

Agenda Item

Executive Board

17 January 2007



Draft Service Plans and Revenue and Capital Estimates 2007/08

Summary

The Executive Board is required to adopt draft service plans and the associated revenue and capital estimates prior to their consideration by Members of the Scrutiny and the Corporate Overview Committees. This report presents those draft documents for approval.

The Council's Financial Strategy (2007 onwards) based on the Corporate Strategy and in turn existing service plans was adopted by the Executive Board in July 2006.

Prior to commencing detailed budget preparation these strategies and plans were considered by a Joint Corporate Overview and Scrutiny meeting and by Town and Parish Councils with feedback from these meetings reported to the Executive Board in October 2006. The Financial Strategy and recommendations from the Executive Board in October were then presented to the East Devon Business Forum in November for comment.

The Executive Board agreed that in preparing the detailed revenue budgets the funding gap identified in the Financial Strategy for 2007/08 be closed through a combination of efficiency savings, increased income and the review of service specifications. This approach has been adopted in producing the draft budgets that are included in this report for adoption.

Scrutiny Committee and the Corporate Overview will receive the draft service plans and estimates on 24 January and 1 February respectively. To assist Members to fulfil this task a Budget and Service Plan Task and Finish Forum will meet on 22 January to undertake detailed work prior to the Scrutiny and Overview meetings.

Responses from these meetings will be forwarded to the Executive Board on 7 February when Members will finalise proposals and recommend to the Council the 2007/08 Council Tax requirement and Council House rent levels.

Recommendation

That the draft service plans and revenue and capital estimates are adopted and that they are forwarded to the Scrutiny and Corporate Overview Committees for their consideration.

a) Reasons for Recommendation

There is a requirement to set balanced budgets, to levy a Council Tax for 2007/08 and set Council House Rents.

b) Alternative Options

Please see main body of report

c) Risk Considerations

Risks have been considered in preparing the budgets and the financial implications have been assessed at the point of preparation. Various budget assumptions have been made including the treatment of inflation and interest rates; estimates on the level and timing of capital receipts; the treatment of demand led pressures; the treatment of planned efficiency savings/productivity gains; levels of income; financial risks inherent in any new arrangements; capital developments; the availability of funds to deal with major contingencies and the need for any provisions. In each of these areas the Council's financial standing, management and track record has been considered in order to prepare robust budget proposals.

Included in the 2007/08 budget is net income of £199,510 in respect of the land charges service. Draft guidance currently out for consultation, which if introduced, would place a limit on the level of surplus this service will be permitted to make. Although this provision may become effective from 2007/08, the objective of reducing the surplus will be over a period of time.

Consideration must also be given to the powers available to the Government to 'cap' an authority's budget in the event of the council setting a budget and council tax above the 5% level considered appropriate by the Department for Communities and Local Government (DCLG), .

d) Policy and Budgetary Considerations

The position is outlined in the report.

e) Date for Review of Decision

7 February 2007.

1. Introduction

1.1 This report outlines the position for the General Fund, Housing Revenue Account and the Capital Programme and considers the:

- Current budget position for 2006/07.
- Overall financial background to setting the 2007/08 budgets.
- Government support 2007/08.
- Interest receipts from investments in 2007/08.
- Other income in 2007/08.

These matters are brought together in section 7 where the overall Revenue and Capital estimates for 2007/08, together with the effect any recommendations will have on the Council Tax and Council House Rents are summarised.

Finally, in section 8, the Chief Finance Officer's statements on the robustness of the prepared estimates, the adequacy of reserves and details on the Prudential Code is given.

1.2 The Council's Financial Strategy, revenue budget and capital programme are soundly based and designed to deliver priorities set down in the corporate strategy and service plans.

1.3 The format of the service plans has been revised following recommendations by a Task and Finish Forum established by the

Scrutiny Committee and agreed by the Executive Board in October 2006. These reflect on both the performance achieved during the financial year that ends March 2007 and outline proposals for the next three years. Importantly these have been prepared at the same time as establishing financial estimates for next year.

- 1.4 The Constitution requires the Executive Board to approve the draft revenue and capital estimates prior to their detailed consideration by the Scrutiny and Corporate Overview Committees. This assessment by Members is to be undertaken at the same time as they review service plans and set targets against which to measure service performance in the forthcoming year.
- 1.5 The proposed Service Plan Task and Finish Forum will aid Members of the Scrutiny and Corporate Overview Committees in their independent review of the detailed service plans and budgets. Any decision taken at these meetings will be reported back to the Executive Board at its meeting on 7 February. At this meeting Members will be required to recommend East Devon's Council Tax requirement for 2007/08 and Council House Rents.

