

Agenda Item

Executive Board

19 December 2007



Draft Service Plans and Revenue and Capital Estimates 2008/09

Summary

The Executive Board is required to adopt draft revenue and capital estimates prior to their consideration by Members of the Scrutiny and the Corporate Overview Committees. This report presents the draft estimates for approval which have been prepared inline with the service plans currently being finalised for 2008/11. The service plans and associated estimates will be presented for consideration by the Scrutiny and Corporate Overview Committees and then back to the next meeting of this Committee for final recommendation to Council.

The Financial Strategy (2008 onwards) estimated a significant funding gap for 2008/09 and made recommendations for actions to be taken to address the shortfall. These actions were adopted by the Executive Board on 1 August, considered and endorsed by a joint meeting of the Scrutiny and Corporate Overview Committee on 12 September and finally agreed along side the new Corporate Strategy adopted by the Executive Board on 26 September. Budgets and service plan proposals aim to deliver that Strategy.

A joint Task and Finish Forum of the Scrutiny and Corporate Overview committees will receive the draft service plans and associated estimates in a day long meeting on 10 January for consideration. Findings of this Forum will then be debated in a joint meeting of both Committees on 24 January.

Responses from these meetings will be forwarded to the Executive Board on 31 January when Members will finalise proposals and recommend to the Council the 2008/09 Council Tax requirement and Council House rent increases.

Recommendation

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

Specific consideration be given to the revenue special items list currently not included in the budget and the shortfall on the capital programme.

a) Reasons for Recommendation

There is a requirement to set balanced budgets, to levy a Council Tax for 2008/09 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.

Particular areas to draw to Members' attention are:

- Planning deposit fee income has been based on current draft guidance of a £10 increase for house holder applications and a 25% increase in all other categories. This increase in fees has matched the loss of the Planning Delivery Grant (PDG) for 2008/09.
- Land charges surplus has been reduced from £200,000 in 2007/08 to a figure of £0.142m in 2008/09 by more accurately reflecting support costs charged to the service. Further work will be required in 2008/09 to determine each charge type and the costs involved and whether any surpluses are deemed acceptable. It is envisaged this will be brought as a separate report to the Executive Board in the future. Any adjustments that may be needed can be reflected in future year budgets.
- Costs in relation to the Concessionary Fares Scheme have been increased to reflect the increase in current demand above the current year's budget and increased by a further £0.574m based on Government funding. The effect of the new scheme to be introduced for the 1 April is difficult to predict and careful monitoring will be required as further information is known to ensure our estimate reflect an accurate position.
- We are awaiting the outcome of the actuary's pension's review of our pension fund which will effect our contributions next year. We have assumed an increase in the budget based on a 1% increase on our gross salary bill; this is the best projection available to us at this stage. This equates to an increase in employers contribution from 16.38% to 17.46%.
- 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 level considered appropriate by the Department for Communities and Local Government (DCLG). This level in the past has been at 5% or above, current statements relating 2008/09 from DCLG state they would expect to see Council Tax set at an amount substantial below 5%, but no actual sum is specified. These estimates currently assume a 4.99% increase, a reduction of say 1% would equate to the need to make a saving of £0.064m.

d) Policy and Budgetary Considerations

The position is outlined in the report.

e) Date for Review of Decision

A joint Task and Finish Forum of the Scrutiny and Corporate Overview committees will receive the draft service plans and associated estimates in a day long meeting on 10 January for consideration. Findings of this Forum will then be debated by a joint meeting of both Committees on 24 January. The Executive Board will review plans and estimates again on 31 January with recommendations to Council on 20 February.

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 2007/08.
- Balances available to support 2008/09 and future budgets.
- Overall financial background to setting the 2008/09 budgets.
- Government support 2008/09.
- Interest receipts from investments in 2008/09.

These matters are brought together in section 7 where the overall Revenue and Capital estimates for 2008/09, together with the effect any recommendations will have on the Council Tax and Council House Rents are summarised.

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.

Finally Section 10 considered value for money targets and future year budgets.

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 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.

1.4 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 30 January. At this meeting Members will be required to recommend East Devon's Council Tax requirement for 2008/09 and Council House Rents.

