

Key Decision Required:	Yes	In the Forward Plan:	Yes
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**CABINET
16 DECEMBER 2009**

REPORT OF HEAD OF FINANCIAL SERVICES

A.5 INITIAL BUDGET PROPOSALS FOR A REVISED BUDGET 2009/10 AND ORIGINAL BUDGET FOR 2010/11

(Report prepared by Karen Neath, David Appleby, Roy Coulter, Richard Barrett and Accountancy)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To set out and seek approval of Cabinets initial proposals for:

- a balanced General Fund Revenue Budget and Capital Programme (including the Housing Investment Programme) for a Revised Budget for 2009/10 and Original Budget for 2010/11
- an Annual Minimum Revenue Provision Policy Statement for 2010/11

EXECUTIVE SUMMARY

The Initial Financial Strategy was considered by Cabinet on 2 September 2009 which set out an initial forecasted deficit position of **£0.561m** along with various actions to enable a balanced budget to be achieved.

The Revised Financial Strategy presented earlier on the agenda sets out a summary of the adjustments and outcomes of actions identified along with other changes that have emerged during the budget setting process. All of these associated adjustments have been included in the detailed estimates presented in this report which are therefore consistent with the Revised Financial Strategy.

Subject to Cabinet's consideration of the Revised Financial Strategy, the detailed estimates currently forecast an initial budget surplus of **£0.425m** and **£0.446m** for the revised budget 2009/10 and original budget for 2010/11 respectively. These amounts have been included in the Service Improvement Budget for the purpose of finalising the detailed estimates.

The Service Improvement Budget stands at **£1.785m** in 2009/10 (**£1.666m** uncommitted) and **£0.446m** in 2010/11. A recommendation in the Revised Financial Strategy presented earlier on the agenda seeks Cabinet's determination, if they wish, on the reallocation of the uncommitted Service Improvement Budget in both 2009/10 and 2010/11.

RECOMMENDATION(S)

a) That subject to Cabinet's determination and agreement of the Revised Financial Strategy presented earlier in this meeting, Cabinet agrees the initial budget proposals (including fees and charges) set out in Appendix A for consultation with the Corporate Management Committee.

b) That subject to a) above the Finance Portfolio Holder agrees the special

expenses report for consultation with the Corporate Management Committee.

- c) That all future expenditure in 2009/10 be in line with the proposed revised budget set out in Appendix A, subject to final approval by Council on 18 February 2010, and that the corporate financial system is amended accordingly to reflect these changes along with any amendments arising from new Statement of Recommended Practice requirements.
- d) That the Annual Minimum Revenue Provision Policy Statement for 2010/11 as set out in the report be approved for inclusion in Cabinet's budget recommendations to full Council on 18 February 2010.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Careful planning to ensure financial stability underpins the Council's capacity to achieve the objectives set out in the Corporate Plan and Community Strategy. Individual elements of the Financial Strategy are risk assessed against the aspirations of the Council, as well as statutory service requirements. The approach for 2010/11 builds on previous successful financial planning and is key to the Council's aim to deliver excellent, sustainable and joined up services to everyone in the District.

This report will have direct implications on the Council's ability to deliver on the commitments, objectives and priorities set out in both the Corporate Plan and the Community Strategy up to 2016. It will particularly impact on the speed with which the Council can deliver its priorities, rather than the priorities themselves.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are set out in the body of the report.

Although the availability of financial resources is a key component in the delivery of services there will also need to be appropriate input of other resources such as staffing, assets, IT etc.

Risk

There are clearly risks associated with budget setting such as items emerging that have not included in the budget along with forecasted levels of income etc. not being achieved. This is particularly so given the current economic climate.

The strategy adopted in compiling the Revised Forecast, which the budgets have been based on, has taken a risk-based approach. There are a substantial number of areas that could lead to additional net expenditure being incurred, such as: -

- Non achievement of income;
- Emergence of cost pressures not included as Priority 1;
- New legislation;
- Local or national emergency;
- Non achievement of underspend provision;
- Inflation higher than estimated;
- Requests for supplementary estimates;
- Continuing adverse change in interest rates.

In view of the above it is important that the Council has a sufficient level of uncommitted reserves set aside to support the approach identified in this Strategy. An uncommitted reserve of approximately **£4m** (including the **£1.6m** minimum working balance) has been approved previously to insure against the eventuality that some of the events listed above actually occur and is still considered appropriate.

