Agenda Item No: **DRAFT REPORT**

Report to: Cabinet

Date of Meeting: 20 February 2012

Report Title: **Revenue Budgets 2011/12 (Revised) and 2012/13, plus Capital Programme 2011/12 to 2014/15**

Report By: Neil Dart (Deputy Chief Executive and Director of Corporate Resources), and

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Purpose of Report

1. This report presents the revised revenue budget for 2011/12 and a budget for 2012/13. The revised budget for 2011/12 takes account of the difficult economic environment and known variations to expenditure and income streams.

2. In setting the budget for 2012/13, recognition of the very significant ongoing reductions in external funding for 2013/14 and beyond needs to be made. The report identifies a £3.16m shortfall in revenue funding in 2013/14 and £3.7m in 2014/15. The alignment of the Council's available resources to its priorities will require a comprehensive review during the next 12 months in order to achieve balanced budgets in future years.

3. Your meeting is a key part of the budget setting process. Full Council on the 29 February 2012 will be responsible for setting a balanced budget and determining the Council Tax. If the recommendations in the report are approved by Council, there will be no increase in the Borough's part of the Council Tax in 2012/13.

Recommendation(s)

Cabinet is recommended to:-

(i) Approve the revised Revenue budget for 2011-12 (Appendix A).

(ii) Approve the draft 2012/13 Revenue budget (Appendix A)

(iii) Approve a policy of no overall increase in Off Street Car Parking charges in 2012/13.

(iv) Approve the transfer of the successful VAT claim monies to the redundancy reserve

(v) Approve the Capital Programme 2011/12 (revised) to 2014/15 (Appendix O)

(vi) Approve the proposed expenditure from the Renewal and Repairs Reserve, Area Based Grants Reserve and Information Technology Reserve (Appendices K, J and I respectively) and those items from other reserves shown in Appendix H that can proceed without further reference to Cabinet or Council.

(vii) Approve the revised Land and Property Disposal Programme (Appendix L), and agree that disposals can be brought forward if market conditions make it sensible to do so.

(viii) Agree that schemes marked with an asterisk in the Capital Programme can proceed without further reference to Cabinet or Council.

(ix) Agree that the Council should continue to lobby government to provide additional funding following the cessation of Transition Grant after 2012/13.

(x) Agree work on Priority Income and Efficiency Reviews (PIER) should commence as soon as possible, and to include a mid-year review to all members in the light of the severe government grant reductions.

(xi) Approve the detailed recommendations attached in Appendix N, which relate to the setting of Council Tax in accordance with Sections 32 to 36 of the Local Government Act 1992.

Reasons for Recommendations

4. The Council agreed a budget last year which effectively addressed the implications of losing a further £1.7m of government grant in 2012/13. Formula Grant will reduce from an adjusted figure of £7.8m in 2011/12 to £6.8m in 2012/13 and Transition Grant reduces from £2.8m in 2011/12 to £2.1m in 2012/13. The effect is a combined reduction in government support of 16% in one year.

5. The major reductions in funding in 2012/13 are surpassed by those in 2013/14 and beyond and this will impact very heavily upon the Council's ability to provide services and grants across all areas of existing activity. To ensure key corporate priorities are achieved it remains imperative that the limited resources available are properly targeted.

6. The Council needs to be in a position to match its available resources to its priorities across the medium term and to maintain sufficient reserves and capacity to deal with potentially large and unexpected events and losses as well e.g. Pier fire, potentially large income reductions and increased demand for services as a result of economic downturn,

7. The total removal of the Transition Grant in 2013/14 and further reductions in grant funding have major implications for the Council and as such work needs to commence as soon as possible on identifying savings in order to produce a balanced budget in 2013/14.

Introduction

8. The deficit reduction programme that the coalition government embarked upon last year was described by the Chair of the Local Government Association as the toughest settlement in living history and it continues to have far reaching effects for the Council.

9. As a result of the announcements in the Comprehensive Spending Review (CSR 2010) real term reductions in local government grant funding (including the impacts of inflation) were identified as exceeding 28% over a four year period. For Hastings BC the reductions in grant funding over the four year period are expected to exceed 60% in real terms (paragraphs 26 and 27).

10. In determining the Financial Strategy for the medium term, not only do the levels of grant funding have to be taken into account but so do the impacts of the economic climate. The uncertainty within the Eurozone and the world economy presents real fears of little growth and potential recession. Recession impacts on Council services particularly in areas such as housing benefits, homelessness and income e.g. car parking, planning, property rentals.

11. On a national basis significant public spending cuts continue to be made, which are expected to impact further on the economy, and reduced levels of benefit payments will impact heavily on individual households. Higher levels of unemployment are predicted in the short term which will result in even more pressure on Council services such as Housing and Council Tax Benefits.

12. The Revenue Budget Forward Plan produced twelve months ago forecast that there would be a small deficit in 2012/13, although this did not take account of the loss of the parking agreement. Throughout the year Directors and Heads of Service have been identifying and implementing efficiency savings to assist in addressing the financial position for 2012/13 and beyond.

13. As in previous years, Priority, Income and Efficiency Reviews (PIER) have been held in order to arrive at budget proposals. A senior management review, under the direction of the political leadership, has taken place this year which has resulted in a significant restructure and cost savings.

