Appendix 1
to the Council Budget and Setting of the Council Tax for 2014/15 report (item 08)

EASTBOURNE Borough Council
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Minute extracts

Meeting: **Scrutiny**
Date: **3 February 2014**

General Fund Revenue Budget 2014/15 and Capital Programme 2013/17

(to be circulated)

Meeting: **Cabinet**
Date: **5 February 2014**

70 * General Fund Revenue Budget 2014/15 and Capital Programme 2013/17

70.1 Councillor Caroline Ansell addressed the Cabinet proposing that the Council consider allocating a total of £1m in 2014/15 from their reserves towards economic regeneration in Eastbourne to support the creation of new business and jobs. She suggested that the recently established East Sussex Investment Scheme ('Locate East Sussex') could provide a ready made vehicle through which the funds could be managed. Councillor Tutt commented that the Council had already allocated £0.5m to an economic regeneration reserve and he was happy to look further at how best to utilise the Council's funding in partnership with Locate East Sussex. He added a reservation in respect of spending reserves in the short term given future funding uncertainties and the need to ensure that resources were available for initiatives in the longer term. Councillor Tutt committed to liaise with Councillor Elkin, Opposition Leader, and Councillor Ansell on the use of the economic regeneration fund.

70.2 Cabinet considered the report of the Chief Finance Officer setting out the general fund revenue budget proposals for 2014/15 and a 3-year capital programme 2013/17. The medium term financial strategy (MTFS) had been revised in July 2013 and the Cabinet had agreed a draft 2014/15 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.

70.3 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

70.4 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.

70.5 The budget proposals included:

- No increase in the council tax in 2014/15.
- Overall savings totalling £0.808m (5% of the net budget).
- Efficiency savings of £0.608 (2.6% of the net budget).
- Inflation of £0.430m (2.6%).
- Other recurring service growth of £0.421m.
- Non recurring service investments of £0.446m.
- General reserves averaging in excess of £3.8m (against a minimum recommended of £2m).
- Capital receipts of £0.8m invested in new capital schemes.

Available earmarked reserves in addition to the budget:

- Strategic change fund £0.7m.

Economic regeneration reserve of £0.5m.

70.6 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.
- Providing the funding required for the DRIVE change programme to deliver the future savings required by the MTFS via the strategic change fund.

70.7 The underlying methods of local government financing were changing significantly from 2013/14 and further revisions for 2014/15 included the wrapping up of grants in the base "Start Up Funding" notably:

- The localisation of council tax grant (previously £1.2m).
- The council tax freeze grant 2013/14.
- New burdens grants.

70.8 The most notable change therefore was to apply the localisation of council tax grant to the same method of distribution as the formula grant (previously it had been a quid pro quo for the erosion of the tax base) this had meant a further loss of resources for Eastbourne in excess of £150,000. For Eastbourne the headline figures of the 2-year government settlement were:

- A reduction in revenue grants of £0.9m (19%).
- A further cut in baseline funding of £1m (20%) for 2015/16.
- Partially offset by new homes bonus (additional £0.350m in 2014/15 rising by a further £0.4m in 2015/16).

70.9 The national non-domestic business rate base had reduced slightly (£50,000) largely as a result of additional appeals, this was a provisional figure that would not be finalised until 31 January as the government had only just released the form used to calculate the base. In addition to the formula grant, the government was financing the cost of a 1% increase in council tax (£81,000) which it had confirmed would be put in the base for 2015/16 and beyond. The government had announced that Eastbourne would receive £897,000 in total of new homes bonus due to the growth in housing in the area and the further reduction in empty properties. Of this £500,000 would be transferred to the regeneration reserve to fund economic initiatives in line with the MTFS. The grant was paid in tranches for six years. The funding was not guaranteed beyond a 6 year horizon for each tranche. The projected award for 2015/15 was £1.3m. The Council's policy as outlined in the MTFS was to utilise any surplus grant for economic regeneration initiatives. A separate reserve had been set aside for that purpose. The government was financing the additional new homes bonus from reductions in revenue support grant, therefore, whilst volatile, it was becoming the preferred method of distribution of resources.

70.10 No increase in council tax for 2014/15 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	(3.735)
Retained business rates	(3.464)
New homes bonus	(0.897)
Council tax freeze grant	(0.081)
Grant for weekly household collection	(1.300)
Council tax	(7.202)
Collection fund deficit	14
Total resources available (rounded)	**(16.665)**

In order to achieve a balanced budget without using reserves, the Council would need to set a net expenditure budget for 2014/15 of £16.665m.

70.11 In addition to the general grant distributed through the new formula grant system, which was given towards financing the Council's net expenditure, the Government also provided some specific grants. These specific grants would fund in part or in full, service costs.

Grant	**2014/15 £'m**
Housing benefit subsidy	(c. 48)
Housing benefit administration	(0.8)
Household collection grant	(1.3)

Housing benefit subsidy was intended to reimburse the Council for the awards of benefit it made 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 received, but it was performance related. The Council had improved its performance in recent years. A new system of universal credits was due to be completed in October 2017 which would see the caseload moved to the Department for Work and Pensions. Responsibility for council tax benefit had now devolved to a local level. Housing benefit administration grant funded the cost of administering the national housing benefit and local council tax support schemes (a reduction of 10% from the 2013/14 funding) It was noted that the former homelessness grant (to assist with prevention and to find alternative accommodation other than bed and breakfast) had now been subsumed into the main grant system.