LEGAL

The Council is legally required to calculate a budget requirement and set a Council Tax for each financial year.

The Secretary of State may designate capping (for the present financial year) or nominate capping (for the following financial year) for an authority if in his opinion its budget requirement is excessive. In each case the Secretary of State must inform the authority in writing, and the Local Authority has 21 days in which to make written representations. Following receipt of any representations the Secretary of State may confirm his designation/nomination, or may alter these (including the amount proposed to be the maximum for the budget requirement for that financial year if designated, or the following financial year if nominated).

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.

Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

These implications have no impact on the budget itself. However, they are taken account of in the delivery of individual services and projects.

Consultation - 2008 Place Survey

As part of the performance framework for local government a new national indicator set was introduced in April 2008, replacing the Best Value Performance Indicators and providing a new focus on improving outcomes for local people and places. Central to this is the need to capture the views of our residents through the Place Survey so that improvement plans reflect local requirements and, by tracking changing perceptions over time, ensure that interventions made in an area result in the right outcomes for local people.

The Place Survey covered residents' satisfaction with the area and public services, perceptions of community cohesion and safety, and priorities for improving quality of life.

When asked which things are most important in making somewhere a good place to live the following were considered to be the most important

- | | |
|-------------------|-----|
| ➤ Health services | 48% |
| ➤ Level of crime | 45% |
| ➤ Clean streets | 36% |

And again when asked which most need improving the top three were as follows

- | | |
|-----------------------------|-----|
| ➤ Activities for teenagers | 44% |
| ➤ Road and pavement repairs | 36% |
| ➤ Job prospects | 29% |

Satisfaction with the Council overall has decreased since 2006 (from 50% to 45%)

reflecting the national situation. When the service level satisfaction results are put in context the Council has performed reasonably well with street cleanliness, refuse collection, recycling, libraries, theatres and value for money being perceived as above average and sports/leisure facilities, museums and parks/gardens being below average.

Feelings of safety both during the day and after dark have improved since 2006 but there is still a high perception of anti social behaviour being a problem especially drug use/dealing and drunk/rowdy behaviour.

A number of specific improvements have been introduced and budgeted for/external funding obtained which should improve residents' perceptions of the Council

- Refurbishment of children's play areas across the district
- Green Flag award for the Clacton Seaside Gardens and Greensward
- Working with Trading Standards on initiatives to reduce teenage drinking
- Development of new public conveniences
- Introduced free swimming for residents aged 60 and over and 16 and under.
- Developed initiatives to increase the number of affordable homes in the district
- Provided support to the Pier Ward Multi Agency Centre aimed at providing a range of health and wellbeing related services and the Jaywick Strategic Leadership Group to develop proposals for renewal and regeneration

PART 3 – SUPPORTING INFORMATION

BACKGROUND

The original approved net expenditure budget for 2009/10 was **£23.327m** and after taking account of the use of earmarked reserves of **£1.714m**, the overall budget requirement totalled **£21.613m**. Budget adjustments have been made in line with separate decisions / financial procedure rules as the year has progressed although these have been within the overall budget requirement which has therefore remained unchanged.

The Original Budget for 2010/11 is prepared within a Financial Strategy Framework. This framework was set out in the report ***“Initial Financial Forecast and Initial Financial Strategy 2010/11 and Beyond”*** which Cabinet considered on 2 September 2009. The detailed budget proposals presented for 2010/11 are consistent with this strategy which has been revised following the detailed budget process and appears earlier in your agenda as a report titled ***“Revised Financial Strategy for 2010/11 and Beyond”***

CURRENT POSITION – GENERAL FUND REVENUE SUMMARY - 2009/10 REVISED AND 2010/11 ORIGINAL

The 2009/10 revised and 2010/11 proposed estimates are shown in the draft **Budget Book (Appendix A, Section B)** along with additional detailed figures and notes. These explain significant changes which have been incorporated into the budgets, including all items identified in the **Initial / Revised Financial Strategies**.

