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22 January 2007

### **S U M M O N S**

**MEETING:** Policy and Organisation Board  
**DATE:** 30 January 2007  
**TIME:** 6.00 p.m.  
**PLACE:** Committee Room 1, Town Hall, Gosport  
**Democratic Services contact:** Chris Wrein



**BOROUGH SOLICITOR**

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### **MEMBERS OF THE BOARD**

The Mayor (Councillor Mrs Cully) (ex-officio)  
Councillor Cully (Chairman)

Councillor Burgess	Councillor Langdon
Councillor Carter	Councillor Smith
Councillor Chegwyn	Councillor Taylor
Councillor Gill	Councillor Wright
Councillor Hook	

### **FIRE PRECAUTIONS**

(To be read from the Chair if members of the public are present)

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- **The Summons, Agenda and accompanying Reports can be provided in large print, on tape, in Braille or in other languages on request**
- If you are in a wheelchair or have difficulty in walking and require access to the Committee Room on the First Floor of the Town Hall for this meeting, assistance can be provided by Town Hall staff on request

If you require any of the services detailed above please ring the Direct Line for the Democratic Services Officer listed on the Summons (first page).

**AGENDA**

**PART A ITEMS**

RECOMMENDED  
MINUTE FORMAT

1. APOLOGIES FOR NON-ATTENDANCE

2. DECLARATIONS OF INTEREST

*All Members present are required to declare, at this point in the meeting or as soon as possible thereafter, any personal or personal and prejudicial interest in any item(s) being considered at this meeting.*

3. DEPUTATIONS – STANDING ORDER 3.5

*(NOTE: The Board is required to receive a deputation(s) on a matter which is before the meeting of the Board provided that notice of the intended deputation and its object shall have been received by the Borough Solicitor by 12 noon on Friday, 26 January 2007. The total time for deputations in favour and against a proposal shall not exceed 10 minutes).*

4. PUBLIC QUESTIONS – STANDING ORDER 3.6

*(NOTE: The Board is required to allow a total of 15 minutes for questions from members of the public on matters within the terms of reference of the Board provided that notice of such Question(s) shall have been submitted to the Borough Solicitor by 12 noon on Friday, 26 January 2007).*

5. TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS

PART I

Contact Officer:  
Peter Wilson  
Ext 5301

6. BOARD BUDGET

PART II

Contact Officer:  
John Norman  
Ext 5316

7. BOARD CROSS-REFERENCES

PART II

(A) COMMUNITY AND ENVIRONMENT BOARD 22 JANUARY  
2007: BOARD BUDGET 2007/08

Contact Officer:  
John Norman  
Ext 5316

(B) HOUSING BOARD 24 JANUARY 2007: HOUSING  
GENERAL FUND BUDGET 2007/8

Contact Officers:  
Julian Bowcher  
Ext 5551/  
Tim Hoskins  
Ext 5322

Policy and Organisation Board  
30 January 2007

8. COUNCIL BUDGET 2007/08

PART I

Contact Officer:  
Peter Wilson  
Ext 5301

9. ANY OTHER ITEMS  
which the Chairman determines should be considered, by reason  
of special circumstances, as a matter of urgency.

<b>Board / Committee</b>	<b>POLICY AND ORGANISATION BOARD</b>
<b>Date of meeting:</b>	<b>30 JANUARY 2007</b>
<b>Title:</b>	<b>TREASURY MANAGEMENT &amp; PRUDENTIAL INDICATORS 2007-2008</b>
<b>Author:</b>	<b>FINANCIAL SERVICES MANAGER</b>
<b>Status:</b>	<b>FOR RECOMMENDATION TO COUNCIL</b>

### **Purpose**

The attached reports cover the operation of the Council's prudential indicators and its treasury function activities for the forthcoming year. The report incorporates the following key Council reporting requirements:

