

Report of the Director of Resources

Revenue Budget 2008/09

1.0 Summary

- 1.1 This report summarises the budget recommendations from the Programme Committees and provides an overall estimate of the Council's budget requirements for 2008/09.

2.0 Recommendation

- 2.1 Members of Policy and Strategy Committee are requested to consider the information contained in this report and :-
- a) recommend the General Fund net revenue budget to Council on 18 February 2008;
 - b) agree the prudential indicators as set out in Annex H and recommend these indicators to Council for approval.

3.0 Background

- 3.1 The report sets out the basis on which Policy and Strategy Committee should make a recommendation to the Council on the Revenue Budget for 2008/09.
- 3.2 The budget papers for 2008/09, including the revised estimates for the current financial year have been prepared in detail, and submitted to the Programme Committees in November and December. This Committee considered the overall requirements at its December meeting and made decisions on the items of unavoidable growth and savings proposals to be included. At that time, taking account of those decisions the forecast was for a funding deficit of £77,000.

4.0 Revised Expenditure for 2006/07

- 4.1 Development and Scrutiny Committee 1 have received regular monitoring reports during the year and the revised estimates were presented to the programme committees before Christmas. The overall projected net revenue outturn position for the Council is an estimated overspend of £53,000. Inevitably there are numerous areas of under and over spending however the overall net increase is more than accounted for by an increase of £73,000 in net interest charges.
- 4.2 An overspend at revised estimate is not to be welcomed but is not unusual. Moreover the general pattern of expenditure is for outturn spending to be below that forecast at revised. Therefore although every effort needs to be made to contain expenditure to within revised budgets no further specific action is required.

4.3 A further round of budget monitoring will be carried out as at end January 2008 and reported to Development & Scrutiny Committee 1 and Policy & Strategy Committee in March.

5.0 Net Revenue Expenditure 2008/09

Programme Committees

5.1 The summary of the expenditure as approved by Programme Committees is attached as Annex A, with individual committee summaries attached as annexes B to E. These summaries include those growth bids approved by this Committee on 11 December 2007 together with the savings options agreed at that time.

5.2 In addition, since the budgets were considered by this Committee the programme committees have had the chance to consider whether any further savings or other amendments were required, their recommendations are detailed below. These proposals have also been incorporated into Annexes A to E.

Service / Activity	Growth/Saving/Additional Income Proposal	Amount £
Community & Leisure Services		
Adur Watch	Reduction of current administration post	-10,000
Parks & open spaces	Reduction in management fee paid to South Downs Conservation Board as they no longer manage Lancing Ring	-5,300
TOTAL		-15,300
Planning & Regulatory		
Development Control	Increase in fee income to reflect recently announced increase in Government set charges from 1 st April 2008	-20,000
Housing & Central Services		
Homelessness	Reduced Government Grant due to transfer of Homelessness support service to Southdown HA wef November 2007	74,000
Legal & Corporate Services Division	Restore HR Officer post incorrectly deleted from budget due to departure of temporary post holder	15,000
Pension Costs	Saving from phasing of increase in employer pension contribution over 3 years following triennial review.	-47,000
Growth Items	Net saving in agreed growth items: Reduction in additional bed & breakfast and sub regional Housing market assessment costs offset by higher IT costs	-26,000
TOTAL		16,000
OVERALL TOTAL		-19,300

- 5.3 The estimates for the joint refuse and recycling service are scheduled to be approved by the Joint Strategic Committee on 24th January 2008. The estimates shown in Annex F are the amounts as being presented to the Joint Strategic Committee together with the residual support and capital charges costs that remain Adur's responsibility.
- 5.4 The detailed estimates for Interest and Capital Charges are given in Annex G and consist of three main elements:-
- a) The General Fund's share of interest paid on the Council's long term loans offset by the amounts earned on the Council's bank balances and investments.
 - b) The required provision made for the repayment of debt in accordance with statutory guidance.
 - c) The reversal of the capital charges and government grants and contributions deferred estimates that have been included in service budgets as required by accounting standards.
- 5.5 As all of the Council's long term debt is at fixed interest rates the major variable factor in this budget is the interest gained on temporary investments. Against a background of falling interest rates an average rate received of 5.1% has been assumed for 2008/09.

