

Key Decision Required	Yes	In the Forward Plan	Yes
-----------------------	-----	---------------------	-----

**CABINET  
5 JANUARY 2007**

**REPORT OF HEAD OF FINANCIAL SERVICES**

**A.2 INITIAL BUDGET PROPOSALS FOR A REVISED BUDGET 2006/07 AND ORIGINAL BUDGET FOR 2007/08**

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

**1.0 PURPOSE OF THE REPORT**

To set out and seek approval of a balanced General Fund Revenue Budget and Capital Programme, including the Housing Investment Programme (HIP), as Cabinet's initial proposals for:

- A Revised Budget for 2006/07
- An Original Budget for 2007/08

**2.0 BACKGROUND**

The original net expenditure budget for 2006/07 was **£19.062m** and after taking account of use of reserves of **£0.080m**, the overall budget requirement totalled **£18.982m**.

The Original Budget for 2007/08 is prepared within a Financial Strategy Framework. This framework was set out in the report "*Initial Financial Forecast and Initial Financial Strategy 2007/08 and Beyond*" which Cabinet considered on 16 August 2006. The detailed budget proposals presented for 2007/08 are therefore consistent with this strategy which has been revised following the detailed budget process and appears earlier in your agenda as a report titled "*Revised Initial Financial Strategy for 2007/08, 2008/09 and Beyond*"

**3.0 BUDGET SUMMARY**

**3.1 General Fund Revenue Summary – 2006/07 Revised and 2007/08 Original**

The Summary of the 2006/07 revised and 2007/08 proposed estimates is shown in the draft **Budget Book (Appendix A, Section E)** 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 and Revised Initial Financial Strategies.

The overall position is summarised as follows in Table A: -

**Table A**

**General Fund Budget**

	2005/06 Actual £000	2006/07 Original £000	2006/07 Revised £000	2007/08 Original £000
Service costs	18,454	20,207	19,572	20,202
Revenue support for capital investment	1,096	1,630	1,383	2,485
Financing items	(3,474)	(2,775)	(2,028)	(1,551)
<b>Net Expenditure</b>	<b>16,076</b>	<b>19,062</b>	<b>18,927</b>	<b>21,136</b>

Contribution to /(from) Uncommitted Reserve	0	0	9	0
Net Use of Earmarked Reserves	589	(80)	46	(1,105)
	<b>16,665</b>	<b>18,982</b>	<b>18,982</b>	<b>20,031</b>
<b>Financed by</b>				
Government Grant – NNDR	4,069	10,273	10,273	10,872
Government Grant - RSG	6,227	1,983	1,983	2,099
Council tax	6,249	6,596	6,596	6,920
Collection fund surplus	120	130	130	140
	<b>16,665</b>	<b>18,982</b>	<b>18,982</b>	<b>20,031</b>

### 3.2 General Fund Revenue – Revised Budget 2006/07

- The decrease in net expenditure between the 2006/07 original and 2006/07 revised budget is **£0.135m**. However this is primarily offset by a net change of **£0.126m** in the use of earmarked reserves with the balance being a small contribution of **£0.009m** to uncommitted reserves within the total overall budget provision of **£18.982m**.

The net change of **£0.126m** for earmarked reserves is made up of the following significant items:

#### **Additional Use of Earmarked Reserves - £1.787m**

- Revenue/capital commitments carried forward from 2005/06 - **£1.757m**
- CCTV capital project - **£0.020m**
- S106 contributions moved from reserves to revenue in accordance with revised accounting guidance - **£0.010m**

#### **Additional contributions to Earmarked Reserves - £1.913m**

- Net contribution from ECC money following the transfer to the Council of the responsibility for the Harwich and Manningtree Joint Use Sports Centres – **£0.043m**
- Balance of Local Authority Business Growth Incentive Scheme money transferred back to the Capital Investment Reserve pending the finalisation of the Councils Priority Capital Schemes with associated expenditure expected in 2007/08 - **£0.489m**
- Ongoing contributions to cremator replacement reserve based on income received from the surcharge on fees and charges for this purpose - **£0.005m**.
- Contribution to earmarked reserves from within the overall revised budget position to support a new Capital Projects Reserve (**£1.200m**) and a Local Development Framework Reserve (**£0.176m**) (further details are provided later on in this report including additional contributions in 2007/08) - **£1.376m**

Additional adjustments have also been made within services for items that are either one-off items affecting 2006/07 only, or recurring items in 2006/07 that also need to be included in the original budget for 2007/08. These are explained in more detail later on in this report.