14. With the level of government grant reducing, limited ability to increase Council Tax or increase charges, the Council will need to make substantial cuts in staff and services in order to produce a balanced budget in 2013/14 and beyond as efficiency savings alone will not be sufficient.

Strategic Priorities

15. The Council's strategic priorities were amended in 2011/12 as a result of review by members and consultation processes such as the "Big Conversation". These priorities remain valid for 2012/13, namely:-

    Priority 1:

    To continue to do everything we can to promote economic growth, employment and economic inclusion in partnership with others and through leading work on the growth of the cultural economy.

    Priority 2:
    Improve the quality of life of local people by working closely with partners to make the town safe and clean.

    Priority 3:
    Making sure we're efficient, customer-focussed and a good organisation to work for.

    Priority 4:
    Promoting equality and an inclusive, supportive community and narrowing the gap – bringing the quality of life of people in the most deprived parts of Hastings and St Leonards up to those of the rest of the town, and the town up to county and national averages

    Priority 5:
    Tackling climate change and making Hastings more environmentally sustainable.

    Priority 6:
    Establishing a culture of openness and transparency about everything the Council does, enabling local people to hold us to account.

Financial Planning – Medium Term Financial Strategy

16. The Medium Term Financial Strategy provided indicative budget forecasts for the 3 year period 2012/13 to 2014/15. The Government's Comprehensive Spending Review 2010 gave detailed funding assumptions for two of the four years that the spending review covered. In addition to the total loss of Transition Grant (£2.1m) in 2013/14, 3% reductions in the annual grant settlements from 2013/14 onwards have been assumed (for planning purposes) in the Medium Term Financial Strategy (MTFS) that was approved in November 2011.

17. Given the need to plan for future years, the Medium Term Financial Strategy, identified key principles to be followed when compiling the budget as well as identifying the financial risks and opportunities more closely. The Financial Strategy is robust in that it integrates the financial and policy planning procedures of the Council. That robustness is built upon a foundation of key principles:

    (i) Ensure the continued alignment of the Council's available resources to its priorities

(ii) Maintain a sustainable revenue budget. This means meeting recurring expenditure from recurring resources. Conversely non recurring resources such as reserves and balances can generally be used to meet non recurring expenditure providing sufficient reserves and balances exist.

(iii) To continue to identify and make efficiency savings

(iv) To review relevant fees and charges comprehensively as a means of generating additional funding for re-investment in priority services.

(v) Capital receipts and reserves will primarily be available for new investment of a non-recurring nature thereby minimising the overall financial risk.

(vi) To ensure sufficient reserves are maintained.

(vii) To ensure value for money is achieved in the delivery of all services and that the Council seeks continuous improvement of all services.

(viii) The objective is to maintain affordable increases in Council Tax whilst accepting that such an objective is linked to the amount of annual government grant, inflation and new legislative requirements.

(ix) The importance of partners in delivering cost effective solutions for services is recognised.

The Key Factors Impacting on the Budget

External Funding - Annual Grant Settlement

18. The annual grant settlement figures for 2012/13 were as expected. Formula Grant reducing from an adjusted figure of £9.1m in 2010/11 to £6.8m in 2012/13 which represents a reduction of some 25%.

19. The cash decreases (cumulative) are shown below.

Year	Formula Grant (£ 000’s)	Cash Decrease (Cumulative) (£ 000’s)	Percentage Grant Change (Cash)
2010/11	£9,084		
2011/12	£7,794	-£1,290	-14.2%
2012/13	£6,838	-£2,246	-24.7%

20. The table above identifies reductions of near 25% in grant settlements to date. Whilst 3% cash reductions in Formula Grant have been assumed for 2013/14 and 2014/15 (representing a further loss of some £200,000 for each year), the

resource review by government is ongoing, and as such the cash reductions imposed on local authorities could be significantly worse.

Revenue Spending Power (RSP) and Transition Grant

21. Last year the government introduced the concept of "Revenue Spending Power" which is the sum of:

    Council Tax Income + Formula Grant + Specific Grants e.g. homelessness, housing benefits administration

22. Based on the values of the income sources above, the maximum reduction for any authority in RSP was 8.8% in 2011/12 and a further 8.8% in 2012/13.

23. Local authorities that lose more than 8.8% of their RSP receive Transition Grant. Hastings and 43 others qualified in 2011/12 and Hastings also qualifies in 2012/13 along with 11 others.

24. The award for Hastings is as follows:-

Year	Transition Grant (£ 000's)
2011/12	£2,790
2012/13	£2,137

25. The grant is intended by government to assist those Councils with the largest percentage loss of income in their transition to becoming substantially lower spending organisations for the future. This grant is helping to mitigate the impact of the loss of Area Based Grants and the cut in Formula Grant in 2011/12 and 2012/13. The government have stated that Transition Grant will not continue past 2012/13.

Summarised Grant Position

26. The table below summarises the grant funding position for the next three years (excluding specific grants such as Benefit Administration Grant, Homelessness Grant, and Council Tax Freeze Grant).

	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 (Est) £m	2014/15 (Est) £m
Area Based Grant	3.6				
Formula Grant	9.1	7.8	6.8	6.6*	6.4*
Transition Funding	0	2.8	2.2	0	0

Total	**12.7**	**10.6**	**9.0**	**6.6**	**6.4**
Cumulative Cash Reduction		-2.1	-3.7	-6.1	-6.3
Cumulative % Reduction		-16.5 %	-29.1%	- 47.4%	- 49.6%

*Assumes a further 3% cash reduction

27. The table highlights a 49.6% reduction in cash grant funding over the four year period of the finance settlement. In real terms, after taking account of inflation the reduction is around 60%.