An overall summary of the budget position is shown in **Table A: -**

Table A

<i>General Fund Budget</i>	2008/09 Actual £m	2009/10 Original £m	2009/10 Revised £m	2010/11 Original £m
Service costs	23.891	23.294	26.337	22.509
Revenue support for capital investment	0.804	0.886	2.501	0.219
Financing items	(4.242)	(0.853)	(1.310)	(0.497)
Net Expenditure	20.452	23.327	27.528	22.231
Contribution to /(from) Uncommitted Reserve	(0.009)	0	0.021	0
Net Use of Earmarked Reserves	0.465	(1.714)	(5.936)	(0.116)
TOTAL BUDGET REQUIREMENT	20.908	21.613	21.613	22.115
Financed by				
Government Grant – NNDR	(11.795)	(11.237)	(11.237)	(12.399)
Government Grant - RSG	(1.642)	(2.594)	(2.594)	(1.800)
Council Tax	(7.311)	(7.622)	(7.622)	(7.836)
Collection fund surplus	(0.160)	(0.160)	(0.160)	(0.080)
	20.908	21.613	21.613	22.115

General Fund Revenue – Revised Budget 2009/10

The increase in net expenditure between the 2009/10 original and 2009/10 revised budget is **£4.201m**. However this is fully offset by a net increase in the use of reserves - **£4.222m** net increase in the use of earmarked reserves along with an additional contribution to the uncommitted reserve of **£0.021m**.

The net change of **£4.222m** within earmarked reserves is mainly due to revenue and capital commitments carried forward from 2008/09. Other specific adjustments affecting reserves are set out in later sections of the report where appropriate.

Additional adjustments have also been made within the overall original budget provision of **£21.613m**. These are either one-off items affecting 2009/10 only, or recurring items in 2009/10 that also need to be included in the original budget for 2010/11. These are explained in more detail later on in this report.

General Fund Revenue – Original Budget 2010/11

The reduction in net expenditure between the 2009/10 original and proposed budget for 2010/11 is **£1.096m** with a net use of earmarked reserves of **£0.116m**. The reduction between years is due to a number of carryforwards from 2008/09 being included in the 2009/10 original position during the Financial Strategy and budget setting process.

However the total budget requirement after taking into account the use of reserves has increased by **£0.502m** compared to 2009/10 and totals **£22.115m** for 2010/11.

This is fully funded with a council tax increase of **2.5%**, as currently set out in the Revised Financial Strategy and after taking account of the provisional financial settlement from the Government. The effect of potential changes to this position are included in more detail in the Revised Financial Strategy 2010/11 and Beyond.

Detailed information for items such as Priority 1 Growth Items are also included in the **Revised Financial Strategy report** presented earlier on the agenda.

Further details are shown in the draft budget book attached as **Appendix A** which follows the same format as the Members' book and reference numbers relate to the various sections within the budget book.

Additional information for significant items arising from the estimates process, including those identified as recurring items from 2009/10 are shown below and set out against the following broad headings:

- One off items in 2009/10 which affect the revised budget for 2009/10 only.
- Items affecting 2009/10 but which are ongoing so also need to be taken into account in the 2010/11 original budget.
- Additional items arising in 2010/11 which have been included in the 2010/11 original budget only.

CURRENT POSITION – GENERAL FUND REVENUE – SIGNIFICANT ITEMS AFFECTING 2009/10 REVISED BUDGET ONLY

Review of 2009/10 Budget - Service Improvement Budget - £0.260m Contribution to Uncommitted Reserves - £0.121m

There are a number of changes that have been included in the budget following a review of the 2009/10 budget position and associated recommendations being put forward by the Finance Portfolio Holder. These are set out in more detail in the Revised Financial Strategy Report presented earlier on the agenda.

Although this involves a number of movements between budget headings, the overall impact is an additional contribution of **£0.260m** being made to the Service Improvement Budget along with a contribution of **£0.021m** to uncommitted reserves. This brings the level of uncommitted reserves to **£3.900m** in line with the Financial Strategy.

Priority 1 Cost Pressures 2010/11 (effect in 2009/10) - £0.226m

During the Financial Strategy, budget setting and regular budget monitoring process it has been identified that although cost pressures have been included for 2010/11, the effect of a number of items are also being experienced in 2009/10. Therefore the following adjustments have been included to reflect the likely impact in the current financial year:

- (PlanR02/R03) Reduction in Development Control / Building Control Income - **£0.115m**
- (TPR01/10) Loss of rental income for Walton / Manningtree Market Sites - **£0.013m**
- (FSR05) Reduction in Investment Interest - **£0.098m**

Further adjustments in 2010/11 have also been required against the first two items, with details set out later on in this report.