Overall Revenue Expenditure

- 5.6 Taking into account all the factors identified above produces a draft net revenue expenditure for 2008/09 of £10,740,710 as shown in Annex A, this is an increase of £323,640, or 3.1%, over the current year. Of this increase £238,000 is due to the projected rise in the net cost of Concessionary Travel meaning that this Council has limited the net impact of inflation and unavoidable growth in the rest of its budget to £95,640 or 0.9% at a time when pay costs are rising by over 3% and retail price inflation is over 4%.

6.0 Reserves and Balances

Earmarked Reserves

- 6.1 The final accounts for 2006/07 established a clearly identified list of earmarked reserves amounting to £858,000 at 31st March 2007. A full list of the reserves and the purposes for which they are held is given in Annex H. The three largest reserves are:-

Discount Fund (£273,000 at 31/3/07), this fund was set up to enable the Council to even out the revenue impact of fluctuations in interest receipts. The approved budget for 2007/08 assumed a drawing of £50,000 from this reserve leaving a balance of £223,000. There is no planned drawing in 2008/09. However it is possible that if economic growth weakens below expectations interest rates will fall faster than assumed and thus necessitate use of the reserve.

Partnership Development Fund (£245,000 at 31/3/07), this fund was established at the end of last financial year to fund initial set up costs of the partnership. It has been agreed that the majority of this reserve will be allocated to Adur DC's share of

redundancy costs associated with setting up the new Adur/Worthing and Census Revenues management structures.

Recycling Credits (£80,000 at 31/3/07), also set up at 31st March 07 to allow for the predicted fall in recycling income which will increase net recycling costs in future years. Some impact of this fall is being felt in 2008/09 however it is recommended that given the potential for a greater adverse impact in future years this reserve is not utilised next year.

General Fund Working Balance

- 6.2 The Council's established policy is to maintain general fund working balances of between 6% and 10% of net revenue expenditure. For 2008/09 this would equate to a balance of between £645,000 and £1,075,000. The working balance at 31/3/07 was £835,000 with the revised estimates indicating a withdrawal of £53,000 which would reduce the balance to £782,000, or 7.3% of budgeted net expenditure.
- 6.3 The medium term financial strategy includes a policy of no planned use of the working balances and it is recommended that this policy is maintained. Some short term gain to the taxpayer could be effected by reducing planned balances to the minimum level but this shortfall would have to be made good in the following year together with an amount to allow for impact of inflation and unavoidable growth on the value of the minimum balance required. The year end balance is therefore forecast as:

	£'000	
31/3/07	835	Balance per final accounts
31/3/08	782	Drawdown of £53,000
31/3/09	782	No planned drawdown
31/3/10	782	No planned drawdown per MTFS
31/3/11	782	No planned drawdown per MTFS

7.0 Local Government Finance Settlement 2008/09 – 2010-11

- 7.1 Details of the provisional finance settlement announced on 6th December 2007 were reported to this Committee in December. At the time of writing the final settlement details had not been announced but no material changes to the provisional figures are expected. The provisional figures were that the Council's Total Formula Grant (including Revenue Support Grant and share of redistributed Business Rates) of £4.967m an increase of 1.66% over 2007/08. It is hoped that the final settlement will be announced shortly and Members can be advised of any changes from the provisional sums at the meeting.
- 7.2 Members are reminded of the statement by the Minister to the House of Commons when introducing the draft settlement that ..." We expect the average Council Tax increase to be substantially below 5%. Councils must be under no illusions. We will not hesitate to use our capping powers as necessary to protect tax-payers from excessive increases."

8.0 Financial risks and uncertainties regarding the 2008/09 budget

8.1 The primary risks and uncertainties that might impact on net General Fund expenditure and thus impinge upon the level of reserves in current and future years are:

a) **Concessionary Travel**; the cost implications of operator appeals in respect of the current local free travel scheme coupled with the uncertainties surrounding the introduction of the national scheme from 1st April 2008 inevitably give rise to uncertainty as to the eventual cost. At £1.2m concessionary travel is already the single highest cost budget within the General Fund and represents growth of £238,000 over the original budget for 2007/08. However there is a risk of a further increase in costs of up to £220,000 if the most pessimistic projections for increased travel and bus operator reimbursement were taken.

b) **Pay & Grading Review** ; regrettably neither Adur or Worthing Councils have found themselves in a position to implement the results of the review undertaken over the period 2006-2007. The Council has agreed to only implement the results for those staff directly affected by joint working issues, to deal with any essential gender equality (backdated to 1st April 2007) and market supplement pay issues and to move AWCS staff to a single pay scale with effect from 1st July 2007. A budget provision of £50,000 per annum has been included in the revenue estimates to implement these decisions.