28. Going into 2012/13 the Council needs to maintain a level of reserves that can help ensure a managed transition to a much lower level of activity in the years ahead. The Council's external auditors have commended the Council on its approach to financial management and its approach to maintaining and enhancing reserves whenever possible.

Income

29. The Council has limited reserves and depends upon income streams and investment returns to balance the budget.

30. The Council has experienced the detrimental effects on a number of key income streams over the last few years. For example, land charges income was around 50% of 2007/8 levels in 2011/12.

31. As disposable income levels decline, given inflation and low or zero wage settlements and with the housing market showing little or no growth there are expected to be continuing implications for all income streams in the medium term.

32. Given that income streams remain at risk, fees and charges have been kept under careful review and considered annually against the background of Council priorities and peoples' ability to pay. In general the policy has been to increase by inflation.

33. Careful attention is being given to planning fees. Legislation has been expected which would allow local authorities to recover a greater percentage of the costs incurred. However to date this has not been forthcoming and has not been taken into account in drafting the 2012/13 budget.

Car Parking Charges

34. The Council has responsibility for determining off-street parking charges (along with the Foreshore Trust in respect of Trust car parks), whilst the County Council is responsible for on-street parking. Given the economic slowdown and the need to assist the local town centre economy a nil increase in off-street parking charges has been factored into the budget assumptions for modelling purposes.

35. Included within the recommendations is a freeze in off street charges for 2012/13 to assist the local economy. The cost to the Council of not introducing a 5% increase to match inflation is around £55,000, whilst the figure for the Foreshore Trust would be slightly less.

Investment interest

36. The low levels of interest received on balances looks set to continue for the next 12 months at least. Base rates are not now expected to start increasing in 2011/12, and may only do so in 2013. Current assumptions, given the restricted counterparties list and short investment periods, are for investment returns of around 1% in 2012/13. The budget assumes that the return on investments will rise to 2% half way through 2013/14 and be maintained for 2014/15. The Treasury Management Strategy will continue to advocate a policy of keeping the respective levels of debt and investment under review.

37. To lessen the impact in any one year of the volatility of interest rates, the Council has been prudent in putting money into a reserve (the Interest Equalisation Reserve).

Inflation

38. This has been a major issue in 2011/12 and will remain so particularly in terms of gas and electricity prices which could increase by around 15% this year and next (30% cumulative increase). Inflation in November 2011was 5.2% (Retail Price Index) with RPI-X also at 5.3% (RPI-X excludes mortgage interest), whilst the government's preferred measure CPI (Consumer Price Index) was 4.8%.

39. The Council's major contracts e.g. Waste and Street Cleansing, Grounds Maintenance, Cleaning, etc, are linked to various inflation indices (e.g. Waste Collection linked to July RPI-X at 5%). The Council allowed 3% for general inflation in 2011/12 but took the prudent step of allowing for 5% for contract inflation despite the Treasury's predictions. The 2% difference on contract expenditure has cost the Council an estimated £58,000 in 2011/12 (£105,000 full year cost).

40. Inflation, according to the Treasury Inflation Report is set to fall rapidly after December 2011. It should be noted that last year's report (August 2010) indicated an average rate of 2.4% by quarter 3 in 2011 which experience has proven to be incorrect.

41. Based upon these projections, general inflation is being estimated at 3% in 2012/13 and 2% for 2013/14 and beyond for budget planning purposes

Public Sector Pay Settlement

42. In June 2010 the government announced a two year pay freeze for civil servants earning above £21,000 – to commence in 2011/12. Civil servants who had had a pay freeze in 2010/11 would come out of the freeze one year earlier. Local government has also had a pay freeze for all staff since 2010/11.

43. The salaries budget together with national insurance and pension costs is some £14m - each 1% therefore equating to around £140,000. A 1% increase has been assumed for 2012/13 in the budget to take account of a potential pay award in addition to contractual increments (equivalent of around a further ½%).

44. National pay negotiations have commenced and the government have announced increases in pay are to be limited to 1% p.a. for two further years. However a third year of pay freezes for those in local government remains a possibility given the affordability issues for employers.

Increased Demand for Public Services & Benefit Administration Grant

45. In an economic downturn there will be a continued higher demand for public services. In some areas e.g. housing benefits, there has been a near 20% increase in claimants in the last three and a half years with a corresponding increase in benefit payments made. The payments are normally fully financed by government subsidy.

46. Universal Credit is set to replace the present benefit structure. A new law will need to be passed first, after which changes would begin to take effect from 2013. People claiming benefits will be automatically moved onto Universal Credit. The full implications, timescales and transition funding arrangements are still unclear. If the loss of funding does not match the transfer of the functions there is a clear financial risk to the Council over the next 5 to 6 years.

47. Localisation of Council Tax: It was announced in the spending review of 2010 that support for Council Tax would be localised from April 2013 and expenditure reduced by 10%. Besides the detrimental effects on benefit claimants, this would result in the Council having to recover a further £1.16m in Council Tax from those least able to afford it. The collection rate achievable would, in all likelihood, have to be adjusted downwards as a result. An additional risk is that of increased benefit payments being made in the year – the financing risk falling on the Council. These pressures have not yet been factored into the forward planning assumptions. The short timescale for the introduction of a scheme also presents real risks. The Council responded to the consultation paper and was not supportive of the scheme.

