

# Item 3

## **REPORT TO HEALTHY BOROUGH WITH STRONG COMMUNITIES OVERVIEW AND SCRUTINY COMMITTEE**

**23rd JANUARY 2008**

## **REPORT OF DIRECTOR OF RESOURCES**

### **Portfolios: HEALTHY BOROUGH WITH STRONG COMMUNITIES**

#### **BUDGET FRAMEWORK 2008/09**

#### **1. SUMMARY**

- 1.1 Cabinet approved the Budget Framework for 2008/09 at its meeting on the 10th January 2008 and recommended that the Budgets are now consulted upon in accordance with the timetable previously approved by Cabinet on the 20<sup>th</sup> December 2007.
- 1.2 This report therefore sets out for consultation, the proposed 2008/2009 Revenue and Capital Budgets for the Strategic Leadership Portfolio, which falls under the responsibility of the Strategic Leadership Overview and Scrutiny Committee.
- 1.3 The Budgets have been developed after taking into account the Government's proposed settlements in relation to Revenue Support Grant (RSG), Housing Subsidy and Capital Allocations, proposed use of balances and the proposed increase in the Borough Council Tax.
- 1.4 Detailed account has also been taken of the Council's Medium Term Financial Plan (MTFP), which sets out the framework for developing annual revenue and capital budgets over the medium term.
- 1.5 In overall terms, the Budget Framework for 2008/09 maintains service delivery in key priority areas in accordance with the approved Corporate Plan and Transition Plan. Efficiency savings and re-engineering of existing service delivery will enable some changes to occur and keep the level of Council Tax increase to only 3%, whilst at the same time proposes to maintain an overall capital programme of £20 million.

#### **2. RECOMMENDATION**

- 2.1 That this Overview and Scrutiny Committee provide feedback to Cabinet on the proposed Budget Framework for 2008/2009 in respect of those services within the Healthy Borough with Strong Communities Portfolio's.

### 3 BUDGET FRAMEWORK 2008/2009

3.1 The Government's proposed settlements in relation to the following key components of the 2008/09 budget have now been received, although allocations through the Regional Housing Board are still to be announced:-

Spending Area

Government Settlements

*General Fund Services  
Housing Revenue Account  
Capital Spending Programmes*

*Local Government Finance Settlement  
Housing Subsidy Determinations  
Supported Capital Allocations*

3.2 Management Team has carefully assessed the implications of the settlements and has examined all main spending areas particularly to consider:-

- The balance between spending on statutory services and discretionary services.
- The allocation of resources between priorities to achieve our strategic goals and performance targets.
- The needs of the public as expressed in previous consultation exercises, particularly through previous Council Tax Focus Group meetings.
- The balance between spending and taxation/rent levels.
- The sustainability of the Budget Framework in relation to its dependency both on the receipt of large sums of money from the disposal of land and external time limited grant funding streams.
- The impact of efficiency savings achieved and the overall need to demonstrate that value for money principles have been applied

3.3 The Council has been provisionally notified that it will receive £9,971,348 of external Government support for 2008/09. The grant system now focuses more on grant distribution and not on national measures of spending and council tax. The system consists of four separate funding elements unchanged for 2008/09 as detailed below:-

- *Relative needs amount (based on amount per head adjusted to reflect local circumstances including deprivation and area costs).*
- *Resource amount (to take account of different capacities to raise council tax).*
- *Central allocation amount (allocated on a per head basis).*
- *Floor damping amount (to help ensure all authorities receive a minimum increase in grant).*