External Grant Income – (£0.198m)

For 2009/10 the Council has received **£0.061m** grant income under the Local Authority Business Growth Incentive Scheme (LABGI). This scheme enables Local Authorities to directly share any growth in National Non Domestic income in their region above a specific

base level.

The Council has also recently received a provisional Housing Planning and Delivery Grant settlement for 2009/10 of **£0.137m** which has been used to support a Planning and Enforcement budget for the same amount.

Earmarked Reserves – Joint Use Sports Centre Reserve - £0.016m

Following the Council taking on responsibilities from ECC for the Harwich and Manningtree Joint Use Sports Centres from 2006/07, a reserve was set up, using a one-off contribution from ECC received as part of the agreement, to fund estimated operating deficits in the short term until such time as a break-even position was achieved. The earmarked reserve has now been depleted and due to the timing associated with preparing the budget a corresponding adjustment in the base budget has been undertaken to reflect this position. However actions have either been implemented or activity remains on-going within Leisure Services to continue to work towards the intended aim of operating the centres on a break-even basis.

Although there is no overall effect on the budget requirement as they are effectively budget transfers, for information the following significant items have been included:

Commitments From 2008/09 – (£0.093m)

Following a review of the amounts brought forward from 2008/09 as part of this years budget process, it has been identified that a number of budgets will now not be required. Although these involve a number of relatively small items, a significant element of the overall amount relates to coast protection maintenance that has subsequently been capitalised and funded by Government Grant. This has enabled a corresponding contribution to be made to the Service Improvement Budget in 2009/10

Concessionary Fares – Contribution to Earmarked Reserves - £0.706m

The current revenue budget for concessionary fares includes an amount brought forward from 2008/09 to support the cost of potential appeals against the Essex-wide scheme. However this amount has now been transferred to a new reserve until such time as the outcome from potential appeals becomes clear. The budget is therefore now held in reserves rather than a revenue budget which will also help provide clarity in future budget monitoring reports.

CURRENT POSITION – GENERAL FUND REVENUE – SIGNIFICANT ITEMS AFFECTING BOTH THE 2009/10 REVISED AND 2010/11 ORIGINAL BUDGETS

Inflation Adjustments

2009/10 – (£0.407m) 2010/11 - (£0.407m)

The agreed pay award for 2009/10 is 1% compared with 2.5% originally allowed for in the budget. This has had the effect of reducing the required budget in 2009/10 by **£0.260m**. The knock-on effect has also been fed into the 2010/11 salary budgets.

In addition, the on-going base budget also includes a provision of **£0.148m** to support the cost of any potential pay award over and above the amount allowed for in the Financial Strategy. Given the current economic climate and the increasing pressure on public sector pay there is now a lower risk of pay awards exceeding the inflationary allowance included in the Financial Strategy each year. The budget currently includes a 2% allowance for the pay award in 2010/11. Based on the revised outlook for public sector pay and that 2% has already been included in the Revised Financial Strategy, this provision has been removed

CURRENT POSITION – GENERAL FUND REVENUE – SIGNIFICANT ITEMS AFFECTING THE 2010/11 ORIGINAL BUDGET ONLY

Priority 1 Cost Pressures – (£0.199m)

In addition to the effect already being experienced in 2009/10 against a number of cost pressures identified for 2010/11 as previously mentioned, a number of changes have been identified for 2010/11 during the Financial Strategy and budget setting process. The following adjustments have now been included against the 2010/11 budgets:

- **LeiCo4 Dovercourt Swimming Pool Air Handling Units – (£0.150m)** – This cost pressure has now been removed as the work will now form part of the wider redevelopment work at Dovercourt Swimming Pool that was approved at Full Council on 1 December 2009.
- **CPR01 / CPC01 Disaster Recovery Costs – (£0.050m)** – Following Cabinet considering at their 30 September 2009 meeting a report setting out the Council's disaster recovery arrangements, their associated decisions result in reductions of **£0.010m** and **£0.040m** in the cost pressures CPR01 (Liberata contract costs) and CPC01 (Technology Disaster Recovery Improvements) respectively.
- **TPR01 / TPR10 Loss of Rental Income from Walton and Manningtree Markets – (£0.014m)** – Following recent rent reviews, the reduction in income is lower than first anticipated.
- **PlanR03 Development Control Income - £0.015m** – Following the on-going monitoring of the position relating to Development control income, it has been necessary to further increase the cost pressure by **£0.015** to **£0.065m** to reflect the anticipated position in 2010/11 which is set against the background of a continuing and challenging property market and economic climate.