### 3.3 General Fund Revenue – Original Budget 2007/08

- The increase in net expenditure between the 2006/07 original and proposed budget for 2007/08 is **£2.074m**. After taking into account the net movement in the use of reserves totalling **£1.105m**, the budget requirement for 2007/08 is **£20.031m**. This is fully funded with a council tax increase of 4.9% and the financial settlement forecasted and taken into account in the calculations in the **Revised Initial Financial Strategy**.

Detailed explanations for items such as Priority 1 Growth Items, savings and increased income are included in the **Revised Initial Financial Strategy** 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 Council's Members' book and reference numbers relate to the various sections in the budget book.

Additional information for significant items arising from the estimates process including those identified as recurring from 2006/07 are shown below where information on fees and charges is also provided.

### **3.4 Local Government Finance Settlement 2007/08 and beyond**

Details of the Local Government Finance Settlement for 2007/08 is included in agenda item A1 earlier in your meeting.

### **3.5 Significant Items Arising from the Estimates Process**

As mentioned above there have been changes to service budgets that are either:

- One off items in 2006/07 which affect the revised budget for 2006/07 only.
- Items affecting 2006/07 but are ongoing so also need to be taken into account in the 2007/08 original budget.
- Additional items arising in 2007/08 which have been included in the 2007/08 original budget only, including fees and charges proposals.

The following provides further details of these changes along with any changes in the underspend provisions included in the detailed budgets.

#### **3.5.1 Items Affecting 2006/07 Revised Budget Only**

- **Leisure Facilities Income - £0.021m**  
Reduced income is expected for two of the Council's leisure facilities due to temporary closures to allow for major repair works and usage projections not being achieved. However this situation is being monitored and with small inflationary fee increases along with other initiatives it is anticipated that current income budgets will be achieved in future years.
- **Beach Hut Income and Expenditure – (£0.020m)**  
Increased income of (£0.035m) expected to be received from beach hut licence fees over that budgeted, although offset by £0.015m for essential repairs to beach hut sites.
- **Other Leisure Budgets – (£0.015m)**  
Additional rental income has been received on an asset currently being disposed of as chargeable periods remained in the year whilst the sale process was being finalised along with income received relating to previous years for seafront activities. This has been partly offset by increased building repairs costs to seafront activities budgets.
- **Land Charges Fee Income (£0.050m)**  
Additional fee income is expected to be received in 2006/07 from users of this service. However this service will be subject to a revised cost and charging framework currently the subject of a joint initiative between the Office of Fair Trading and the Department of Trade and Industry. Indications are that there may be additional controls around the level of charges made for the service and the ability to recover more than the services expenditure. Therefore pending the outcome of this initiative it is not proposed to reflect this current level of additional income in the 2007/08 budgets. This Government initiative will also

require a review during 2007/08 of the cost of the land charges function especially the level of service unit recharges made to the service.

- **Council Tax on Second Homes – (£0.020m)**  
Under the terms of an agreement with Essex County Council, 60% of income received on second homes can be retained by this Council. The forecast until the end of the financial year indicates that this will generate an additional amount of income for the Council to reflect actual Council Tax levels for 2006/07.

### **3.5.2 Significant Items affecting both the 2006/07 Revised and 2007/08 Original Budgets**

An explanation of each item and the effect in 2006/07 and 2007/08 is as follows:

- **Financial Strategy Items – Expanded 2007/08 One-Off Priority Growth Items**

**2006/07 £1.376m                      2007/08 £1.323m**

The aggregate funding of these items is from within the overall budget positions for 2006/07 and 2007/08 and are summarised in Appendix C. As previously mentioned, detailed explanations for these items totalling **£2.699m** across both years are included in the Revised Initial Financial Strategy presented earlier on the agenda. These figures include the following two items affecting reserves:

***Contribution to Earmarked Reserves - Capital Projects Reserve***

***2006/07 £1.200m                      2007/08 £0.200m***

As mentioned above a contribution to a Capital Projects Reserve has been included from within the overall revised budget position for 2006/07 and 2007/08 to provide £1.200m in order to fund any additional cost or modules that members may wish to include in e.g. the Council's priority capital projects such as Lifestyles as well as preliminary costs associated with the development of any new capital projects which the Council may wish to pursue. A further £0.200m for major works associated with beach hut staging at the Leas has also been included resulting in a reserve totalling £1.400m from the contributions for both years.

***Contribution to Earmarked Reserves – Local Development Framework Reserve***

***2006/07 £0.176m                      2007/08 £0.81m***

As previously mentioned a contribution to a Local Development Framework Reserve has been included from within the overall budget positions for 2006/07 and 2007/08 to support the revised responsibility of the Council for this significant planning process. The reserve totals **£0.257m** from the contributions for both years.