- 3.4 Although the latest Government Finance settlements are regarded as the worst in the last 10 years, by some commentators, it was broadly in line with expectations following the Comprehensive Spending Review (CSR) 2007 announcement by the Government in October 2007.
- 3.5 Generally Shire Districts received the lowest increase for any type of authority [the grant floors being the lowest since their introduction] less than half of all Shire Districts in the country had had an increase in excess of the absolute minimum 1% floor increase for 2008/09.
- 3.6 The grant settlement for Sedgefield Borough shows a year on year cash increase in grant of 1.98% or £190,065 including the base adjustments in accordance with the distribution framework. As well as being a harsh settlement it also falls well short of meeting the financial pressures facing the Council, particularly in the area of pay related costs. The settlement due on 1<sup>st</sup> April 2008 has not yet been agreed, but an assumed 2.5% increase has been built into the budgets. Furthermore an Actuarial revaluation of the Pension Fund has recently been completed and though the final outcome has still to be notified, the County Treasurer is advising that employer's contributions are expected to increase by an additional 1% of the cost of employee's contributions during 2008/09.
- 3.7 In addition a number of initiatives designed to build and maintain strong cohesive communities in order to tackle deprivation and social exclusion have relied on external finance streams many of which draw to a close by March 2008. Account has therefore had to be made of the fall out of grant / support in these important areas. As part of the changes brought about under CSR07 the Government has introduced a range of Area Based Grants. One of these grants, the Working Neighbourhood Fund replaces the Neighbourhood Renewals Fund and some of this funding will be applied where on-going schemes meet the criteria of the new Fund.
- 3.8 Whilst fuel price inflation significantly added to the Council's costs [particularly in the areas of high-energy use e.g. leisure centres.] during 2007/08 contract prices have over the last few months seen a downturn in prices. However more recently commentators are now predicting a further round of price increases of up to 15%, which have been factored into the Budgets.
- 3.9 Arrangements are being made with Durham County Council to use their energy management team to manage and monitor energy and water consumption across this Council's property portfolio. Their design services group will also undertake a detailed survey of each of the main buildings and identify specific opportunities for plant efficiency improvements.
- 3.10 The Budget Framework for 2008/09 has been prepared to take into account the above financial issues and pressures and to reflect the Council's key priorities set out in the Corporate and Transition Plans. The key changes can be summarised as follows:-

## **All Portfolios**

### **Revenue Budgets**

- 3.11 The budget has been prepared on an outturn basis which means that the Contingency sum has been eliminated. If during the year unforeseen issues arise they will have to be met from efficiency savings within the relevant Portfolio area to avoid Balances having to be used.
- 3.12 It is expected that the Budgetary Control reports now being considered by Cabinet on a regular basis may identify whether any savings in any Portfolio area could be used to meet any urgent additional unexpected demands on the Council's resources.
- 3.13 The provision for savings arising from staff turnover has been increased to reflect the current position.
- 3.14 This will be the last budget round for this Council to determine before local government in County Durham is re-organised from April 2009. The budget has been prepared on the basis of business as usual but with growth in service provision restricted to essential areas only and where these would not be to the detriment of the new authority arrangements.
- 3.15 Although several other requests have been made to enhance service provision they have been excluded from the budget framework as the shortage of funds do not permit their inclusion. However, it is proposed that subject to funds becoming available during the year the excluded items may be allowed to commence but on a prioritised and considered basis and subject to Cabinet approval.
- 3.16 The annual efficiency targets set by central government are no longer required from 2008/09 resulting in no formal requirement to identify and report cashable and non-cashable savings. They have been replaced with a single efficiency indicator full details of which are still being clarified. The 2008/09 budget framework has been prepared on the basis of identifying efficiencies during the initial preparation of spending forecasts in order that a workable but affordable budget is prepared. The government's revenue support grant settlement assumes cash releasing efficiency savings of 3% will be achieved.
- 3.17 It will be noted that efficiency savings amounting to £169,840 have been identified within the Healthy Borough with Strong Communities portfolio budgets and have helped to offset the £927,760 unavoidable growth in these General Fund services.
- 3.18 In addition to the features set out above, the detailed budgets have been prepared on the following basis: -
- 4.5% anticipated savings from staff turnover.
  - Increase in fees and charges of 3% on average.
  - Allowances for inflation have been restricted to the following areas of spending:-
    - *Salaries and wages*
    - *Business rates*
    - *Utilities costs i.e. gas, water, electricity and telephones*
    - *Other unavoidable costs which are of a contractual nature*

- 3.19 Details of the Council's overall General Fund Revenue Budget, are attached at Appendix 1. An explanatory note is attached at Appendix 2 that provides a definition of the various terms used in the budget documents. The detailed budgets in respect of the services within the Healthy Borough with Strong Communities Portfolio's are also attached at Appendices 3 to 7.