48. The level of Benefit Administration Grant receivable in 2011/12 amounts to some £1,288,000 (a reduction of £75,000 from 2010/11levels). The grant for 2012/13 has been further reduced by some £77,000 and reductions of the same magnitude are expected in 2013/14 and in the years thereafter.

Concessionary Fares

49. Responsibility for concessionary fares transferred to the County Council from 1 April 2011. Some residual payments have been made in 2011/12 in respect of previous years from a provision established for this purpose. It has still to be established whether the bus company has accepted the payments as final settlement of all outstanding liabilities– this should be known by the end of the financial year.

On-Street Parking Agreement

50. East Sussex County Council has recently determined to terminate the On-Street Parking Agreement with the Council. This agreement is subject to 12 months notice of termination.

51. There are financial implications for the Council. These revolve around the transfer of staff under TUPE and the recovery of overheads e.g. buildings, support services, management time. Where these services are no longer provided the fixed elements of these costs revert back to the Council e.g. buildings, phone systems, support service costs. In addition a proportion of the costs of the CCTV system are financed though this agreement.

52. The associated costs that will revert back to the Council have been estimated at £500,000 p.a. of which £125,000 would fall in 2012/13. Close scrutiny of all costs remaining with the Council will need to be undertaken. A review of CCTV arrangements and responsibilities is ongoing, and options for reducing ongoing costs continue to be investigated.

Delays in Receiving Capital Receipts

53. The Council's original land disposal programme in 2011/12 was estimated to produce capital receipts amounting to £1,080,000 in 2011/12, £1.6m in 2012/13 and £1.3m in 2013/14.

54. A number of revisions to the programme have been made as part of the 2012/13 budget process. The expected receipts from disposals in 2011/12 are now estimated at around £340,000. Appendix L provides the profile of programmed receipts. In addition to the sites listed, opportunities for other asset sales and disposals continue to be explored.

55. It remains imperative that the Council maximises its capital receipts. Failure to do so will necessitate curtailment of the already very limited capital programme or result in the Council having to borrow. The additional costs of borrowing fall directly on the revenue account in terms of interest payments and making an annual contribution towards the repayment of the principal (i.e. Minimum Revenue Provision (MRP)). If there are invest to save efficiencies then these costs may be offset. Appendix E identifies the capital financing requirement over the life of the capital programme.

56. It should be noted that capital receipts can generally only be used for capital purposes. It is recommended that asset disposals be brought forward if market conditions make it sensible to do so.

Pension Fund Contributions

57. The Council's contributions to the pension fund managed by East Sussex County Council are determined every three years following an actuarial valuation. The last valuation was in 2010 with revised contribution rates payable from April 2011.

58. The rates payable by the Council consist of the primary contribution rate plus 1% for future early retirements/redundancies:

2011/2012 - 21.1%+1% = 22.1% (of salaries – re: staff in the pension scheme)
2012/2013 - 21.5%+1% = 22.5%
2013/2014 - 21.8%+1% = 22.8%

59. The 0.4% increase to 22.5% in pension contributions is the equivalent to some £50,000.

60. Valuations are undertaken every three years with the next valuation therefore in 2013 with revised contribution rates becoming payable in April 2014.

61. The government have already announced that all pension increases will be linked to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI) - which should save the pension fund money. At the time of writing the review of public sector pension schemes is under review with a view to ensuring such schemes remain affordable.

62. It should be noted that the level of redundancies, any early retirements, and transfer of services (e.g. Highways, On-Street Parking) can also affect the valuation.

Grants

63. The Council receives a number of revenue grants each year e.g. Benefits and Council Tax Administration, Homelessness, but has also been very successful in attracting numerous “one off” type grants in the last couple of years e.g. Future Cities, and Active Women Programme.

64. New Homes Bonus

    This new grant regime commenced in April 2011. This is a grant that rewards the building of new houses and for bringing long term empty properties back into use. In setting the 2011/12 budget the Council took a prudent view, as to the then unknown amount that would be received, and only earmarked the costs of employing one officer in respect of the Empty Homes Strategy and the use of compulsory purchase powers against the grant.

65. The sum received in 2011/12 amounted to £194,710. In 2012/13 the Council will receive the same sum again plus a further £189,838 in respect of new homes for the last year. The bonus should in theory increase for a period of 6 years. However, the government identified additional funding in its spending plans for 2 years and thereafter the local government settlement will be top sliced to meet the commitments – as such the Council may not gain beyond 2012/13.

66. Council’s are using the bonus in different ways, either to help balance budgets, strengthen reserves, or for one off activities that do not add to ongoing spending commitments; there is still uncertainty as to the amount receivable over the longer term.

67. The new homes bonus has been fully utilised to balance the budget in 2012/13.

VAT

68. As Members may recall, the Council made a successful backdated VAT claim and received a sum of £1.58m in 2010. As part of the last budget, a decision was taken to set aside £722,000 of this sum to cushion the impact of significant grant reductions in 2013/14 - the Transition Reserve.