- The reporting of the main prudential indicators in accordance with the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities.
- The treasury strategy for 2007/08 in accordance with the CIPFA Code of Practice on Treasury Management, incorporating the summary to the investment strategy (in accordance with the ODPM investment guidance), it also includes the specific treasury management prudential indicators;

### **Recommendations**

The Board is recommended to consider and approve this report and refer it to Council for formal approval including the prudential indicators and limits within the report and the following specific provisions with immediate effect:

1. The new Investment Strategy.
2. The use of R P Martins as an Authorised Money Broker.
3. Investment counterparties to include UK and Irish Clearing Banks & their wholly-owned subsidiaries and UK Building Societies, subject to Moody's credit ratings of at least P1 (short-term) and A3 (long-term).
4. Investment exposure of no more than £4M with any one institution other than the Council's bank (consolidated total including wholly-owned subsidiaries).

## **1.0 BACKGROUND**

- 1.1 The Local Government Act 2003 in conjunction with the Prudential Code require the Council to consider the affordability of its capital expenditure plans during the annual budget setting process. The Prudential Code operates by the provision of prudential indicators, which highlight particular aspects of capital expenditure planning.
- 1.2 The purpose of the indicators is to provide a framework for capital expenditure decision making. The indicators highlight the level of capital expenditure, the impact on borrowing and investment levels and the overall controls in place to ensure the activity remains affordable, prudent and sustainable.
- 1.3 Within the overall capital funding framework there is a clear impact on the Council's treasury management activity, either through increased borrowing levels or the application of investment balances. As a consequence, the treasury management strategy for 2007/08 is included to set appropriate parameters for expected management activity.
- 1.4 In addition, part of the treasury strategy requirement is the formulation of an investment strategy. Investment guidance issued by the ODPM during March 2004 overlaps into the Code of Practice requirements and the reporting requirements of the ODPM guidance have therefore been incorporated into the treasury management strategy.

## **2.0 CAPITAL EXPENDITURE AND THE CAPITAL FINANCING REQUIREMENT**

- 2.1 Planned capital expenditure will be partially financed by resources such as capital receipts, capital grants, external contributions and deposits. The remaining element which is not able to be immediately financed from other sources will impact on the Council's underlying need to borrow (the Capital Financing Requirement, or CFR). The summary capital expenditure, financing and the impact on the CFR are shown in the table below. This forms one of the required prudential indicators.
- 2.2 A certain level of capital expenditure will be supported by the Government; anything above this level will be unsupported and will need to be financed from the Council's own resources.
- 2.3 The main limiting factor on the Council's ability to undertake unsupported capital expenditure is the availability of revenue resources to support the full implications of capital expenditure, both borrowing costs and running costs. Borrowing costs are currently approximately 9% of expenditure, comprising a minimum revenue provision (principal repayment) of 4% and interest of 5%.

- 2.4 A key risk is that the level of government support has been estimated and is therefore subject to change. Similarly some of the estimates for other sources of funding, such as capital receipts, may also be subject to change over this timescale – right to buy capital receipts, for example, are declining. Additionally, some schemes within the Council’s capital programme require ongoing negotiation with partners and contributors and this may result in changing costs and funding patterns over time.
- 2.5 The Council is asked to approve the capital expenditure projections below which are taken from the draft Capital Programme to be considered as part of the 2007/08 Budget.

	<b>2005/06 Actual £'000</b>	<b>2006/07 Revised £'000</b>	<b>2007/08 Estimate £'000</b>	<b>2008/09 Estimate £'000</b>	<b>2009/10 Estimate £'000</b>
<b>Capital Expenditure - Total</b>	<b>6,815.8</b>	<b>7,703.8</b>	<b>11,168.6</b>	<b>7,407.1</b>	<b>4,629.0</b>
<b>Financed by:</b>					
Capital receipts	2,928.9	1,399.1	745.0	170.0	0.0
Capital grants	2,239.7	2,410.0	2,349.0	2,349.0	2,349.0
Other contributions	774.2	1,599.1	4,510.9	1,648.1	1,018.0
Revenue	51.0	400.0	400.0	400.0	187.0
Total financing	5,993.8	5,808.2	8,004.9	4,567.1	3,554.0
Net financing need	822.0	1,895.6	3,163.7	2,840.0	1,075.0