In addition the Council has agreed that following fundamental service review and the establishment of a sound business case and affordability staff will be moved onto a single pay structure as each single service arrangement is put in place.

Although officers have no reason to believe the budget provision is inadequate until it is clear that any gender equality issues have been resolved, market pay supplements have been determined and the AWCS staff have been moved onto a single pay scale there remains uncertainty as to the final cost. Moreover the impact of the uncertainty and delays surrounding the review may have an effect on staff morale which may in turn impact on the delivery of shared service arrangements.

c) **Interest Rate fluctuations**; as the Council's borrowings are at a fixed rate it is largely insulated from the impact of a rise in interest rates, however a fall in rates reduces the earnings from temporary investments to the extent that a 1% fall from the level assumed in the budget would cost the General Fund approximately £100,000 per annum. The general belief is that interest rates will fall during the coming year and the estimates have been constructed on the basis of an average reduction of approximately 0.5% from current levels. The Council is therefore exposed to the risk of a greater fall in rates however it has an earmarked reserve with an estimated value of £223,000 at 31/3/08 to offset any unexpected losses incurred.

9.0 Medium Term Financial Strategy

9.1 In preparing the budget for 2008/09 it is also necessary to consider the impact of decisions being made in the financial years 2009/10 and 2010/11.

- 9.2 The table below takes account of all the revenue budget proposals outlined above and the provisional grant settlement for the period. It shows an improved picture from that shown to this Committee in December mainly because of the further savings proposals that have been agreed.

Summary Of Updated Base Budget			
	2008/09	2009/10	2010/11
	£000s	£000s	£000s
Increases in Expenditure			
General Inflation	317	659	1,013
Impact of one-off items	-24	-4	-24
Cost Increases (including growth bids from committees)	965	1,036	1,131
Cost Reductions	-779	-789	-798
Total Increase in Expenditure	479	902	1,322
Increases/Decreases in Income			
Additional Income	-155	-155	-155
Government Grants	-81	-106	-139
Collection Fund Surplus	20	20	20
Contribution from Reserves	0	0	0
Total Increase in Income	-216	-241	-274
Increase in Council Tax Needed	263	661	1,048
Annual Percentage Increase	4.48%	6.4%	5.7%

10.0 Financial Administration – Robustness of Estimates, Adequacy of Revenue Reserves and Budget Monitoring

- 10.1 The Local Government Act 2003 introduced responsibilities for the Chief Financial Officer, in Adur this is the Director of Resources, to form a view on the robustness of the budget calculations and the adequacy of the revenue balances and report his view at the time Members are making decisions on the revenue budgets.

Budget calculations: report on robustness of estimates etc

- 10.2 Section 25 of the Act requires an authority's Chief Financial Officer to make a report to the authority when it is considering its budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so Members will have authoritative advice available to them when they make their decisions. The Section requires Members to have regard to the report in making their decisions.

- 10.3 As Members are aware, local authorities decide every year how much they are going to raise from council tax. They base their decision on a budget that sets out estimates of what they plan to spend on each of their services. Because they decide on the council tax in advance of the financial year in question, and are unable to increase it during the year, they have to consider risks and uncertainties that might force them to spend more on their services than they planned. Allowance is made for these risks by:
- making prudent allowance in the estimates for each of the services, and in addition
 - ensuring that there are adequate reserves to draw on if the service estimates turn out to be insufficient
- 10.4 The Director of Resources overall view of the robustness of the estimates is that the budgets have been prepared following well established processes which have produced robust estimates in the past. Although the development of budgets for joint services is a complicating factor these budgets have been thoroughly tested and are at least to the standard of those for the programme committees. There is a significant element of uncertainty about some key budgets as outlined in paragraph 8.1. However the overall level of risk is not unusual for this Council and is not a matter of undue concern given that adequate balances are being maintained.

Adequacy of reserves and balances

- 10.5 There is now a statutory requirement for local authority Chief Financial Officer's to report at budget time on the adequacy of reserves held by their Council. The purpose is to ensure Members have authoritative advice available to them when they make their decisions on the budget and Council Tax levels and that they pay due regard to that advice in doing so. This Council has always paid full regard to the advice of its Chief Financial Officer.
- 10.6 The forecast position on the general fund balances was outlined in paragraphs 6.2 and 6.3 above. The Director of Resources confirms that the stated policy of the Council to maintain appropriate earmarked reserves and to hold working balances of between 6% and 10% of net revenue expenditure is still appropriate. Therefore that balances at 6% or above are adequate.