2. Current budget position for 2007/08

2.1 The current year's budget position is outlined below.

2.2 Revenue – General Fund

2.2.1 The original revenue budget for 2007/08 envisaged net expenditure of £14.006m. 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 to give a surplus on the net budget for the year of £0.157m. This surplus has accrued partly as a result of the prudent approach adopted in setting income budgets in such areas as car parking and investment income 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 It is proposed to use the revenue surpluses outlined above on one off special items of expenditure in 2008/09, under the condition the Council maintains its adopted General Fund Balance. The exact figure available will be unknown until the 2007/08 Outturn report is presented to the Executive Board in June 2008.

2.3 Housing Revenue Account

2.3.1 The original revenue budget for 2007/08 was a deficit budget requirement of £0.273m. Again Members will be aware through the budget monitoring report that the Housing Revenue Account is currently predicted to make savings of £0.250 in the main relating to additional income on supporting people where a backdated claim has been made of £0.200m.

2.4 Capital

2.4.1 The Council's net capital programme currently stands at £3.274m, which is to be funded from a Housing Revenue Account contribution of £0.244m, capital receipts carried forward from previous years of £1.997m, receipts generated in the year of £1.550m, a loan of £0.300m to pay recycling and refuse equipment, revenue and section 106 agreements of £0.126m. This gives the Council a surplus for the year of an estimated £0.943m in capital receipts to take forward to fund the future Capital Programme.

3. **Balances available to support 2008/09 and future budgets.**

3.1 The General Fund Balance.

3.1.1 Below is an analysis in terms of surpluses available to support one off items of expenditure in future General Fund budgets:

	£'m
Saving available from previous years (sum available above adopted minimum balance)	= 0.447
Collection Fund Surplus available in 2008/09 (one off – due to good council tax collection)	= <u>0.050</u>
Balance Available	<u>£0.497m</u>
It is considered sensible to set aside £350,000 of this sum as a contingency for the risk associated in the roll out the recycling and refuse scheme. Should this sum be required a report will be presented and approval sought from the Executive Board prior to its use.	
Create earmark reserve for recycling and refuse scheme	<u>-0.350</u>
Revised Balance Available to support 2008/09 and future years one off items expenditure	<u>£0.147m</u>

As detailed in 2.2.1 above savings in 2007/08 are current predicted at £0.157m. This saving could also be used to fund special item schemes, but these need to be considered at the 2007/08 outturn stage when the exact amount available is known. Should savings be used it is proposed that the General Fund balance is maintained at the adopted minimum level at the 31 March 2008; currently £1.075m.

3.1.2 We have received in this year an additional payment of £0.186m under the Local Authority Business Growth Incentives Scheme (LABGI) relating to 2005/06 and 2006/07 for which no provision has been made in the revenue estimates. In line with the Corporate Strategy it is assumed that this sum will be ring fenced for economic development initiatives.

3.2 Housing Revenue Account Balance.

3.2.1 The HRA Balance at the beginning of 2007/08 stood at £1.683m. As reported in 2.3.1 above it is predicted that there will be savings in the current year of £0.250m which means only £0.023m will be required to be taken from the HRA Balance in 2007/08 instead of the original sum estimated at £0.273m. This gives a revised estimated Balance at the 31 March 2008 of £1.660m. Of this total, £0.257m will be required to be set aside for the 2003/04 disputed Housing Subsidy claim that has now been finalised against our favour.

3.2.2 This gives an estimated HRA Balance at 31 March of £1.403m, this being £0.349m above the adopted minimum level.

3.3 Capital Reserves.

3.3.1 As detailed in 2.4.1 currently it is estimated at 31 March 2008 capital receipts will be available of £0.943m to fund the future capital programme.

3.3.2 In addition the Council has a revenue backed reserve of £12.191m which is earmarked for capital purposes. This is currently invested with the income being used in full to support revenue expenditure.

4. Overall Financial Background to setting the 2008/09 budgets.

4.1 The Financial Strategy presented to the Executive Board on 1 August 2007 forecast a shortfall in General Fund revenue resources for 2008/09 of £0.902m. This was based on the Council having to set a balanced budget without the use of reserves, setting a Council tax increase of 4.99% and receiving a 2.0% increase in Government Grant. The main influence on this deficit for 2008/09 and future years was the roll out costs of a comprehensive recycling scheme, including weekly collection of kitchen waste. The increase in costs estimated in 2008/09 alone was £0.657m.