2. Current budget position for 2006/07

- 2.1 The current year's budget position is outlined below with comment on the level of reserves the Council will hold at the 31 March 2007.

2.2 Revenue – General Fund

- 2.2.1 The original revenue budget for 2006/07 envisaged net expenditure of £13.617m. Members will be aware through the regular budget monitoring process that during the course of the year a number of variations to the budget have occurred. These variations are currently estimated (Revenue and Capital Monitoring Report contained in this Agenda) to give a surplus on the net budget for the year of £0.392m. This surplus has accrued partly as a result of the prudent approach adopted in setting income budgets in such areas as car parking and land charges where external influences will have an impact on the sums generated. It was always envisaged that should trading activities do well, as they have to date, then surpluses would be reinvested in future years.
- 2.2.2 This surplus includes a sum expected to be received before the end of the financial year under the Local Authority Business Growth Incentives Scheme (LABGI) for which no provision has been made in the revenue estimates. An initial estimate suggests the Council should receive at least the sum received last year of £130,000.
- 2.2.3 It is proposed to use the revenue surpluses outlined above on one off items of expenditure in 2007/08, under the condition the Council maintains its adopted General Fund Balance, as follows:

- £95,000 to fund one off costs of the district elections (although extra funding has been promised by the Electoral Commission to cover additional costs as a result of legislative changes this is a prudent approach assuming no funding will be received).
- £130,000 to fund an increase in concessionary fares cost with the existing scheme including some set up and publicity costs for the 2008/09 scheme. This has been taken as one off costs as a new scheme is to be introduced in 2008/09. The actual sum required will be determined at the end of 2006/07 when the actual cost is known.
- £100,000 contingency for Job evaluation appeals and any possible equal pay claims.

- That are certain items, namely; to train parish council clerks to achieve parish status, the Local Democracy Week and the Community Safety Officer in case external funds are not secured, it is intended will be undertaken next year and met from this years savings if available. Exact details will be presented to the Executive Board in the Revenue and Capital Outturn Report in June 2007 when the final year end position is known.
- Any balance is to be used to create an Invest to Save Fund. This is to be used for schemes where investment/pump priming is required but there is a definite return on investment which can be monitored and savings used to replenish the fund. Exact details and scheme approval will be requested through the Scrutiny Committee and recommendations made to the Executive Board. The exact sum to include in this Fund will be determined when the final year end position is known.

2.3 Housing Revenue Account

- 2.3.1 The original revenue budget for 2006/07 was a surplus budget requirement of £0.165m. Again Members will be aware through the budget monitoring report that the Housing Revenue Account is currently predicted to be overspent at year end by £0.189m, giving a new budget requirement of £0.024m.

2.4 Capital

- 2.4.1 As reported in the Revenue and Capital Monitoring Report the Council's net capital programme currently stands at £3.347m, which is to be funded from a Housing Revenue Account contribution of £0.238m, capital receipts carried forward from previous years of £1.487m, receipts generated in the year of £1.605m and a £0.300m payment from the DCLG under the pooling of capital receipts transitional arrangements. In addition to this it was agreed to make a General Fund contribution of £0.661m towards capital from savings made in 2005/06. This gives the Council a surplus for the year of an estimated £0.944m in capital receipts to take forward to fund the future Capital Programme.

2.5 Balances

- 2.5.1 It is estimated that the Council will hold balances at the 31st March 2007, totalling:

Estimated Balances 31st March 2007		£'m
General Fund	- <i>revenue purposes</i>	1.433*
Housing Revenue Account	- <i>revenue purposes</i>	1.551
General Reserve	- <i>capital purposes</i>	12.191
Usable Capital Receipts	- <i>capital purposes</i>	0.944

* Of this sum it is proposed that £0.333m (based on current estimates) will be used to fund one off initiatives in 2007/08 leaving £1.1m as the adopted level in General Fund Balance.

- 2.5.2 The Audit and Accounts Committee have adopted guidelines for the level of reserves and balances the Council should hold. For the General Fund this was determined at an advisory minimum of 7.5% of the net General Fund budget. This currently gives a sum required of £1.1m.