Inflation Adjustment – (£0.005m)

During the budget setting process a number of minor inflationary adjustments have been required to reflect the most up to date position.

CURRENT POSITION – OTHER SIGNIFICANT ITEMS

Local Government Finance Settlement 2010/11 and beyond

The provisional 2010/11 settlement, the last year of the Governments three year settlements within the Comprehensive Spending Review Framework, was announced on 26 November 2009 and is included in the budgets presented in this report. This provisional settlement is subject to a consultation process before final figures are announced early in 2010. Further details around the Local Government Finance Settlement in 2010/11 and beyond are included in the Revised Financial Strategy presented earlier on the agenda.

External Contributions / Grants

In some cases amounts receivable have not yet been confirmed so for the purpose of setting the budget, estimated amounts have been included where appropriate e.g. Benefits Administration Grant. As grants and contributions are confirmed later in the budget process they will be included and reported accordingly.

Fees and Charges

Each year the Council's fees and charges are reviewed by each service. The proposals are set out in the attached draft budget book.

Unless subject to statutory requirements the overall proposed increases are in line with the Financial Strategy which was based on an inflationary requirement of 2.0% (subject to rounding requirements where necessary)

However it is recognised that fees and charges may be subject to alternative adjustments to meet specific aims or strategic objectives or in some cases in response to external factors such as market forces.

Significant areas where the proposed increases differ to the inflationary requirement are set out below.

- At the request of the relevant Portfolio Holder the following changes have been included:
 - A reduction of £140 per annum (excluding inflation) in respect of the beach hut sites at the Walings following a review of the current level of fees and charges, which included a contribution to required maintenance works. A charge of £140 for the Walings was previously agreed by Council on 24 June 2008 as a surcharge to meet the cost of maintenance, based on the principle that the beach hut owners at this site pay for such works.
 - Car Parks – no increases are proposed for 2010/11 which supports and reflects the impact of the current economic climate
- Building Control – 4% increase – There is a requirement to base the chargeable element of this service on a cost recovery basis. The net cost of this service can vary across years especially in light of the current economic climate for which a relevant cost pressure has been included. Following the annual review process, the level of fees have been adjusted accordingly.
- Car Parks – There is no longer a charge for York Road, Hazelmere Road and Brighton Road Car Parks in accordance with the previous Technical Services Portfolio Holder's decision in May 2009.

The impact of the above on the relevant income budgets has been considered as part of the budget setting process for 2010/11.

Apart from Car Park charges which are shown inclusive of VAT, other charges where necessary are shown exclusive of VAT and the appropriate rate of VAT set out separately. The expectation is that from 1 January 2010 the rate of VAT will revert back to 17.5% in line with the Governments announcement last year when the VAT rate was temporarily reduced to 15%. However if during the year the rate of VAT differs to that currently included, then the level of VAT charged will be adjusted accordingly apart from Car Park charges which are VAT inclusive and any amendments are subject to further requirements.

Collection Fund and Council Tax Base

The anticipated surplus on the collection fund to support the budget in 2009/10 is **£0.160m** compared to **£0.080m** included in the Initial Financial Strategy for 2010/11 and detailed budgets.

This fund continues to take into account the allowance for the discount on second homes.

In respect of the Council Tax base, an additional amount of **£0.023m** has been included for 2010/11 during the budget setting process to reflect the most up to date tax base for the year.

Use of Reserves

The position regarding reserves is set out in full in **Appendix A, Section E**.

For **2009/10** the net use of reserves totals **£5.915m** (**£7.432m** contribution from reserves and **£1.517m** contribution to reserves).

For **2010/11** there is a net use of reserves of **£0.116m** (**£0.209m** contribution from reserves and **£0.093m** contribution to reserves).

Within the use of reserves figures above, **£6.593m** and **£0.101m** for 2009/10 and 2010/11 respectively, relates to the funding of commitments spanning financial years.

Special Expenses

Special expenses calculations will be included in the formal Budget Report to Council on 18 February 2010. This will incorporate any changes to the proposed budgets resulting from any decision in respect of the Revised Financial Strategy presented earlier in the meeting that amend budgets in discretionary areas such as car parks, open spaces, and recreation areas etc.