## **Healthy Borough with Strong Communities Revenue Budgets**

### **Culture & Leisure**

- 3.20 In accordance with the MTFP this portfolio has, in the main only been provided with an inflationary increase.
- 3.21 There has been no growth allowed within the budget provision to enhance service provision any further. However during 2007/08 significant works have been carried out at **Newton Aycliffe Leisure Centre** to upgrade the Lifestyle fitness suite in conjunction with Competition Line, this has allowed a review of operating arrangements to be made and some efficiency savings have therefore been factored into the budgets. This redevelopment should generate additional income to the Council. Similar developments are planned for **Spennymoor Leisure Centre** during 2008/09
- 3.22 The Council will continue to work with and **support voluntary organisations** throughout the Borough whose work reflects the aim of getting more people physically active

### **Community Health**

- 3.23 Whilst this budget area is relatively small compared with the other Portfolio's it contributes specifically to **the Pioneering Care Partnership** and **Carelink Club** both of which provide a range of services to some of the most vulnerable people in our Borough
- 3.24 The budget also provides for the **SHARP project** providing a first point of contact for vulnerable households requiring crisis intervention.

### **Safer Communities**

- 3.25 The Council recognises the importance of contributing to our **community's safety** through a range of direct service provision and by acting in partnership with other organisations through the Community Safety Partnership. During 2007 the service was subject to a major service review and the 2008/09 budget will enable the Council to sustain current service levels and to make improvements based on the outcomes of the review.
- 3.26 External grant funding from a variety of sources is integral to the services this portfolio provides. The 2008/09 budget assumes that neighbourhood renewals funding finishes and grant through the Local Area Agreement for Safer Stronger Communities Funds are maintained at existing levels. The LAA Board has not yet determined grant allocations for 2008/09 and service provision may need to be reviewed if lower than expected allocations are announced.

## Private Sector Housing

- 3.27 The renaissance of our priority areas of Dean Bank, Ferryhill Station & Chilton West was subject to a **Master Plan** approved by Cabinet in July 2006. Work on Phase 1 is well underway with significant numbers of the effected properties being repurchased and a substantial provision has been made within the 2008/09 Capital Programme to reflect this.

## Revenue Services Summary

- 3.28 Careful planning of the budget means that the commitment made in the MTFP to restrict council tax increases to 3.0% can be delivered in 2008/09. The investment in Council services will add only £5.58 per year or 11p per week to the Band D Tax. The cost to the Band A taxpayer will be £3.72 per year or 7p per week.

## 4.0 Capital Programme

- 4.1 The Council's capital programme budget is funded from a combination of government grants such as the Major Repairs Allowance for Decent Homes expenditure and SHIP grant for private sector housing renewal, use of capital receipts from the sale of land and property and the use of revenue contributions from the HRA and Council balances. The Council currently has significant capital receipts available from housing land sales and these are available to fund major regeneration and affordable housing initiatives. The realisation of other receipts is required to fund the full proposed capital programme and these are still in the latter stages of completion.
- 4.2 The Medium Term Financial Plan and the Transition Plan has allowed for a Capital Programme of £20m to be maintained in 2008/09, subject to resources being available. The larger elements of this were outlined in the Transition Plan and are shown in the table below, and a contingency sum of £2.5m has provisionally been identified to meet other Corporate Projects such as the funding of planned maintenance of public buildings in accordance with asset management plans, LIP funding and the replacement of obsolete ICT equipment. These schemes will be assessed and prioritised when funding becomes available and Cabinet approval will be sought at a future meeting subject to the availability of resources.
- 4.3 Grant funding from various sources may assist some Capital schemes and, where this is the case, the grant will be fully additional to the resources available from the Council.