3. **Overall Financial Background to setting the 2007/08 budgets.**

- 3.1 The Financial Strategy presented to the Executive Board in July 2006 forecast a shortfall in General Fund revenue resources for 2007/08 of £0.459m. This was based on the Council having to set a balanced budget without the use of reserves and receiving a 2.7% increase in Government Grant.

3.2 Recognising the need to set a balanced budget an early steer was taken from members of the both Scrutiny and Corporate Overview Committees and the Executive Board in order to address this estimated shortfall. Officers were asked to close the gap through a combination of efficiency savings, increased income and the review of service specifications. This approach has been adopted in producing the draft budgets and the main areas of savings/increased income were:

- £229,000 for additional income on car parks; this increase is accounted for by an increase in usage and a 5p increase in the hourly charge for next year.
- £80,000 additional income on land charges to reflect current position. An extremely pessimistic budget was set for this which can now be increased although this still takes a prudent view.
- £45,000 efficiency savings on the homelessness budget through providing more cost effective accommodation.
- £67,500 saving on vacant economic development posts, now deleted from budget, but with £25,000 of this sum to be available to purchase professional advice on property matters.
- £31,000 saving on economic development and tourism grants.
- £12,000 further savings accruing from the closure of toilets.
- £10,000 renegotiation of broadband contract.
- A number of other savings/efficiencies made throughout services in order to achieve saving targets.

3.3 The Financial Strategy also showed a funding gap in the capital programme for 2007/08 of £1.425m before any new schemes were considered. The principle agreed within the Financial Strategy was to follow the scoring and appraisal method in order to rank schemes in priority order for inclusion in the programme. This has in the main been adopted although scope is only available in reality for mandatory/essential schemes.

3.4 In terms of the Housing Revenue Account budgets these have been prepared in line with the 30 year Housing Business Plan approved by the Housing Review Board in November 2006.

4. Government Support 2007/08

4.1 The Provisional Local Government Finance settlement on 28 November 2006 announced East Devon would receive the minimum allocation under the floor calculation of a 2.7% increase. This money is used to support general fund revenue activities. To arrive at our actual 2007/08 grant figure the calculation adjusts the 2006/07 formula grant to reflect some minor changes relating to the funding of capital through formula grant which has now been switched to a direct capital grant.

	£m
2006/07 Formula Grant	7.495
2006/07 adjusted Formula Grant	7.458
Add 2.7%	
2007/08 Formula Grant	7.659

4.2 Last year allocations were announced for two years, 2006/07 and 2007/08 thus providing local authorities with a degree of certainty aiding financial planning. The 2007/08 grant increase is inline with the previous announcement. With the next Government Spending review it is anticipated councils will be advised of grant increases



for the 3 years through to 2010/11. In turn the Government will be looking to councils to give the same level of certainty to their local taxpayers.

- 4.3 In terms of the Housing Revenue Account the Government has assessed through the Housing Subsidy System, looking at a notional Housing Revenue Account for East Devon and taking into account notional income and expenditure figures, that this Council should make a contribution to the Government instead of receiving a subsidy. This sum equates to £4.703m for 2007/08.
- 4.4 Central support for capital expenditure is mainly through direct grants for specific schemes, such as coast protection and flood alleviation schemes, and through a Public Sector Renewal Grant to support housing in the private sector. These sums are shown within the capital programme against the specific schemes to which they relate.

5. Interest Receipts from investments in 2007/08.

- 5.1 The Council's surplus cash resources are invested to produce an annual income, which is used to support revenue expenditure. Our Fund Manager is anticipating that interest rates should remain fairly stable in 2007/08 and with this in mind has estimated a minimum return on the fund of 5.15%.
- 5.2 In addition to this sum generated by our Fund Manager the Council considers daily investments and borrowings decisions as part its daily cash flow management. This generates both interest receipts and payments.
- 5.3 The net position on interest receipts available to the General Fund, being prudent, and taking the lowest end of the Fund Managers prediction, is £1.306m. This is after a necessary proportion of the interest figure generated being transferred to the Housing Revenue Account of £0.081m.

6. Other Income in 2007/08

6.1 General Fund - Fees and Charges

- 6.1.1 Fees and charges included within the estimates have been assumed to increase by inflation, with the exception of:

- Incomes from Building Control and Planning Deposit Fees have been left at the 2006/07 level in terms of fee amounts and volumes. This is considered to be a prudent approach at this stage.
- Home Safeguard charges have been increased in line with the associated business plan at a 5% increase.
- Beach Hut rental has been increased to bring the charge closer to a market rent. The approximate increase overall is 5%.
- Car Park charges have increased to the nearest 5p that being to 80p an hour.