69. There were several areas within the original backdated claim that were always expected to take a number of years to determine (by HMRC). The one remaining VAT claim has however recently been settled in the sum of £212,000 (including interest and net of fees)

70. It is recommended that this sum be added to the Redundancy Reserve.

Revised Budget 2011/12

71. The original 2011/12 budget was framed such that the difference between the net budget (£16.44m) and the funding received (£17.70m) i.e. £1.26m, was transferred to Reserves. This sum has been earmarked for specific purposes, namely, Economic Development (£400,000), Community Safety (£350,000), future restructuring costs (£508,000).

72. In brief, whilst there are a number of variations within individual budgets, the latest monitoring reports are indicating that the total budget is on target to be achieved. It is anticipated that there may be a very small surplus given the need for a contingency sum in 2011/12 in respect of planning appeal settlements. The key variations are shown in Appendix C. In the current economic climate it is recommended that any remaining surplus at year end be transferred to the General Reserve.

73. It should be emphasised that in compiling the revised budget there remains some risk to the levels of income and investment income expected in the last quarter of 2011/12 as uncertainty remains around the economy. There is a clear risk arising from the down turn in the economy for rental income streams arising from property until confidence returns; any such reductions are likely to impact on income streams for some years. The risk is mitigated to a degree by retaining sufficient reserves.

74. The area of major change, namely the contact centre, is expected to involve some temporary transitional costs for backfilling posts in both 2011/12 and 2012/13 as staff are transferred to it and learn new areas of work and systems. However in the medium term savings will be achieved.

Budget 2012/13

75. The net budget requirement for 2012/13 is estimated at £16.941m. This compares to a revised estimate of £18.105m for 2011/12 and represents a decrease in expenditure of 6.4%.

76. The budget process undertaken last year addressed a lot of the issues required to produce a balanced budget for 2012/13. In addition to the pressures identified last

year e.g. loss of £1.6m of Formula and Transition Grant in 2012/13 this year's budget has needed to address the loss of the On-Street Parking Agreement and higher inflation. To achieve a balanced budget has necessitated the use of the new homes bonus and the savings arising from the senior management restructure undertaken this year. The latter identified ongoing savings estimated at £375,000 p.a. of which £225,000 is available in 2012/13.

77. The main service summaries and variations are highlighted in the appended Directorate revenue budget summaries. The key budget variances are highlighted in Appendix C.

78. There are a number of growth areas within the revenue budget which seek to maintain and enhance the borough as a place to visit. There is £10,000 to maximise the opportunities arising from the Olympic Torch event in July. The Council is investing £5,000 per annum in an accessibility guide of the town's shops, cafes and public buildings (DisabledGo). The Council has recently been successful in a funding bid to the Arts Council for £150,000 which will be used to support an ambitious arts and performance programme for the Stade Open Space for 2012 and 2013 in conjunction with existing Council resources.

79. Balancing the budgets for 2013/14 and beyond has major cost and organisational consequences for the Council which will impact on 2012/13. The costs of redundancy fall in the year that the decision is taken rather than the year that the last day of service falls within. It should be noted that an ongoing redundancy provision has been retained of £175,000 p.a. and that the redundancy reserve established as part of the last budget (£508,000) remains untouched. The Council is making joint procurement arrangements for major contracts e.g. Waste and Street Cleaning, Grounds Maintenance and is looking at shared service opportunities e.g. audit, legal, revenues and benefits. However the shared service agenda alone is unlikely to produce the savings required and substantial job losses and restructuring of services look inevitable.

Local Government Resource Review (Retention of Business rates)

80. The consultation closed on the 24 October. The revenue implications are unknown and hence no figures have been included in the projected forecasts for 2013/14 and beyond at present. Representations were made to government concerning the inclusion of Transition Grant in the calculation by those authorities that remain in receipt of it (the 12 authorities most badly affected by the loss of government grant). The cost to the government of Transition Grant in 2012/13 to the 12 authorities (generally the more deprived areas) is just £20m and members may consider further representations to the government would be merited – a recommendation is made to this effect.

Budget 2013/14 and beyond

81. A deficit of £3.165m is estimated for 2013/14 and £3.689m in 2014/15 (see Appendix G).

82. The "cliff edge" drop results from the ending of the Transition Grant (£2.14m) in 2012/13 and that Formula Grant is assumed to decrease by a further £200,000 (3% cash reduction) in 2013/14 and in each year thereafter based on the fact that

the cuts have been front loaded to some extent and that a new grant distribution formula/ funding arrangement will be in place for 2013/14. In addition it has been assumed that there will be little or no upturn in the economy over the period.

83. In addition to the reductions in central funding there are a number of costs that will be incurred and income lost that will impact significantly in 2013/14. These include the loss of income from Pebsham land fill site lease, the loss of the on-street parking agreement, and the loss of the 2012/13 Council Tax Freeze Grant. It should be noted that the Waste and Street Cleaning Contract ends in July 2013. A joint procurement exercise with four other local authorities in East Sussex is currently being undertaken and there will be set up costs as contractors and collection arrangements change. Costs of communication have been estimated at up to £150,000 per authority over two years; these one off costs would be met from possible procurement savings and/or general reserves.

84. To help ensure that the Council can continue to deliver key services at this time, the use of specific reserves established from the Transition Grant will assist in the transformation to a lower spending Council. Assuming the full use of the Transition Fund (£722k) in 2013/14 the deficit would be reduced to £2.44m.