70.12 In December the Cabinet put forward their draft budget proposals, the main movements since then were detailed in appendix 1 to the report and summarised below:

Movement from 2013/14 base budget	**£m**	**£m**
Change in resources:		
Revenue support grant and new homes bonus	0.6	
Retained business rates	0.1	
Council tax – decrease in tax base/collection	0.1	
Cost increases:		
Inflation	0.4	
Other unavoidable costs increases and changes in income	0.4	1.6
Savings: Efficiency savings	(0.6)	
Increased Income	(0.2)	
Reduced contributions to reserves	(0.8)	(1.6)

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 19 February to approve a balanced budget in line with available resources and without the need to use reserves.

70.13 The Council now followed a rolling 3-year financial planning cycle and the service and financial plans had been set out in detail for 2014/15. 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 significant 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.

70.14 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.

On an exception basis, information on each of the risk areas identified above, together with any new and significant risks that might emerge over the course of the year, would be included in each financial performance report to Cabinet and Scrutiny during the 2014/15 financial year.

70.15 A corporate contingency budget of £178,000 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 2014/15 therefore £120,000 had been included in the contingency. Further, the Council's general fund reserves were anticipated to amount to £3.8m in March 2015 as compared with the Chief Finance Officer's minimum recommended level of £2m.

70.16 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 2015 were projected to be:

Reserve	**Purpose**	**£'m**
Strategic change	To fund internal projects under DRIVE	0.7
Economic regeneration	To promote economic growth	0.5

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).

70.17 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 (proposed new schemes were shown in bold text) and showed a projected outturn for 2013/14 of £6.072m; a total budget for 2014/15 of £15.348m; £14.438 for 2015/16; and £6.880m for 2016/17. 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 £800,000 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.

70.18 The HRA capital programme was set out in another report on the agenda (minute 70 below) and was financed entirely from HRA resources. Once approved it would be amalgamated with the general fund programme.

70.19 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 the fifth 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.

***70.20 Resolved (budget and policy framework):** (1) That full Council, at their meeting on 19 February 2014, be recommended to approve the following:

(a) A general fund budget for 2013/14 (revised) and 2014/15 (original) as set out in appendix 1 to the report, including growth and savings proposals for 2014/15 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 2014/15.
(c) A general fund capital programme and financing 2013/17 as set out in appendix 3 to the report.

(2) To note that the business rates base for 2014/15 (the setting of which was the subject of a delegation to the Chief Finance Officer in consultation with the lead member for finance) has not yet been finalised but will be reflected in the budget council resolutions to be placed before the Council meeting.

Meeting: **Cabinet**
Date: **5 February 2014**

72 * Housing Revenue Account (HRA) Revenue Budget and Rent Setting 2014/15 and HRA Capital Programme 2013/17

72.1 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 2014/15 and housing capital programme 2013/17 and arrangements for agreeing Eastbourne Homes Limited's (EHL) management fee and delivery plan.

72.2 From the 1 April 2012 the way that council social housing was financed was changed and the 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 Cabinet on 8 February 2012. The introduction of HRA self financing did not end the requirement to maintain a statutory ring fenced HRA and the Council was still required to maintain a separate account for the income and expenditure on council housing. The report reflected the recommendations made by Eastbourne Homes in relation to the increases in rent levels, service and other charges.

72.3 The HRA revenue budget (appendix 1 to the report) had been produced based on the policies set out in the HRA 30 year business plan and showed an overall surplus of (£307,760) for 2014/15. This was mainly due to a number of favourable factors including the rent and service charge review, the change in requirement for the provision of bad debts and the savings from treasury management activities on borrowing.

70.4 The rent levels had been prepared in accordance with the Council's rent convergence policy and the self financing business plan assumptions. The average increase was 4.68%. Following the change to self financing in the HRA, void rents were recommended to move to target routinely. Service charges, heating and water charges were fixed weekly amounts set at a level to recover the expected actual cost to be incurred for the respective properties in the forthcoming year. Garage rents were recommended to increase in line with the average increase in housing rents 4.68%.

72.5 Total budgeted expenditure on the HRA capital programme was planned at £9,771,000 for 2014/15, £4,258,000 for 2015/16 and £4,195,000 for 2016/17. The decent homes work was due to be completed during 2013/14 and the remodelling of the sheltered accommodation by 2014/15. The major works element of the programme was in line with the asset management plan and the HRA business plan model.

***72.6 Resolved (budget and policy framework):** That full Council, at their meeting on 19 February 2014, be recommended to approve the following:

(a) The HRA budget 2014/15 and revised 2013/14, 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 4.68%;

(c) that void HRA properties which are due for re-let are moved to target rent automatically;

(d) that service charges for general needs properties are increased by 2.75%, slightly below the RPI index;

(e) that service charges for older persons' sheltered accommodation currently available for let are increased by 4.83%;

(f) that heating costs are set at a level designed to recover the estimated actual cost;

(g) 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 4.68% 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) the HRA capital programme as set out in appendix 2 to the report.

Note: See minute 66 above as to disclosure of personal (and non-prejudicial) interest by Councillor Tutt. Councillor Tutt chose to withdraw for this item and Councillor Mattock took the chair.

Local Democracy, 1Grove Road, Eastbourne, BN21 4TW
Tel (01323) 415021/415022 Minicom (01323) 415111 Fax (01323) 410322
E Mail: localdemocracy@eastbourne.gov.uk
www.eastbourne.gov.uk

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