6.2 Housing Revenue Account – Rents.

- 6.1.1 Council House rents will be increased in line with Government targets for rent convergence formula, on average this is estimated at a 5.5% increase equating to an average increase of £2.90 per week increase.
- 6.1.2 Council House Garage rents are to be increased by 10% which takes the average rent to £7.30 per week.

7. Revenue and Capital Estimates 2007/08

7.1 General Fund - Revenue

7.1.1 **It needs to be stressed that the following budget figures have yet to be reviewed by the Scrutiny and Corporate Overview Committees and will be finally determined by the Executive Board in February. Any reference to Council Tax amounts are purely for illustrative purposes only.**

7.1.2 The attached booklet details the draft revenue budgets for 2007/08. As outlined in the introduction to this report these draft estimates have been prepared in line with the Financial Strategy. These estimates give a net Council Tax Requirement of £6.347m, which equates to a Council Tax Band D for the year of £113.16; this is an increase of 3.39%.

7.1.3 By increasing the Council Tax by this level it has enabled the draft budget to include a range of service enhancements, inline with the service plans. These are detailed separately within the 2007/08 budget book totalling £0.188m and in summary include:

- Monies to enable a £1m bid to be put together for the Wetland's Project.
- The employment of S106 officer to monitor and control the agreements.
- An additional Planning Enforcement Officer.
- Increased service provision and improvement in street cleansing.
- Extension to Concessionary Fares scheme to allow local cross boarder destinations.
- Customer service consultation and research work.
- Contribution towards Devon Affordable Warmth Officer.
- Devon wide partnership ADVA (Against Domestic Violence and Abuse).
- Neighbourhood Assessment and Action Weeks.
- Increase contribution for Exmouth Town Centre Manager.

An additional £0.017m has been included within the cemetery grants budget for 2007/08 in line with the current year supplementary estimate approved by Council.

7.1.4 The proposals present a balanced budget with expenditure matched by income without the use of reserves. The budget presented has been compiled on the bases that:

- There is no service reduction based on current year provision, although efficiency savings have been made to reduce costs.
- Income increases on major sources have been set at prudent to low forecasts. This is to mitigate the risk of overspending the overall budget due the possibility of poor income performance outside the direct control of the Council.
- Income has been increased over and above inflation where a business model approach is being adopted, this includes home safeguard and beach huts.
- A prudent sum has been included of £130,000 as monies to be received through the LABGI scheme.
- The impact of Job Evaluation has been included in salary budgets presented.

7.1.5 The steer given by members prior to the preparation of this budget has been adhered to and inline with the 2004 LSPG

exercise resources are directed to high priority service areas to help deliver the Council's Corporate Strategy and service plans.

7.2 Housing Revenue Account - Revenue

- 7.2.1 The attached booklet details the draft estimates for 2007/08. The estimates proposed for the Housing Revenue Account show a deficit of £0.273m which will be taken from the Housing Revenue Account Balance.
- 7.2.2 The adopted HRA Business Plan prepared and modelled as part of the Housing Stock Option Appraisal has formed the basis of the preparation of the Housing Revenue Account budgets.
- 7.2.3 In setting the budget sufficient financial provision is included to maintain council homes to a high standard with comprehensive programmes for planned improvements, adaptations, and routine repairs. £2.5m is to be spent through the major repairs account and a further £2.7m on other items of repairs and maintenance.
- 7.2.4 The HRA budget proposed will ensure that adequate funds are available to maintain Council houses to a high standard with staffing levels maintained to provide a responsive housing management service.
- 7.2.5 The draft Housing Revenue Account will be presented to the Housing Review Board on 11 January for their consideration.

7.3 Capital

- 7.3.1 The attached booklet details the draft capital programme budgets for 2007/08 to 2010/11.
- 7.3.2 The capital appraisal process adopted a number of years previously has again been employed in order to build a capital programme aimed at delivering the Council's stated priorities broadly within the resources available.
- 7.3.3 The draft capital budget for 2007/08, detailed in the attached booklet, totalling £3.692m, is currently £0.476m more than the available resources. This position is set out below:

	2007/08 £'m
Proposed Programme	3.692
Funds available:	
Receipts B/F	-0.944
In Year Receipts	-0.798
Loan	-1.150
Trans Receipts pooling	0
Section 106 contribution	-0.080
HRA Contribution	-0.244
General Fund Contribution	0
Shortfall / (Surplus)	0.476