### PROPOSED CAPITAL TARGET SPENDING LIMITS

	<u>£000</u>
<b>Housing Revenue Account</b>	7,700
<b>Transition Projects</b>	
Regeneration Trust – Housing Market Renewal	6,000
Construction and Skills Centre	2,500
Redevelopment of Spennymoor Town Centre [Arts Resource Centre]	1,300
<b>Other Corporate Projects</b>	2,500
<b>Total Programme</b>	<u><u>20,000</u></u>

## PROGRAMME FUNDED BY: -

	Housing	General	Total
	<u>£000</u>	<u>Fund</u> <u>£000</u>	<u>£000</u>
Major Repairs Allowance	5,540	-	5,540
Private Sector Renewal*	-	1,250	1,250
Revenue Contributions from HRA	1,700	-	1,700
Use of Revenue Reserves	-	300	300
Capital Receipts	460	950	1,410
Capital Receipts earmarked for regeneration	-	9,800	9,800
	<b>7,700</b>	<b>12,300</b>	<b>20,000</b>

*Not confirmed yet\**

## 5.0 HOUSING REVENUE ACCOUNT

5.1 The funding of the Council's Housing Revenue Account (HRA) is very much driven by the Government. The Housing Subsidy System provides the resources for the funding of Council Housing throughout the country, via the annual Housing Subsidy Settlement. The Government via its Rent Restructuring methodology also controls the Council's annual rent increases. The Housing Subsidy and Rent Restructuring System have undergone major methodology changes over recent years and this has had a significant impact on the Council's HRA.

### Housing Subsidy

- 5.2 The Government was extremely late in issuing the 2008/09 Subsidy Determinations and the consultation period does not finish until the 9<sup>th</sup> January 2008 with a final announcement promised by the 14<sup>th</sup> January 2008, so whilst allowances and allocations were as advised at the time of writing they may yet be subject to amendment. An update will be provided at the meeting. It is proposed that the rent constraint allowance introduced for 2006/07 and 2007/08 that compensated Councils for the 5% cap on rent increases is to be discontinued.
- 5.3 The 2008/09 Housing Subsidy settlement has left the Council's HRA relatively unchanged. Our spending allowances for Management and Maintenance have increased in excess of inflation by 5.65% [national average increase is 2.95%] and 11.99% [national average increase is 3.67%] respectively. These together with an increase in Guideline Rent Levels of 5.72% has meant that the net Subsidy payable to the Government for redistribution to other local housing authorities will be broadly similar to the current year and is expected to be around £3.27m in 2008/09.
- 5.4 As part of the management allowance a sum of £4 per property has been provided to cover Energy Performance Certificate production amounting to £34,588.
- 5.5 There has been a major shift in government policy towards rent convergence. In contrast with the previous two years' determinations, the Rent Constraint Allowance has been removed. To offset the effects of this, guideline rent increases are lower than expected in 2008/09 and modelled on the basis of rent convergence by 2016/17 **but for one year only and subject to future review**. The impact of these changes for 2008/09 is considered in some detail in the paragraphs 4.8 to 4.12 dealing specifically with the implications of Rent Restructuring.

- 5.6 The cap on rent increases above 5% has been removed for 2008/09 only, whilst the Government considers the future direction of the subsidy system.
- 5.7 The Council's Major Repairs Allowance, which is used to finance the Council Housing Capital Programme, has been increased by 11.45%, which gives a grant figure of £5.541M for 2008/09.

### **Rent Restructuring**

- 5.8 As indicated earlier, the major changes in the methodology relating to rent restructuring implemented in 2006/07 will continue to have a significant impact on the Council's tenants in achieving full convergence with housing association rents by 2017. The Council's rents are currently significantly lower than housing association rents, and this can only mean significant rent increases for most tenants over the next few years.
- 5.9 Under the current methodology very few tenancies are expected to be at target once the rent changes have been applied in 2008/09. The vast majority of tenants face significant rent increases of inflation (currently 3.9%) + 0.5% + £2.00 per week per year for a number of years to come.
- 5.10 As stated in paragraph 4.5 the extension of rent convergence for guideline and limit rents to 2017 is for "one year only". This gives the Council some options for actual rent increases in 2008/09, as the Government has not been prescriptive about what they expect Council's to do.
- 5.11 Whilst the Government has introduced a transitional year on the basis of rent convergence by 2017 as mentioned above, it makes sense for the Council to continue with its present policy of ensuring convergence by 2012 until the Government's position is clarified.
- 5.12 This means in practice that individual rents will rise by slightly more than the previous 5% cap under the formula "inflation +0.5% (i.e.4.4%) +£2.00, the average rent increase is likely to be in the region of 5.6% which in cash terms will see rents increasing on average from £56.25 to £59.40 per week.