- 2.6 The net financing need above will impact directly on the Council’s Capital Financing Requirement (CFR). The CFR is the total outstanding capital expenditure, which has not yet been charged against either revenue or capital resources. It is essentially a measure of the Council’s underlying borrowing need for capital purposes i.e. the Council may need to borrow approximately £7 million over the next 3 years to fund new capital expenditure. The Council is asked to approve the following CFR projections:

	2005/06 Actual £'000	2006/07 Revised £'000	2007/08 Estimate £'000	2008/09 Estimate £'000	2009/10 Estimate £'000
<b>Capital Financing Requirement</b>					
CFR – Non Housing	7,363.6	8,436.2	9,540.6	10,660.9	11,310.2
CFR - Housing	(1,231.4)	(431.4)	1,461.6	2,874.6	2,880.6
<b>Total CFR</b>	<b>6,132.2</b>	<b>8,004.8</b>	<b>11,002.2</b>	<b>13,535.5</b>	<b>14,190.8</b>
Net movement in CFR	860.5	1,872.6	2,997.4	2,533.3	655.3
<b>Movement in CFR is represented by</b>					
Net financing need above	822.0	1,895.6	3,163.7	2,840.0	1,075.0
MRP & other financing movements	38.5	(23.0)	(166.3)	(306.7)	(419.7)
<b>Movement in CFR</b>	<b>860.5</b>	<b>1,872.6</b>	<b>2,997.4</b>	<b>2,533.3</b>	<b>655.3</b>

### 3.0 LIMITS TO BORROWING ACTIVITY

3.1 The Council needs to ensure that net external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2007/08 and next two financial years. This allows some flexibility for limited early borrowing for future years.

	2005/06 Actual £'000	2006/07 Revised £'000	2007/08 Estimate £'000	2008/09 Estimate £'000	2009/10 Estimate £'000
Gross Borrowing	8,000.0	9,895.6	13,059.3	15,899.3	16,974.3
Investments	(8,477.0)	(9,000.0)	(7,000.0)	(3,000.0)	(3,000.0)
<b>Net Borrowing (Lending)</b>	<b>(477.0)</b>	<b>895.6</b>	<b>6,059.3</b>	<b>12,899.3</b>	<b>13,974.3</b>
<b>CFR</b>	<b>6,132.2</b>	<b>8,004.8</b>	<b>11,002.2</b>	<b>13,535.5</b>	<b>14,190.8</b>
<b>CFR v Net Borrowing</b>	<b>6,609.2</b>	<b>7,109.3</b>	<b>4,943.0</b>	<b>636.3</b>	<b>216.5</b>

3.2 The Council complied with this prudential indicator in the current year and difficulties are not envisaged for the future. This view takes into account current commitments, existing plans and the proposals in this budget report.

3.3 A further two prudential indicators relate to the overall level of borrowing. These are:

- **The authorised limit** – This is the statutory limit determined under section 3 (1) of the Local Government Act 2003 beyond which borrowing is prohibited. It must be set and revised by members. It reflects the level of borrowing which could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need, including some headroom for unexpected movements.
- **The operational boundary** – This indicator is based on the probable external debt during the course of the year; it is not a limit and actual borrowing could vary around this boundary for short times during the year. It should act as an indicator to ensure the authorised limit is not breached.