4.2 The Financial Strategy set out a way forward for addressing the gap in funding identified for both the General Fund and Capital Programme. The main focus was refining costs, particularly the phases involved in the roll out of the recycling and refuse scheme, the scrutiny of budget spending and ensuring value for money and savings on procurement.

4.3 The Financial Strategy also showed a funding gap in the capital programme for 2008/09 of £1.884m 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 the funding of mandatory/essential schemes.

4.4 Further comment is made below in Section 10 of the report on the future difficulties of funding the General Fund budget.

4.5 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.

5. Government Support 2008/09

- 5.1 The Financial Strategy assumed a 2% increase in funding in the Revenue Support Grant received from Central Government. In recent months our Medium Term Financial Plan estimates have been revised and it was assumed a lower increase would be received of 1%.
- 5.2 The Provisional Local Government Finance settlement on 6 December 2007 announced East Devon would receive a 1.1% increase. This money is used to support general fund revenue activities. To arrive at our actual 2008/09 grant figure the calculation adjusts the 2007/08 formula grant to reflect some minor changes relating in the main to the waste performance and efficiency grant now reflected in Formula Grant and an adjustment for stray dog control where the Council now has new responsibilities.

	£m
2007/08 Formula Grant	7.659
2007/08 adjusted Formula Grant	7.726
2008/09 Formula Grant	7.810
1.1% increase.	

- 5.3 The Council is no longer in a position where it receives just the minimum increase under floor calculation. Allocations have been announced for three years with increases as follows; 2008/09 1.1%, 2009/10 1.8% and 2010/11 2.6% thus providing local authorities with a degree of certainty aiding financial planning. In turn the Government will be looking to councils to give the same level of certainty to their local taxpayers.
- 5.4 The Council has been notified that it will receive £0.574m to cover costs involved with the implementation of the new concessionary fares scheme. It has been assumed in the estimates for next year that the grant will cover the costs involved but this situation will have to be closely monitored. Allocations have also been announced for 2009/10 (£0.587m) and 2010/11 (£0.604m).
- 5.5 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 £5.235m for 2008/09.
- 5.6 Central support for capital expenditure is mainly through direct grants for specific schemes, such as coast protection and flood alleviation schemes. The Council also receives a Public Sector Renewal Grant to support housing in the private sector, current understanding is that this has been cut by 25% equating to an estimated reduction of £0.172m with this money being directed at regional affordable housing targets. These sums are shown within the capital programme against the specific schemes to which they relate.

6. Interest Receipts from investments in 2008/09.

- 6.1 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 2008/09 and with this in mind has estimated a minimum return on the fund of 5.7%.
- 6.2 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 on lending and payments when sums are borrowed.

- 6.3 The net position on interest receipts available to the General Fund, being prudent, and taking the lowest end of the Fund Managers prediction, is £1.697m. However it is felt that we should be ultra cautious on this level of return and this sum has been reduced by £0.083m as a further safeguard to gives us an amount of £1.614m. This is after a necessary proportion of the interest figure generated being transferred to the Housing Revenue Account of £0.093m.
- 6.4 This level of income is unprecedented in recent years and cannot be relied upon in future as interest rate fall. It is considered prudent to start reducing our reliance on a high level of investment income to support the Council's core revenue budget. For this reason, and although the full income has been used within the 2008/09 budget, a proportion is being used to support one off items of expenditure including; £0.070m to offset the costs of funding two officers previously supported through the Performance Delivery Grant (until consideration can be given to the future shape of the service) and £0.027m for the costs of temporary customer service officers for roll out of the recycling contract. The future Financial Strategy will need to consider this issue further.

7. Revenue and Capital Estimates 2008/09

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 at the end of January. Any reference to Council Tax amounts are purely for illustrative purposes only.**

7.1.2 The attached booklet details the draft revenue budgets for 2008/09. 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 £6.695m, which equates to a Council Tax Band D for the year of £118.81; this is an increase of 4.99%, or £5.65 a year.

7.1.3 By increasing the Council Tax by this level it has enabled the draft budget to be balanced with the inclusion of a full year costs of a trial on the new recycling scheme which involves a weekly collection of card, plastic and kitchen waste from 12,000 properties. The draft budget also has provision for a further 12,000 properties for half of the year should the outcome of the trail evaluated 6 months after implementation prove successful. Costs include debt repayment for the purchase of equipment. The total costs of recycling and refuse collection have increased the budget by £0.365m comparing 2007/08 to 2008/09, or the equivalent to an increase in council tax alone of £6.48, or 5.7% a year.

