabinet members for community services and finance and the Chief Finance Officer to finalise Eastbourne Homes' management fee and delivery plan; and

(i) approve the HRA capital programme as set out in appendix 2 to the report.

Meeting: **Cabinet**
Date: **6 February 2013**

89 Eastbourne housing and economic development project

89.1 Cabinet considered the report of the Senior Head of Community on the joint work of the Council and Eastbourne Homes Limited (EHL) in developing a housing and economic development programme for the borough. The new approach aimed to take advantage of any new funding streams and have regard to the changing policy landscape in order to meet Eastbourne's housing and economic needs. Changes to funding and a more restricted housing market meant that the Council would have to take a proactive role if it was to shape the housing market to meet Eastbourne's needs and aspirations. The Localism Act 2011 had introduced additional powers for both local authorities and the social housing sector. One option being considered by some councils was the use of institutional investment funds to support private rented sector housing development.

89.2 An interim project team, assisted through a secondment from the Town and Country Housing Group, with representatives from both EHL and the Council, had considered the overall scope, focus and core objectives for an Eastbourne housing initiative. By April 2013 the team would produce a proposed 3-year strategy and delivery plan to set out in detail a programme of housing and economic development work. It was proposed that a project board be formally established to consider this programme and oversee its implementation. Representatives of both EHL and the Council would comprise the membership of the Board.

89.3 The project team had identified potential funding routes and was working with the Council's housing and planning specialists to examine key sites and areas that might form part of the programme. The programme would incorporate existing and planned housing projects and consider how to further encourage stalled sites to be brought forward. Wider economic development objectives were also being developed by the Council and the 3-eyar plan would set out how housing and economic development projects would contribute to these outcomes, either directly (e.g. employment and training requirements, ICT installations to support new and existing businesses, relocation incentives, site assembly) or through the accrual of funds to support new and existing economic and business activity.

89.4 Whilst the Council's capital investment facility was proposed to be in the region of £20m, it was expected that this would be matched to some extent by additional investments and sources of funding. Subject to the nature of the final programme, this match funding could come from a mixture of:

- Use of local authority guarantees.
- Institutional investment via pension and private equity funds.
- Public Works Loan Board borrowing.
- Bank borrowing.
- South East Local Economic Partnership (SELEP) Growing Places fund.
- Homes and Communities Agency (HCA) including acting as a risk guarantor for working capital cash flow and via new funding streams.

A detailed comparative assessment of funding mechanisms would be undertaken by externally commissioned investment specialists.

89.5 It was proposed that EHL would be commissioned to undertake HRA linked regeneration activity that would initially be at the core of the 3-year strategy and delivery plan. To fund this, an additional payment of £200,000 would be paid to EHL, to meet the costs of this emerging housing and economic development initiative for the period 2013-2014.

89.6 **Resolved (key decision):** (1) That the development of a joint Eastbourne Homes Ltd (EHL) and Eastbourne Borough Council (EBC) Housing and Economic Development Project Board to co-ordinate and bring forward delivery of a housing and economic development initiative be approved.

(2) That, subject to the approval by full Council of the 2013-2018 capital programme (see minute 87 above), the establishment of a £20 million investment facility be agreed, with separate business case approval to be sought for individual projects and schemes before any financial commitment is made.

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