However, in order to ensure that the Corporate Management Committee have the latest information on special expenses when they consider the Cabinet's budget proposals in January, it is proposed that the Finance Portfolio Holder agrees a report for consultation with them.

County Council, Police, Fire and Town Council / Parish Precepts

There is no information available at this point on the likely level of precepts and their impact on Council Taxes in the District. This information will be available in February 2010.

CURRENT POSITION – CAPITAL PROGRAMME (Including HIP) - 2009/10 REVISED AND 2010/11 ORIGINAL

The proposed detailed Capital Programme is set out in section C of the draft budget book which provides further details for individual schemes. The summarised position is as follows: -

Table B – Summary Capital Programme

	2009/10 Original Budget £m	2009/10 Revised Budget £m	2010/11 Original Budget £m
EXPENDITURE			
Housing Investment Programme	4.462	5.227	4.295
Non Housing GF Programme	2.931	8.574	3.307
Total Expenditure	7.393	13.801	7.602

FINANCING**Housing Investment Programme**

Supported Borrowing	0.688	0.688	0.688
Capital Receipts	0.500	0.717	0.483
Government Grants	0.940	0.784	0.790
Major Repairs Allowance	2.334	2.468	2.334
External Funding	0	0.070	0
S106	0	0.500	0
	4.462	5.227	4.295

Non Housing GF Programme

S106	0.070	0.088	0
Government Grants	0.075	2.597	2.428
External Contributions	1.567	2.907	0.150
Capital Receipts	0.169	0.317	0.150
Earmarked Reserves	0.401	1.855	0.035
Direct Revenue Contributions	0.485	0.646	0.184
Leasing	0.164	0.164	0.360
	2.931	8.574	3.307

Total Financing

7.393	13.801	7.602
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Housing Investment Programme (HIP)

The **£0.765m** increase in the 2009/10 revised expenditure budget compared to the original budget is due to:

- commitments carried forward from 2008/09 - **(£0.351m)**
- a reduction in Private Sector Renovation Grant funding - **£0.156m**
- one-off funding received from the PCT to support the DFG programme - **(£0.070)**
- one-off Local Authority Social Housing Scheme funded from S106 money **(£0.500m)**.

After ignoring carryforwards, the original budget for 2010/11 remains lower than the original 2009/10 budget due to the expectation that the reduction in the Private Sector Renovation Grant highlighted above is likely to continue into 2010/11 and beyond.

The overall level of grant funding currently assumed in the budget has yet to be confirmed. Once final figures are received the HIP programme will be amended and reported to Members accordingly.

The overall housing capital programme is also based on an assumed level of supported borrowing via the Housing Subsidy arrangements which may also be subject to change when final determinations are published later in this financial year.

A significant issue to highlight is that the demand for disabled facilities grants (DFG's) remains high and is unlikely to significantly decline in the foreseeable future. Although grant income is received from the government to support the programme, the current level of funding equates to only approximately 50% of the estimated expenditure. This shortfall is met by capital receipts and by allocating unringfenced grant, initially received to support private sector renewal initiatives, to the DFG programme. The position in the immediate and longer term is compounded by the fact that the level of capital receipts is declining, a trend that is also likely to continue.

Based on the above position, the forecast expenditure budgets for DFG's set out in section

C of the budget book attached as **Appendix A** are significantly lower from 2012/13 onwards when compared to current and historic spend / demand. However it is likely that the programme will need to be considered against the Financial Strategy and budget setting process in future years if, as expected, expenditure / demand cannot be met from within the budgets currently forecast.

Non Housing General Fund Capital Schemes

The **£5.643m** increase in the 2009/10 revised expenditure budget compared to the original budget is primarily due to:

- commitments carried forward from 2008/09 - **£2.864m**
- additional Haven Gateway Funding - **£0.809m**
- additional coast protection work funded by government grant - **£0.989m**
- Dovercourt Swimming Pool redevelopment as approved by Full Council on 1 December 2009- **£0.850m**
- pathfinder bid for coastal change (first year funding from DEFRA) - **£0.221m**
- less schemes carried forward into 2010/11 – **(£0.205m)**

In respect of the 2010/11 programme which includes the carry forwards from 2009/10 as highlighted above, it also includes:

- the Priority 1 Cost pressures proposed in the Revised Financial Strategy - **£0.084**
- on-going IT Core Infrastructure programme - **£0.100m**
- coast protection work funded by Government Grant - **£1.795m**
- further work associated with the Haven Gateway funded Clacton Regeneration Scheme - **£0.150m**
- pathfinder bid for coastal change (second year funding from DEFRA) - **£0.633m**
- rolling Vehicle Replacement funded via leasing arrangements - **£0.360m**

Excluding external grants and contributions, use of earmarked reserves and leasing arrangements, the overall capital programme for 2010/11 relies upon **£0.150m** from capital receipts and **£0.184m** in direct revenue contributions to fully fund the proposed schemes and projects.