### **Communal Heating Charges-Grouped Accommodations**

- 5.13 As Members are already aware, the Council has a responsibility to determine heating charges for tenants in grouped accommodations. The Council has had a very good record over recent years at being able to hold prices to the tenants, however significant increases in both gas and electricity prices meant that it was necessary to increase the charges from April 2006 for the first time in 9 years and increase them again with effect from 1<sup>st</sup> April 2007.
- 5.14 During 2007/08 the Council has continued to monitor the costs of both gas and electricity used in the communal heating schemes and whilst the account is still in deficit energy efficiency measures has seen the projected loss for 2008/09 fall to about £24,000. Although this is a lower than forecasted deficit it is expected that fuel prices will rise again and therefore a 9% increase will need to be applied in 2008/09.



- 5.15 The increase will not fully recover the total deficit if inflation is as expected but close monitoring of usage and price will continue in making every effort to minimise the impact on the tenant
- 5.16 Current charges range between £2.89 for a one-person bed-sit to £13.81 for a two-bedroom bungalow. One change that was introduced last year was to split the charge to the tenants between a contribution to the heating of the communal facilities and the heating of their own property, this change has allowed those tenants in receipt of housing benefit to mitigate some of the increased charges.

### **Housing Partnering**

- 5.17 The Council has recently taken the decision to appoint a strategic partner [Mears] to undertake construction works from February 2008 to January 2013. The value of the contract is estimated to be in the region of £85m and forecasted efficiency savings of around 3% are anticipated which will amount to approximately £2.5m over the period of the contract.
- 5.18 The delivery of an efficient service providing value for money to tenants was a key aspect of the decision to seek a strategic partner. It would help the Council achieve three star status, address issues around a diminishing workload base for staff and meet the challenges the Council faces in meeting the Decent Homes target
- 5.19 As a direct consequence of entering into the strategic partnering arrangements with Mears significant revenue savings have been made in relation to the costs of employing those staff that have TUPE transferred.
- 5.20 It is too early to determine how these savings can be utilised, as there are still a number of financial arrangements to be concluded [i.e. Impact on the pension fund in respect of those employees who opted for early retirement rather than transfer to the new company in accordance with Council policy].
- 5.21 The financial impact of new Housing Health and Safety Ratings (the new fitness standard) and other changes in Government legislation including the energy performance certification scheme, expected new asbestos regulations and the recently introduced Construction Design and Management (CDM) Regulations 2007 are also still unclear at this time.

### **HRA Working Balance**

- 5.22 The current estimates show that it may be possible to transfer in the region of £1.28m to HRA Working Balances. This is considered to be a prudent approach as there are a number of significant issues that remain outstanding including the implementation of Partnering, LSVT preparation and the finalisation of equal pay issues. It is also worth noting that paragraph 4.2 confirms that the Government has still not yet announced the final settlements in respect of Housing Subsidy determinations for 2008/09 and the uncertain financial impact of the new Housing Health and Safety Ratings as shown in paragraph 4.19 above.

- 5.23 Once all issues have been determined the opportunity should arise to increase the current levels of resources set aside for maintenance and capital works whilst at the same time maintaining a working balance in line with the current Medium Term Financial plan.