85. In order to address the budgetary issues ahead it is recommended that the Priority Income and Expenditure Review process (PIER) will need to be commenced as soon as possible, and be run in parallel with options on shared services and efficiency initiatives that are already looking to transform the way the Council delivers its services . This is expected to consume significant time and resources in 2012/13.

Service Pressures & Council Tax

86. The government will award a grant of around £174,000 to Hastings BC should it resolve to effectively freeze Council Tax in 2012/13, the grant is the equivalent of a 2.5% increase. This is a one year initiative and the grant will not be payable over 4 years as was the case for the 2011/12 Council Tax Freeze Grant. In 2013/14 therefore the Council would need to make further efficiencies or cuts in service or increase Council Tax further to cover the budget shortfall. The leader has already publicly indicated that there be no increase in the Council Tax in 2012/13 and the report contains a recommendation to this effect. In practical terms a Band D Council Tax payer would continue to pay £235.85 in respect of the Hastings BC demand.

87. The Council is unable to fully determine the Council Tax liability until the precept requirements of East Sussex County Council, the Sussex Police, and the East Sussex Fire and Rescue Service are known. These are expected in February. In expectation that each authority will opt for a nil increase (once the Council Tax Freeze Grant is taken into account). The possible Council Tax figures are attached in Appendix N.

88. In terms of service pressures, members are reminded that each £69,000 of additional revenue expenditure equates to 1% on the Council Tax. The government has made it clear that they wish to see Council Tax frozen.

89. The Localism Act has abolished capping powers and instead introduced provisions for Council Tax referendums. Local authorities will be required to seek approval of the local electorate in a referendum if, compared with the previous year, they increase Council Tax above an amount exceeding that determined by the Secretary of State and agreed by the House of Commons. For 2012/13 the rate above which a referendum is required has been determined at 3.5%.

Capital Programme

90. The capital programme analysed by service is attached (Appendix O). At the time of writing this report the notification of government grant receivable in respect of Disabled Facility Grants has not been received. The capital programme as presented to cabinet will be amended to reflect the actual figure received.

91. The proposed programme satisfies the requirement that schemes meet the following criteria:-

    a. contribute towards achieving the Council's corporate priorities and one or more of the following,

    b. be of a major social, physical or economic regeneration nature,

    c. meet the objective of sustainable development,

    d. lever in other sources of finance such as partnership/lottery funding or provide a financial return for the Council,

    e. is an "invest to save" scheme and reduces ongoing revenue costs to assist the revenue budget.

92. There is a need to maintain assets to avoid higher maintenance costs and declining assets. This is vital where the Council’s commercial estate is involved if rental streams are to be maintained and industry is to be attracted to the area in a period of economic uncertainty - and also given the increase in competition for tenants. Likewise for the economic vitality of the town it is important that infrastructure remains well maintained. To this end it is proposed that an additional sum of £50,000 p.a. is included in the programme for public realm enhancements, and an additional £80,000 allocated for seafront concrete repairs in 2012/13.

93. Whilst the capital programme is significantly reduced over the forthcoming years, opportunities are still being sought for funding e.g. application to be resubmitted to the Heritage Lottery Fund in respect of the Castle. In 2011/12 European funding has been successfully sought for the Answers in the Carbon Economy scheme in respect of the Council’s industrial units. In addition a significant partnership arrangement with Local Space (Housing Association) has commenced and £2m of their money is held by the Council (£1.7m identified in the capital programme and £300,000 in revenue) – this money being used for housing renewal purposes.

94. The capital programme in summary (net of external funding) amounts to:-

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m

Net Capital Expenditure * includes £500k assumed slippage	1.389*	2.432	0.672	0.325
Financing from own resources	0.787	1,949	0.672	0.325
Borrowing Requirement	0.602	0.483	0	0

95. In terms of net cost, the 2011/12 programme has been revised from £2.383 million to £1.389 million. The 2012/13 programme amounts to £2.432m (£5.33m Gross).

96. The draft capital programme shows the status of the schemes
    c denotes schemes which are committed
    u denotes schemes which are in the programme but as yet uncommitted
    n denotes schemes that are new

    It is proposed that schemes marked with an asterisk proceed without further reference to Cabinet or Council.

Capital Programme - Incremental Impact on Band D Council Tax

97. In determining the affordability of new capital proposals the Council is required to consider the incremental impact on the Council Tax for future years. The impact is expressed in Band D equivalent amounts on the Council Tax. The purpose is to give the Council the opportunity to consider options for capital proposals and to highlight the potential future financial burden of capital investment decisions.

98. Given that the programme, from 2012/13 onwards is mainly financed by capital receipts, reserves, external grants and contributions with limited borrowing, the impact is low. Details are highlighted in Appendix E, but in short the Council's capital programme remains affordable.

Minimum Revenue Provision (MRP)

99. Local authorities are required each year to set aside some of their revenues as provision for debt repayment. Unlike depreciation which is reversed out of the accounts, this provision has a direct impact on the Council Tax requirement. The provision is in respect of capital expenditure that is financed by borrowing or credit arrangements e.g. leases.

100. The Council is required to make a "Prudent Provision" which basically ensures that revenue monies are set aside to repay the debt over the useful life of the asset acquired i.e. the Minimum Revenue Provision. The MRP for 2012/13 is estimated at £727,000 of which £496,000 is an additional direct cost to the Council, whilst the remaining £231,000 is a notional charge in respect of lease arrangements.