- **Local Authority Business Growth Incentive Scheme**  
**2006/07 (£0.700m)                      2007/08 (£0.400m)**  
This Central Government Initiative continues for 2006/07 and 2007/08 where Local Authorities directly share the increased National Non Domestic income growth in their region above a specific base level. This has resulted in significant



- **Clacton Leisure Centre Income**  
**2006/07 £0.044m**                      **2007/08 £0.044m**  
 Estimated income has been reduced to remove historic unrealised income.

### **3.5.3 Underspend Provisions 2006/07 and 2007/08**

The original budget for 2006/07 included underspend provisions totalling **£0.725m** (made up of **£0.475m** for vacancies and **£0.250m** for general underspending). Significant underspends on salaries have been achieved to date reducing the overall requirement for the remainder of the year to **£0.200m**. Along with the general underspending provision mentioned above, a total of **£0.450m** remains in the revised budget for 2006/07 to be achieved by the end of the financial year. As a significant level of ongoing savings in respect of salaries has been achieved and subsequently directly reflected in the salaries budgets, an overall reduced vacancy provision of **£0.387m** has been included in the 2007/08 estimates, a reduction of **£0.088m** compared to 2006/07. Further savings totalling **£0.070m** from 'frozen' posts resulting from the considerations of the workforce planning panel have already been identified to offset this overall vacancy provision estimate in 2007/08.

### **3.5.4 Items that have been included in the 2007/08 Original Budget Only**

Although a number of changes have been identified as ongoing from the revised estimates process for 2006/07 as identified above, the following are items that have been included from 2007/08 onwards:

- **Financial Strategy Items - Priority 1 Growth Items Removed – (£0.181m)**  
 As previously mentioned, detailed explanations for these items are included in the Revised Initial Financial Strategy presented earlier on the agenda.

- **Salary Related Estimates - £0.054m**  
 On completion of the detailed salary estimates it was identified that there was a reduction in costs of (**£0.084m**) compared with the base budget and inflation and increment allowance included in the Initial Financial Strategy. This has been primarily due to including in the budget the savings arising from the on-going manpower initiatives review along with the removal of a small contribution from the job evaluation reserve which is no longer required to support the budget.

However offsetting this is a provision for a 2.95% pay award based on current Human Resources predictions, which is 0.45% higher than the allowance originally built into the Initial Financial Strategy. Along with a further allowance for increased staff costs in 2007/08 based around a review of succession planning, recruitment and retention, a total additional funding requirement of **£0.138m** has been included in the budget.

- **Planning Delivery Grant – (£0.092m)**  
 Additional planning delivery grant of (**£0.190m**) is expected over and above the (**£0.200m**) already included in the Initial Financial Strategy. Offsetting this in the revenue account is a contribution to the capital programme of **£0.098m** which is required as per the agreement associated with the grant funding.
- **PACE Centre – (£0.080m)**  
 Following a revised agreement reached with the Lessor of the centre, capital resources previously allocated to the PACE Centre are no longer required at the originally anticipated level. Therefore it has enabled a reallocation of resources in the overall capital programme resulting in a lower contribution from general fund revenue to fully fund the 2007/08 capital programme.
- **Westcliff Theatre Grant – (£0.020m)**  
 In accordance with the Cabinet's decisions of 6 September 2006, a reduction in the level of grant funded support to the theatre has been reflected in the

2007/08 budget, being the first phase of a transitional reduction in grant funding over three years.

- **Rural Sewerage Schemes – (£0.081m)**  
Responsibility for these schemes were transferred back to Anglian Water several years ago under transitional arrangements whereby contributions were still required to be made by this Council for a twelve year period. This transitional period finishes in 2006/07 for one of the two remaining schemes resulting in reduced contributions in 2007/08.
- **Service Improvement Budget – £0.070m**  
The overall budgeted position has allowed a service improvement budget to be maintained for 2007/08 which has been a valuable mechanism to meet and support costs associated with priorities and improvements within the Council.
- **Efficiencies -** As part of the Gershon efficiencies framework a number of items such as savings from contracts and restructures have been included which have been mainstreamed into the overall changes identified during the budget process.
- **Other Budget Adjustments - £0.101m**  
Various other adjustments have been made to the 2007/08 budget including changes in the level of internal recharges (**£0.027m**), on-going impact of Members allowances (**£0.019m**), loss of rental income on Dovercourt market site (**£0.015m**), savings from cash office closures not realised (**£0.032m**) and other net minor changes arising from the estimates process (**£0.008m**).