Budget monitoring

- 10.7 The 2003 Act also obliges local authorities to monitor their income and expenditure against their budget, and be ready to take action if overspends or shortfalls in income emerge. If monitoring establishes that the budgetary situation has deteriorated, authorities are required to take such action, as they consider necessary. This might include, for instance, action to reduce spending in the rest of the year, or to increase income, or the authority might decide to take no action but to finance the shortfall from reserves.
- 10.8 Officers will continue to report budget monitoring information up to 4 times during the year and also provide year end outturn information to Members. This report includes the 3rd monitoring report for the year to date with a further report due in March. Although there is a small overspend forecast for the current year members do not need to take any action at this stage given the history of underspendings on

revised budgets emerging by year end and the adequacy of general balances if the underspendings do not arise.

11.0 Prudential Indicators

- 11.1 Under the Prudential Code of Practice and the new capital finance system introduced in April 2004 the capital programme is based on the Council's assessment of affordability. This includes any new borrowing which the Council wishes to undertake. The Council has considered the revenue consequences of the proposed capital programme in agreeing its budget strategy for 2008/09 to 2010/11. The Council has a fully funded capital programme and the associated revenue costs are built into the budget for 2008/09 and future years.
- 11.2 The Prudential Code of Practice requires the Council to set a series of indicators to show that the capital programme has due regards to affordability, sustainability and prudence. The recommended indicators including explanatory notes are set out in Annex I (COPY TO FOLLOW). Members should note that the indicator for the authorised borrowing is a statutory indicator requiring approval by full Council under section 3(i) of the Local Government Act 2003.

12.0 Conclusions

- 12.1 The revised estimate for 2007/08 is for an increase in net spending of £53,000. The draft estimates for 2008/09 provide for net revenue expenditure of £10,740,710, an increase of 3.1% over the original estimate for the current year.
- 12.2 These estimates include not only the base estimates from programme committees together with the growth and savings items approved by this committee in December 2007 but also the savings and growth items identified in paragraph 5.3.
- 12.3 There are a number of areas of risk most notably in respect of concessionary travel costs, pay and grading and interest rates as identified in paragraph 8 above where the budget provision made may prove insufficient. However the Council is planning to maintain balances of around 7.3% of net expenditure which is adequate to cope with these areas of risk.
- 12.4 The budgets as presented for 2008/09 reflects the policy of no use of balances as agreed in the medium term financial strategy. The final budget decision will reflect what Members judge to be the necessary balance next year between spending on services and the level of council tax increase. However Members are strongly recommended to keep to the policy so that the Council can set a balanced budget.
- 12.5 The recommended budgets set out in this report would result in an average increase in the Adur council tax of 4.48%. In 2008/09, a 1% increase in council tax generates £55,069 additional income.
- 12.6 A separate report has been prepared on the setting of the overall Council Tax based on the recommended net expenditure contained in this report. This can be found elsewhere on the agenda.

Local Government Act 1972

Background Papers:

Budget Papers to Committees
Government grant notification papers

Contact Officers:

Andrew Gardiner
Director of Resources
01273 263401
andrew.gardiner@adur.gov.uk

Eric Norman
Interim Head of Financial Services
01273 263427
eric.norman@adur.gov.uk

Appendix

1.0 Council Priority

1.1 This report acknowledges the need to link all Council priorities with resource allocation in order to meet and deliver those objectives.

2.0 Specific Targets

2.1 (A) Matter considered and no issues identified.
(B) Matter considered and no issues identified.