### **Large Scale Voluntary Transfer of the Housing Stock [LSVT]**

- 5.24 Cabinet considered a report on the 11<sup>th</sup> October 2007 recommending that it would be prudent to revisit the strategic options to consider how the future investment needs of the Council's housing stock could be met whilst ensuring its ongoing effective management.
- 5.25 Council subsequently considered the recommendations on the 26<sup>th</sup> October 2007 and determined that the preferred option for the future ownership and management of the Council's housing stock was to seek the LSVT to a stand alone Registered Social Landlord. The delivery of a successful LSVT requires a significant financial commitment to provide for expert consultant services, staffing resources and other costs in the pre and post ballot phases. The sum of £411,000 has been allocated to cover the costs of the pre ballot process. In the event of a successful transfer these costs and any further post ballot costs will be recovered as set up costs from the Capital Receipt, however if the ballot is unsuccessful then the HRA will only meet those costs associated with consultation that are estimated at £247,000, the General Fund having to meet the balance, and these will be met from revenue reserves.

## **6.0 FINANCIAL IMPLICATIONS**

- 6.1 As the purpose of this report is to seek Overview and Scrutiny's comments on the Budget proposals for these Portfolio services, there are no financial implications to be considered at this stage.

## **7.0 CONSULTATION**

- 7.1 The Council's three Overview and Scrutiny Committees will be consulted as part of the overall Budget process.
- 7.2 The Tenants Housing Services Group and residents Federations will be fully consulted on all aspects relating to the Housing Revenue Account.

## **8.0 OTHER MATERIAL CONSIDERATIONS**

### **8.1 Links to Corporate Objectives/Values**

The timetable has been established to ensure that all appropriate actions are undertaken during the process of determining the 2008/09 budget in that the Council is:

- *Consulting the appropriate representatives of service users, customers and partners;*
- *Being responsible with and accountable for public finances.*
- *Being open, accessible, equitable, fair and responsive to the public.*

## 8.2 Risk Management

If the budget timetable, which includes this opportunity for the Overview and Scrutiny Committees to consider and review the budget framework is not met, the Council could suffer an adverse cash flow in not being able to collect Council Tax from Council Taxpayers from the beginning of the financial year on the 1<sup>st</sup> April 2008. This timetable has therefore been devised to ensure that the appropriate statutory deadline to determine the level of Council Tax can be achieved.

The Budget Framework 2009 has been prepared on a medium risk basis. Account has been taken of some of the significant capital receipts that are expected to materialise during 2008/9 that would lead to additional investment income. Account has also been taken of the loss of external funding streams where appropriate.

The Housing service has been fully reassessed and a three year service improvement plan is now in place. There will need to be a concentrated effort in achieving the Decent Homes Standard by 2010 and this has been addressed in the capital programme budget.

The capital investment provisions set out in this report have been made in the light of known resources and a realistic assessment of capital receipts. As the revenue impact of all programmes has been fully counted for, a low risk approach has been taken.

## 8.3 Health and Safety

No additional implications have been identified.

## 8.4 Equality and Diversity

No Equality and Diversity implications have been identified as the purpose of this report is to identify the timetable for the budget process.

## 8.5 Legal and Constitutional

The appropriate Legal and Constitutional implications have been taken into account in determining the Budget timetable

8.6 No other 'Material Considerations' have been identified.

**Contact Officer:** Alan Smith  
**Telephone No.:** 01388 816166 ext. 7776  
**E-mail:** [alansmith@sedgefield.gov.uk](mailto:alansmith@sedgefield.gov.uk)

**Background Papers:** The Constitution – Part 4 Section C – Budget and Policy Framework Procedure Rules.

**Budget Framework 2008/09 – report to Cabinet 10.01.2008**

## Appendices

**Appendix 1 General Fund Revenue Budget Summary**

**Appendix 2 Explanatory Notes**

**Appendix 3 Culture and Leisure Revenue Budgets 2008/09**

**Appendix 4 Community Health Revenue Budgets 2008/09**

**Appendix 5 Safer Communities Revenue Budgets 2008/09**

**Appendix 6 Housing General Fund Revenue Budgets 2008/09**

**Appendix 7 Housing Revenue Account Budgets 2008/09**

**Examination by Statutory Officers:**

	<b>Yes</b>	<b>Not Applicable</b>
1. The report has been examined by the Council's Head of the Paid Service or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Council's S.151 Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council's Monitoring Officer or his representative.	<input checked="" type="checkbox"/>	<input type="checkbox"/>
4. Management Team has approved the report.	<input checked="" type="checkbox"/>	<input type="checkbox"/>