Reserves

101. The Local Government Act 2003 (Part 2) requires the Chief Finance Officer to report on the adequacy of the proposed financial reserves, and determine the minimum level required when setting the annual budget. There is no statutory

minimum requirement, but reserves must be set at a prudent level given the activities of individual councils and potential liabilities that they face or may face in the future i.e. a risk based approach.

102. The strategic reasons for holding reserves are:-

a. A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing

b. A contingency to cushion the impact of unexpected events or emergencies

c. A means of building up funds to meet known or potential liabilities (provisions are used for liabilities with uncertain timings or amounts). Such reserves are referred to as Earmarked reserves.

d. To assist in the transition to a lower spending Council in 2013/14 and beyond

e. To provide the Council with some resources in future years to meet corporate objectives particularly in the areas of economic development and community safety.

103. The Council maintains a working balance in accordance with (a) above in the sum of £500,000. In respect of (c) above there is a need to maintain assets to avoid higher maintenance costs and declining assets. This is vital where the Council's commercial estate is involved if rental streams are to be maintained and industry is to be attracted to the area in a period of economic down turn. The full renewals and repairs programme is attached in Appendix J.

104. The estimated reserves position, as at 31 March 2012, is shown in Appendix H. It has been agreed by Council in approving the Medium Term Financial Strategy that, as an absolute minimum, the combined level of the Capital Reserve and General Reserve be £3m i.e. the non earmarked reserves. This level is required to be maintained to cover unexpected expenditure, e.g. emergencies, potential over runs of gross expenditure and further down turns in income sources, and was arrived at as follows:-

(i) 10% downturn in income (sales, fees, rents, etc) - £1m
(ii) 5% over run in expenditure (including capital) - £2m

105. In addition, given the economic environment and all the uncertainties described elsewhere, it is prudent to maintain the two reserves at a figure above the absolute minimum and wherever possible increase the level of reserves. Any under spends must be considered as opportunities to strengthen the reserves and improve services for the future - as and when the economic outlook removes some of the uncertainties.

106. The Council's earmarked reserves are reviewed at least twice a year for adequacy. If at any time the adequacy is in doubt the Chief Finance Officer is required to report on the reasons, and the action, if any, which he considers appropriate.

107. Section 25 of the Local Government Act 2003 requires the Chief Financial Officer to report to members on the robustness of the estimates and the adequacy of the

reserves when considering the budget and Council Tax. It is the view of the Deputy Chief Executive and Director of Corporate Resources that the processes followed and the information systems used are sound and that the regular reporting and involvement of senior managers in managing budgets provides sufficient assurance that the resultant estimates are as robust as present economic circumstances allow.

Consultation

108. The Council undertook a range of consultation opportunities to inform the development of its Budget and Corporate Plan for 2012/13 onwards. These build on the commitment the Leader and Deputy Leader made as part of the Big Conversation in autumn 2010, when they wrote to all residents and staff explaining the financial situation and committing to ongoing dialogue with local people to involve them in the tough choices the Council continues to face.

109. In the autumn of 2011, The Leader and Deputy Leader met residents from across the town to test the priorities local people had given us the previous year through the Council's Big Conversation. The Council undertook a Staff Survey and a Local Place Survey in the summer; the latter explored the perceptions of residents on local services. A Town Conference bringing agencies and partners together to focus on the future needs of the town was also held.

110. Local people from across the town reconfirmed the priorities that had emerged from the Big Conversation in 2010. Quality of life issues and reviving the town were reinforced as key concerns, particularly street cleanliness, crime and jobs. Parks and gardens, bringing empty homes back into use, continuing our 'grot-busting' activity and promoting Hastings as a tourist destination also resurfaced as important issues. The local Place Survey indicated that perceptions of where local people live and the services provided there have generally improved, although less so in the Town's most deprived wards.

111. Partners at the Town Conference identified the need to focus on the economy and specifically the evening economy, improving the Town's offer for our young people and growing student population. The Town conference also flagged up the need to continue to market the Town and make the best of what we've already got. Views from the Town Conference also echoed what local people had told us as part of last year's Big Conversation; that given the global economic challenges, the Council reflect on how services are provided and restructure accordingly.

112. Views received from these consultation opportunities informed the Council's draft budget and Corporate Plan, launched for consultation on the 20th January 2012. The full Council meets to set the budget on the 29th of February 2012.

Policy Implications

Equalities and Community Cohesiveness

113. The equalities implications of the proposals included in the draft Budget have been considered* during development of the Budget and Corporate Plan. An Equality Impact Assessment summary for the items identified as PIER Outcomes

(Listed in Appendix K) is attached as Appendix O. Comments on this assessment will be invited during the consultation period. (*Many of the 2012/13 Budget assumptions were determined during preparation for the 2011/12 Budget which was subject to a detailed Equality Impact Assessment – this remains valid and is available from the following link: http://www.hastings.gov.uk/decisions_democracy/transparency/equalities/equals_impact_assessments/)

114. The Council has recently adopted an Anti Poverty Strategy and has committed to 'Poverty Proofing' its decisions – i.e. assessing the potential impact decisions may have on poverty before they are made. The poverty implications of the Budget proposals are addressed within the Equality Impact Assessment – the assessment has not identified any actions that are likely to adversely impact on those experiencing poverty – again this will be reviewed following the consultation period.