3.0 Sustainability Issues

3.1 Matter considered and no issues identified.

4.0 Equality Issues

4.1 Matter considered and no issues identified.

5.0 Community Safety issues (Section 17)

5.1 Matter considered and no issues identified.

6.0 Human Rights Issues

6.1 Matter considered and no issues identified.

7.0 Financial Implications

7.1 Contained within the report.

8.0 Legal Implications

8.1 Matter considered and no issues identified.

9.0 Consultations

9.1 Matter considered and no issues identified

10.0 Risk assessment

10.1 Matter considered and no issues identified.

11.0 Health & Safety Issues

11.1 Matter considered and no issues identified.

12.0 Procurement Strategy

12.1 Matter considered and no issues identified.

13.0 Partnership working

13.1 Matter considered and no issues identified.

Actual 2006/07	Original Estimate 2007/08	Revised Estimate 2007/08	Service	Estimate 2008/09		Estimate 2008/09
				Expenditure	Income	
£	£	£		£	£	£
950,965	962,050	1,069,020	Financial Services Division Concessionary Travel	1,199,530	0	1,199,530
950,965	962,050	1,069,020	Total Financial Services Division	1,199,530	0	1,199,530
			Direct Services Division			
46,885	63,670	52,330	Allotments	77,840	(20,320)	57,520
189,243	183,410	217,250	Countryside and Open Spaces	229,660	(8,710)	220,950
371,931	413,480	401,930	Parks	470,300	(53,060)	417,240
232,014	278,500	269,800	Recreation Grounds	370,540	(47,270)	323,270
158,721	180,580	170,890	Cemeteries and Churchyards	269,950	(101,210)	168,740
(29,333)	9,870	6,770	Car Parks	274,830	(290,270)	(15,440)
52,343	57,250	18,210	Highways	31,280	(11,920)	19,360
18,763	46,900	35,950	Transportation	83,390	0	83,390
165,160	171,270	159,700	Public Toilets	170,910	0	170,910
22,693	23,290	23,350	Visual Quality Initiative	23,940	0	23,940
94,339	142,810	94,660	Streetscene	140,430	(34,000)	106,430
11,139	12,300	16,460	Street Lighting	16,500	0	16,500
(14,187)	(19,520)	9,100	Beaches and Amenities	58,150	(58,960)	(810)
22,571	35,840	39,490	Land Drainage & Coast Protection	42,580	0	42,580
2,788	3,100	3,100	Drain Clearing	4,300	(1,180)	3,120
438,720	508,450	507,500	Street Sweeping and Cleansing - Adur	641,710	(121,150)	520,560
34,078	60,410	82,410	Trade Refuse Collection - Adur	352,280	(308,940)	43,340
30,866	30,240	31,400	Clinical Waste Collection - Adur	32,340	0	32,340
57,041	78,250	33,330	Adur & Worthing Council Services (Partnership Costs)	24,710	0	24,710
1,905,776	2,280,100	2,173,630	Total Direct Services Division	3,315,640	(1,056,990)	2,258,650
			Planning and Community Division			
133,217	94,360	158,990	Economic Regeneration	227,500	0	227,500
66,859	107,440	0	Area Investment Framework/Shoreham Renaissance	0	0	0
11,172	12,320	10,830	CCTV	10,840	0	10,840
0	0	0	Five Town Centre Network	66,030	(66,030)	0
29,709	33,950	33,030	Sustainable Development	34,290	0	34,290
165,717	186,440	130,330	Community Safety	112,830	0	112,830
16,894	156,330	162,300	Community Buildings	147,510	0	147,510
94,289	101,020	96,570	Community and Health Development	103,490	0	103,490
251,246	261,840	261,800	Community and Welfare Grants	219,180	0	219,180
515,713	391,740	443,930	Leisure Centres Management	479,670	(9,000)	470,670
178,217	183,910	184,910	Leisure Development	198,090	(8,600)	189,490
1,463,034	1,529,350	1,482,690	Total Planning and Community Division	1,599,430	(83,630)	1,515,800
4,319,775	4,771,500	4,725,340	Community and Leisure Services Committee Total	6,114,600	(1,140,620)	4,973,980

Earmarked Reserves

Annex H

Earmarked Reserves as at 31st March 2007

TITLE	PURPOSE	BALANCE AT 31/3/07 £'000	AMOUNT COMMITTED £'000
Performance Reward Grant Fund	Balance of unspent grant earmarked for spending on projects to achieve agreed LAA outcomes	26	26
Community Fund – Bovis Homes	Balance of funds from Bovis Homes to be applied to community projects	25	25
Discount Fund	To enable the Council to even out the revenue impact of fluctuations in interest receipts	273	50
Insurance Fund	To offset costs of insurance excesses	53	
New Technology	To fund additional IT equipment	26	
Recycling	To offset the predicted fall in recycling income which will increase net recycling costs in future years	80	
Partnership Development Fund	To fund initial set up costs of the partnership	245	169
Community Alarm	Contribution to capital costs of community alarm equipment	12	12
Health & Safety	To offset unexpected costs arising from Health & Safety legislation	38	
Investment Property Maintenance Fund	Fund to offset future maintenance costs of investment property	37	
Civic Centre Maintenance Fund	Fund to offset future maintenance costs of Civic Centre	20	
Others (all under £10,000)		23	
TOTAL		858	282