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.
- No sum has been included for any possible future monies to be received through the LABGI scheme.

7.1.5 In addition to the balanced budget a list of special item bids totalling £0.368m have been put forward for consideration. These are attached in Appendix A and are currently not included in the budget. For ease of consideration these schemes have been presented in Appendix A matched to available funds that could be used for one off items of expenditure, as detailed in Section 3 of this report;

- £0.147m available from savings in previous years, assuming reserve created for recycling scheme.
- Monies estimated to be available at 2007/08 outturn stage; this will not be known until June 2008 but currently estimated at £0.157m.
- £0.186m available for schemes relating to economic development initiatives (LABGI received).

7.2 Housing Revenue Account - Revenue

7.2.1 The attached booklet details the draft estimates for 2008/09. The estimates proposed for the Housing Revenue Account show a deficit of £0.319m which will be taken from the Housing Revenue Account Balance. Council House rents have been increased inline with the government guideline increase of 4.4%. Garage rents have been increased by 10%.

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. £2.7m 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 in January for their consideration.

7.3 Capital

7.3.1 The attached booklet details the draft capital programme budgets for 2008/09 to 2011/12.

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 2008/09, detailed in the attached booklet, totalling £3.465m, currently has a surplus of £0.170m. This position is set out below:

	2008/09 £'m
Proposed Programme	3.465
Funds available:	
Receipts available from previous years	-0.943
In Year Receipts	-2.022
Loan	-0.420
HRA Contribution	-0.250
General Fund Contribution	0
Shortfall / (Surplus)	(0.170)

- 7.3.4 The proposed programme figure of £3.465m in 2008/09 includes a sum of £0.420m relating to the capital cost associated with the new refuse and recycling contract with borrowing costs included within the revenue budget.
- 7.3.5 In addition to these costs new bids have been received for consideration in next years capital programme totalling £1.153m, detailed in Appendix B. £0.500m of this includes a bid to facilitate affordable housing. These are not included in the current proposed programme, if included this would give the programme a shortfall for next year of £0.983m.
- 7.3.6 Further debate is required on the inclusion of new capital bids as this can not currently be funded and there are concerns about the funding of the future programme. It is suggested that Task and Finish Forum is set up to consider the future capital programme and look at these issues in more detail.

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 2008/09 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 2008/09 should the predicted General Fund balance fall below this deemed level.
- 8.4 The Housing Revenue Account draft budget for 2008/09 requires a transfer from the Housing Revenue Account balance of £0.319m. 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 2008/09 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 2007/08 is £12.191m and is estimated to remain at this level to the end of 2008/09. 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 2008/09, Council Tax levy and Council House Rents.

10. Future General Fund and Revenue Budgets

- 10.1 The detailed preparation of the 2008/09 budget has gone to plan as outlined in the Financial Strategy and inline with the steer given by members. It was envisaged that the shortfall in next year's budget would be solved with some early work. However, as outlined in the Strategy, there is an increasing problem of expenditure growing annually at a much faster rate than income, in particular in relation to the roll out of the recycling scheme.
- 10.2 Efficiency and Value for Money is an important factor for the Council in order to deliver its Corporate Strategy within resources available. This issue is common to all local authorities with differing local pressures and issues.
- 10.3 The Government has recently produced a document entitled "*Delivering Value for Money in Local Government: Meeting the challenge of CSR07*". This describes efficiency as achieving more for the same or less resource and states it is a vital aspect of service delivery. By getting lower prices for products, automating processes, reducing errors, and removing duplication, councils are able to hold down council tax and drive improvement where it matters most. To achieve this level of efficiency the drivers are seen to be:
- Service Transformation
 - Business process improvement to redesign service delivery around customer needs
 - Collaboration
 - Smart Procurement and use of competition
 - Better use of technology
 - Asset management.
- 10.4 It is envisaged these matters will feature prominently in future Executive Board Agendas with consideration being given to how we will achieve the new national indicator on efficiency gains.

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 (2008 onwards) including Medium Term Financial Plan
- ❑ Corporate Strategy & Service Plans

Simon Davey
Head of Finance

Executive Board
19 December 2007