### **3.5.5 Fees and Charges**

Each year the Council's fees and charges are reviewed for each service. The proposals are set out in sections C and D of the draft budget book.

Section D of the draft budget book details all those fees and charges that are either delegated to officers to enable amendments during the year or are statutory fees.

Unless subject to statutory requirements the proposed increases are in line with the Financial Strategy which requires:

- A general 2.5% inflationary increase on all fees and charges (subject to rounding requirements where necessary and statutory fees)

In previous years some fees and charges were subject to increases in excess of the inflationary requirement to either meet savings / increased income targets or to meet the managed responses for growth bids that have not been included in the Revised Initial Financial Strategy. Alternatively and in limited cases some fees and charges may not be increased if external factors such as market forces are deemed to have a possible adverse impact on the overall level of income achievable.

For 2007/08 the proposed beach hut fees for the Walings in Frinton have been increased to support the costs of the replacement of wooden supporting structures at the sites.

## **3.6 Use of Reserves**

The position regarding reserves is set out in full in **Appendix B**. This shows a net use of earmarked reserves of **£1.105m** for 2007/08 which includes the contributions of **£0.200m** to the new Capital Projects Reserve and **£0.081m** to the new Local Development Framework Reserve as previously mentioned.

### 3.7 Collection Fund

The anticipated surplus on the collection fund to support the budget for 2007/08 is **£0.140m**. This continues to take into account the allowance for the discount on second homes and long-term empty properties. A reduction of **£0.010m** has been taken into account for exempt properties subject to planning restrictions which is in line with the Revised Initial Financial Strategy.

### 3.8 Special Expenses

Special expenses calculations will be included in the formal Budget Report to Council on 15 February 2007. This will incorporate any changes to the proposed budgets resulting from any decision in respect of the financial strategy earlier in your meeting (agenda item A1) to 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.

### 3.9 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 2007.

## 4.0 Capital Programme Summary (including Housing Investment Programme (HIPS))

4.1 The proposed detailed Capital Programme is set out in section F of the draft budget book. The summarised position is as follows: -

**Table B – Summary Capital Programme**

	<b>2006/07 Revised Budget £000</b>	<b>2007/08 Original Budget £000</b>
<b>EXPENDITURE</b>		
Housing Investment Programme	4,356	4,168
Other Programmes	3,058	5,582
<b>Total Expenditure</b>	<b>7,414</b>	<b>9,750</b>
<b>FINANCING</b>		
<b>Housing Investment Programme</b>		
Borrowing	639	639
Capital receipts	1,007	625
Government grants etc	580	774
Major Repairs Allowance	2,130	2,130
	<b>4,356</b>	<b>4,168</b>
<b>Other Programmes</b>		
Borrowing	94	2,343
Government grants etc	583	0
External Contributions	233	309
Capital receipts from sale of assets	489	390
Reserves and Revenue Contributions	1,383	2,485
Leasing	276	55
	<b>3,058</b>	<b>5,582</b>
<b>Total Financing</b>	<b>7,414</b>	<b>9,750</b>

A significant element of the borrowing of **£2.343m** is to support the expenditure associated with the Council Priority Capital Schemes. Although expenditure may be incurred across 2006/07 and 2007/08, the most significant amount of spend is anticipated to be incurred in 2007/08. The full revenue cost of this borrowing has been built into the General Fund Revenue Budget for 2007/08 subject to the achievement of capital receipts of **£2.000m**.

The funding of the capital programme still relies on ongoing funding of at least **£0.220m** per annum from capital receipts. To mitigate the fact that a lower level of receipts may be received or delayed a capital investment reserve totalling **£0.220m** which was set up in 2004/05 will be maintained.

The change in the use of reserves and revenue contributions is primarily due to the timing of scheme expenditure across financial years, with the anticipation of some schemes being finalised in 2007/08 and supported by funding carried forward via earmarked reserves from 2006/07.

#### **4.2 Housing Investment Programme (HIP)**

The most significant element of the HIP continues to be the stock improvements programme especially with the need to deliver decent homes within the required timescales and guidance and in accordance with the approved option appraisal.

In respect of disabled facilities grants, amounts allocated to individual councils are at the discretion of GO East. Following proposals and financial modelling undertaken by GO East, the overall level of funding to be made available to the Council in 2007/08 has increased by **£0.194m** to **£0.445m**. This will however still remain significantly less than our forecasted expenditure resulting in pressure remaining on the Council's capital receipts to fully fund the DFG programme. However work has been undertaken during the budget process to plan for the medium to longer term and it is anticipated that the current levels of DFG expenditure are sustainable within the constraints of funding from GO East although this will be subject to review and monitoring during future financial years.