Risk Management

115. Numerous risks are highlighted in this report, and further comment is made below. The risks include reduced government funding, reduced income, enhanced demand for Council services, delays in asset disposals. There are continuing risks surrounding the employment of staff based on short term grant funding streams e.g. homelessness, future cities. To balance the budget the Council has had to seek efficiency savings, review the capital programme, review fees and charges, and make cuts in services and staff numbers. It will need to further prioritise its objectives and identify where it would need to make savings to balance the budget in 2013/14 and beyond.

116. Given the uncertainty in the economic outlook and the risk presented to income streams the Council needs to preserve and enhance where possible the existing level of reserves. The Council also needs to ensure that it continues to invest in its people, its IT services and its commercial assets.

117. The Council seeks to identify further opportunities for collaborative working, plus identify, investigate and implement efficiencies, identify income generation opportunities and ensure that potential savings are monitored and achieved.

118. The Council maintains risk registers for corporate risks and for individual services. These continue to be updated and reviewed on a regular basis and steps are taken to mitigate the risks wherever possible and practical. The transition to a lower spending Council, by joint working, and reduced staffing levels also poses additional risks.

119. Key financial risks to the Council in future years include:-

i. Local Government Resource Review (retention of business rates).

ii. Income streams – preservation and enhancement.

iii. Joint working/ shared services. The Council is looking at further joint and partnership working e.g. Waste Collection and Street Cleaning, Grounds Maintenance, Audit and Legal services, Revenues and Benefits.

iv. Staffing / Knowledge Management. The loss of key staff through early retirement or redundancy.

v. Changes in the benefit's system (Universal Benefit and Localisation of Council Tax). The Localisation of Council Tax would result in an overall reduction in benefits payable of 10%. With protections for pensioners and other vulnerable groups the impact on some people would be much higher. There is also significant financial risk involved which is that of increased benefit payments being made in the year – the financing risk falling on the Council. The short timescale for the introduction of a scheme also presents real risks. These pressures have not been factored into the budget as the outcome of the consultation is only now being communicated by government.

vi. Restructuring Costs

In order to make savings of the magnitude required in 2013/14 and beyond, the Council will need to reconsider what services it can provide and to what level. Further restructuring seems inevitable if a sustainable budget is to be achieved in the years ahead. Voluntary and/or compulsory redundancies have large financial consequences for the authority, both in terms of direct payments but also generally on the Pension Fund - in addition to the effect on the capacity of the organisation and knowledge management implications. The Council established a Redundancy Reserve (£508,000) as part of the budget setting process in 2011/12 which will assist in transforming the Council to a lower spending organisation.

vii. Council Tax – Technical Reforms

The government have recently launched a consultation exercise on technical reforms to Council Tax which if implemented would enable the Council to determine the level of discounts given for a number of exemptions i.e. the level of discounts could be reduced on second homes or empty and unfurnished properties if considered appropriate. Such reforms would apply from April 2013. This area will be kept under review for financial planning purposes.

viii. Treasury Management – investment security and level of returns.

ix. The Economy

The economic and financial instability in the world continues to be major risk. The Council relies upon its income streams to provide services. Inflationary pressures are however expected to ease in 2012.

Economic/ Financial Implications

120. The report supports the alignment of corporate priorities with available resources, produces a robust and balanced budget for 2012/13, and retains a capital programme, albeit much reduced from that of previous years.

121. The financial implications in 2012/13 and beyond are detailed in the report. The availability of the Transition Grant provides a cushion for 2012/13. Significant further action by the Council will be required to produce a sustainable budget for 2013/14 and beyond and this will inevitably result in substantial job losses.

122. The economic regeneration of the town remains a key priority for the Council. Our ability to work with our partners to help stimulate the local economy will be seriously reduced following the reduction in our funding. The Council has however established reserves for economic development and for community safety as a means of ensuring the Council can continue to make a contribution to the regeneration of the town over the next few years.

123. The loss of public sector jobs and the reduction in the Council's spending power will have a negative effect on the local economy.

Environmental Issues

124. A key priority of the Council is to tackle climate change and make Hastings more sustainable. A number of the efficiency schemes undertaken by the Council both reduce CO_2 emissions and reduce energy consumption as well as saving money.

Organisational Consequences

125. In order to deliver its priorities the Council not only requires financial resources but also good quality staff, IT, and property. There is only a finite resource available to deliver priorities whether directly by the Council or in partnership with others. Service planning is important to ensure that there is sufficient capacity to deliver the annual plan.

126. A number of staff within the Council are employed on temporary or fixed term contracts to match the temporary funding streams received. Where such funding streams may end it is necessary to identify exit strategies in order to meet any redundancy costs or to mainstream successful initiatives.

127. With reduced resources available a number of service cuts have been required; these have been identified in Appendix K. The Budget proposals identify the deletion of 2 established posts, one of which has not been filled since the end of March 2011.

128. Given the projected shortfalls in funding, particularly from 2013/14 onwards, there are expected to be substantial job losses and restructuring consequences.

Wards Affected

Ashdown, Baird, Braybrooke, Castle, Central St. Leonards, Conquest, Gensing, Hollington, Maze Hill, Old Hastings, Ore, Silverhill, St. Helens, Tressell, West St. Leonards, Wishing Tree

Area(s) Affected

None

Policy Implications

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	Yes
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	Yes
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No

Background Information

Officer to Contact

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