- 7.3.4 The proposed programme figure of £3.692m in 2007/08 includes a sum of £1.150m relating to the capital cost associated with the new refuse and recycling contract. This expenditure is to be funded through borrowing and although approved in principle for this year purchase of the bins will not now take place until 2007/08.
- 7.3.5 The Council also has to make a payment to Government of 75% of all capital receipts it receives under the Council House Right to Buy Scheme. It is estimated the Council will receive receipts in the

order of £1.4m in 2007/08 of which £1.050m will have to be paid over to Government. In total it is anticipated that the Council will generate capital receipts in 2007/08 of £0.798m, net of payments to Government on the Right to Buy receipts.

It is also proposed that a capital contribution is made from the Housing Revenue Account of £0.244m for HRA schemes included with the housing element of the capital programme and that Section 106 money of £0.080m be used for affordable housing.

- 7.3.5 The shortfall in funding of £0.476m in 2007/08 will either be found during the year from savings within the Programme, or increased capital receipts, or if none of these options materialise then the shortfall will be met from the Council's General Reserve.
- 7.3.6 Future year programmes will have to be further considered as there is a significant shortfall in funding with a number of schemes still to be considered. It is therefore considered appropriate as part of updating the Financial Strategy to consider in some detail the future of the Council's Capital Programme. It is envisaged this will be prepared for July 2007.

8. Robustness of estimates and adequacy of reserves.

- 8.1 This part of the report deals with the requirement of Section 25 (2) of the Local Government Act 2003 in that the Council's Chief Finance Officer (CFO), the Corporate Director – Economy must report on the robustness of the estimates included in the budget and the adequacy of reserves for which the budget provides.
- 8.2 In terms of the robustness of the estimates all known factors have been considered and the financial implications have been assessed at the point of preparation. Various budget assumptions have been made including the treatment of inflation and interest rates, estimates on the level and timing of capital receipts, the treatment of demand led pressures, the treatment of planned efficiency savings/productivity gains and levels of income, financial risks inherent in any new arrangements and capital developments and the availability of funds to deal with major contingencies and the need for any provisions. In each of these areas the Council's financial standing, management and track record has been considered in order to prepare robust budget proposals.
- 8.3 The proposed General Fund draft budget for 2007/08 is a balanced budget and will maintain the General Fund Balance at the advisory level. Continuous monitoring and reports to the Executive Board will highlight and make recommendations on any necessary corrective action during 2007/08 should the predicted General Fund fall below this deemed level.
- 8.4 The Housing Revenue Account draft budget for 2007/08 requires a transfer from the Housing Revenue Accountant balance of £0.273m. The Balance will still be maintained at the advisory level. Continuous monitoring and reports to the Executive Board will highlight and make recommendations on any necessary corrective action during 2007/08 should the predicted Housing Revenue Account Fund fall below this deemed level.
- 8.5 The General Reserve is retained to meet capital expenditure. The estimated balance at the end of 2006/07 is £12.191m and is estimated to remain at this level to the end of 2007/08. The Reserve is available to assist the funding of the capital programme if deemed necessary and as a temporary measure awaiting capital receipts and/or government funding between years.

9. Prudential Code

- 9.1 The Local Government Act 2003 also requires under regulation for local authorities to have regard to the Prudential Code for Capital Finance in Local Authorities, issued by CIPFA (the Chartered Institute of Public Finance and Accountancy) when setting and reviewing their affordable borrowing limit.

- 9.2 The key objective of the Code is to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with good professional practice and in a manner that supports prudence, affordability and sustainability.
- 9.3 To demonstrate that local authorities have fulfilled these objectives, the Prudential Code sets out the indicators that must be used, and the factors that must be taken into account. These indicators will be presented to the next Executive Board meeting when a recommendation will be made on the budget for 2007/08, Council Tax levy and Council House Rents.
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Legal Implications

Save for those matters specifically mentioned in the Report there are no apparent legal implications.

Financial Implications

As stated in report

Consultation on Reports to the Executive

The details of this report have been discussed by the Strategic Management Team

Background Papers

- Internal estimate working papers
 - Local Government Finance Settlement
 - CIPFA's Prudential Code
 - Local Government Act 2003
 - Financial Strategy (2007 onwards) including Medium Term Financial Plan
 - Corporate Strategy & Service Plans
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Simon Davey
Head of Finance

Executive Board
17 January 2007