The HIP is also supported by government funding to assist in the delivery of decent homes in the private sector. It is anticipated that funding for 2007/08 will remain at the 2006/07 level although the final figure may not be available until early in the new year.

The proposed capital programme is also based on an assumed level of supported borrowing via the Housing Subsidy arrangements which is subject to change when final announcements are made later on in the financial year.

#### **4.3 General Fund Capital Schemes**

##### **4.3.1 Capital Priority Schemes**

As mentioned above the level of borrowing included in the capital programme is primarily to support the Councils Priority Capital Schemes pending key asset disposals, with significant expenditure likely to be incurred in 2007/08.

##### **4.3.2 Kirby Pavilion**

This scheme has now been included in the capital programme for 2007/08 following the identification of external funding. Football Foundation funding has now been made available to compliment contributions from Frinton and Walton Town Council, Kirby Playing Field Association and money received from the Council's insurers following the loss of the previous building by fire.

#### **4.3.3 Financial Strategy Items - Priority Growth Items - £1.006m**

Included in the budgets are the Capital Priority 1 Growth Items set out in more detail in the Revised Initial Financial Strategy presented earlier on in the agenda with further details shown in Appendix C to this report.

### **5.0 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 for 2006/07 and 2007/08 which are likely to require budgets to be moved to ensure the requirements of the SORP are readily available during the closure of accounts process and subsequent production of the Statement of Accounts. When the implications of the new guidance are finalised, budgets will be reviewed accordingly.

A significant change that has been implemented to date and reflected in the budgets is in respect of Capital Charges. This is a notional charge made to services and has historically been made up of depreciation and notional interest. However from 2006/07 onwards there is no longer the requirement to charge the notional interest element and so this has resulted in significantly reduced capital charges made to services within the proposed budget figures.

### **6.0 IMPLICATIONS**

#### **6.1 Corporate Strategy and Community Strategy**

Careful planning to ensure financial stability underpins the Council's capacity to achieve the objectives set out in its strategies. Individual elements of the strategies and consequent budget proposals are risk assessed against the aspirations of the Council, as well as statutory service requirements. The approach for 2007/08 builds on previous successful financial planning and is key to the Council's aim to be a modern, healthy and well managed organisation.

#### **6.2 Financial**

All financial information is set out in this report and its Appendices.

#### **6.3 Legal**

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

#### **6.4 Crime and Disorder**

Specific budgets supporting the Council's crime and disorder activities are included within Section E of Appendix A.

#### **6.5 Equality and Diversity**

Although there are no direct equality and diversity issues, the overall Financial Strategy and budget process aims to recognise and include in its financial decision making process any such issues where appropriate and relevant within the Council's wider Financial Framework.

### **7.0 CONCLUSION**

The General Fund Revenue and Capital budgets for 2006/07 (revised) and 2007/08 (original) set out the detailed estimates in accordance with the Council's Revised Initial Financial Strategy, including fees and charges, use of reserves and a fully funded capital programme.

**8.0 RECOMMENDED**

- a) That subject to the Cabinet's agreement of the Revised Initial Financial Strategy earlier in this meeting, the Cabinet requests the Corporate Management Committee's comments on these initial budget proposals.
- b) That subject to a) the Finance Portfolio Holder agrees the special expenses report and requests the Corporate Management Committee's comments.
- c) That all future expenditure in 2006/07 be in line with the proposed revised budget set out in Appendix A, subject to final approval by Council on 15 February 2007, and that the corporate financial system is amended accordingly to reflect these changes along with any amendments arising from the new SORP requirements.

**KAREN NEATH**  
**HEAD OF FINANCIAL SERVICES**

## **List of Appendices**

- |                   |                                                                                         |
|-------------------|-----------------------------------------------------------------------------------------|
| <b>Appendix A</b> | <b>Draft Budget Book (Including fees and charges and 5 year capital programme)</b>      |
| <b>Appendix B</b> | <b>Forecast of Reserves at 31<sup>st</sup> March 2007 and Forecast Usage in 2007/08</b> |
| <b>Appendix C</b> | <b>Expanded 2007/08 One-Off Priority Growth Items</b>                                   |

**CABINET  
5 JANUARY 2007**

**BACKGROUND PAPERS LIST FOR REPORT OF  
HEAD OF FINANCIAL SERVICES**

**A.2 INITIAL BUDGET PROPOSALS FOR REVISED BUDGET 2006/07 AND ORIGINAL  
BUDGET FOR 2007/08**

Working papers held in Financial Services