ANNUAL MINIMUM REVENUE PROVISION POLICY STATEMENT

Unlike a mortgage where amounts of principle are repaid each month, the borrowing undertaken by this Council is usually repayable on maturity at an agreed future date. To reflect this, the minimum revenue provision (MRP) exists which is a concept whereby an amount is charged to revenue each year in order to meet the future repayment of principle on any borrowing undertaken.

Rules and formulae in respect MRP were amended from 2008, and last year was the first year in which the newly required Annual Minimum Revenue Provision Policy Statement was presented to Members for approval. The Policy Statement is required to be approved by Full Council each year, which links to existing requirements to report other prudential activity and indicators to Full Council for consideration.

The new regulations require Local Authorities to set aside as its annual MRP an amount that it considers to be “prudent” rather than simply applying 4% as was the previous requirement. The aim of the regulations is that the period over which an MRP is calculated closely relates to the life of the asset.

The options applicable in calculating MRP are as follows:

Where Capital Expenditure is Financed by Government Supported Borrowing

- **Regulatory Method** – This is where borrowing is supported by the Government through the revenue support grant and Local Authorities can continue to use the existing approach as set out in the old regulations.
- **Capital Financing Method** – Similar to the above, Local Authorities can continue to set aside 4% of their General Fund capital expenditure financed by borrowing each year as MRP. The difference compared with the regulatory method is that it excludes a transitional adjustment that relates to the regulations that were applicable before the current regulations. As this adjustment does not apply to TDC, the two approaches are essentially the same.

Where Capital Expenditure is Financed by Prudential Borrowing

- **Asset Life Method** – Two alternatives are provided within the guidance. The first is that MRP can be calculated by taking the amount borrowed and dividing it by the associated assets useful life – equal instalment method. The second is based on a more complicated annuity basis although based on the same principle.
- **Depreciation Method** – This requires that an MRP is made in accordance with current rules for depreciation accounting whereby an amount would be charged equal to the annual depreciation of the specific asset which could differ from the previous options given the alternatives for calculating depreciation.

A significant advantage of the asset life method over the depreciation method is that MRP does not have to start until the year the related asset becomes operational which may be different to the year in which depreciation would be charged.

It is important to note that subject to the type of asset acquired there may be a significant impact on the revenue budget, which would need to be taken into account in any future spending / borrowing decisions.

Based on the above, the approach to calculating MRP approved by Full Council last year was that the **Capital Financing Requirement Method** be applied for supported borrowing and the **Asset Life (equal instalment) Method** for prudential borrowing.

Having reviewed the position for 2010/11 as part of the budget setting process, no changes are proposed. Therefore the Annual Minimum Revenue Provision Policy Statement for 2010/11 is as follows:

In accordance with the Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2008, the Council's policy for the calculation of MRP for 2010/11 shall be the Capital Financing Requirement Method for supported borrowing and the Asset Life (equal instalment) Method for prudential borrowing.

Subject to Cabinet's consideration, this will be included as a separate recommendation in the report to Full Council on 18 February 2010 where Cabinet's budget recommendations for 2010/11 will be presented.

STATEMENT OF RECOMMENDED PRACTICE

Each year a Statement of Recommended Practice (SORP) is issued to Local Authorities which provides guidance on the information and presentation required for the Financial Statements the Council publishes each year. Therefore although not directly affecting the overall financial position of the Council, significant changes are proposed from 2010/11 with the introduction of International Financial Reporting Standards (IFRS). Work currently remains on-going, although subject to further guidance becoming available, to ensure the appropriate transition to the new requirements is achieved. When the implications of the new requirements become clearer, budgets may need to be reviewed and budget transfers undertaken to support the realignment of Financial Statements accordingly.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A Draft Budget Book (Including fees and charges, 5 year capital programme) and reserves)