3.4 The Council is asked to approve the following authorised and operational limits:

Authorised limit for external debt	2005/06 Actual £'000	2006/07 Revised £'000	2007/08 Estimate £'000	2008/09 Estimate £'000	2009/10 Estimate £'000
Borrowing	9,005.3	10,861.7	14,431.7	16,245.0	16,563.8
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>9,005.3</b>	<b>10,861.7</b>	<b>14,431.7</b>	<b>16,245.0</b>	<b>16,563.8</b>

Operational boundary for external debt	2005/06 Actual £'000	2006/07 Revised £'000	2007/08 Estimate £'000	2008/09 Estimate £'000	2009/10 Estimate £'000
Borrowing	8,132.2	10,004.8	13,002.2	15,535.5	16,190.8
Other long term liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total</b>	<b>8,132.2</b>	<b>10,004.8</b>	<b>13,002.2</b>	<b>15,535.5</b>	<b>16,190.8</b>

#### 4.0 AFFORDABILITY PRUDENTIAL INDICATORS

4.1 The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans. These provide an indication of the impact of the capital investment plans on the overall Council finances. The Council is asked to approve the following indicators:

4.2 **Actual and Estimates of the ratio of financing costs to net revenue stream** – This indicator identifies the trend in the cost of capital (borrowing costs net of investment income) against the net revenue stream.

#### 4.3 Ratio of financing costs to net revenue stream

Ratio of financing costs to net revenue stream	2005/06 Actual £'000	2006/07 Revised £'000	2007/08 Estimate £'000	2008/09 Estimate £'000	2009/10 Estimate £'000
Non-HRA	-1.4%	-2.6%	-1.0%	1.0%	2.5%
HRA	-1.4%	-1.2%	-0.2%	0.9%	1.4%

4.4 The estimates of financing costs include current commitments and the proposals in the budget report. It should be noted that the position is changing from net income to net expenditure.

4.5 **Estimates of the incremental impact of capital investment decisions on the Council Tax** – This indicator identifies the trend in the cost of proposed changes in the three year capital programme recommended in this budget report compared to the Council's existing commitments and current plans. The forward projections are based on the assumptions included in the budget, but will invariably include some areas, such as the level of government support, which is not published over a three year period.

#### 4.6 Incremental impact of capital investment decisions on the Band D Council Tax

	Projected 2007/08	Projected 2008/09	Projected 2009/10
<b>Council Tax - Band D</b>	<b>£8.57</b>	<b>£12.53</b>	<b>£14.96</b>

4.7 **Estimates of the incremental impact of capital investment decisions on Housing Rent levels** – Similar to the Council tax calculation this indicator identifies the trend in the cost of proposed changes in the housing capital programme recommended in this budget report compared to the Council's existing commitments and current plans, expressed as a change in weekly rent levels.

#### 4.8 Incremental impact of capital investment decisions Housing Rent levels

	Projected 2007/08	Projected 2008/09	Projected 2009/10
<b>Weekly Housing Rents</b>	<b>£0.80</b>	<b>£1.32</b>	<b>£1.54</b>

## **5.0 TREASURY MANAGEMENT STRATEGY 2007/08 – 2009/10**

- 5.1 The treasury management service is an important part of the overall financial management of the Council's affairs. Its importance has increased as a result of the freedoms provided by the Prudential Code. Whilst the prudential indicators above consider the affordability and impact of capital expenditure decisions, the treasury service covers the effective funding of these decisions. There are also specific treasury prudential indicators.
- 5.2 The Council's activities are strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management).
- 5.3 An annual strategy is required to be reported to Council outlining the expected treasury activity for the forthcoming 3 years and a further report is produced after the year-end regarding actual activity for the year. This report includes the Treasury Management Strategy for 2007/2008.
- 5.4 A key requirement of this report is to explain the risks associated with the treasury service and how they should be managed.

This strategy covers:

- The current treasury position
  - The expected movement in interest rates
  - The Council's borrowing and debt strategy
  - The Council's investment strategy (in compliance with the ODPM guidance)
  - Treasury performance indicators
- 
- **Treasury Position**

As reflected in the Statement of Accounts for 2005/06, the Council had had a net investment of £0.477 million at 31<sup>st</sup> March 2006.

The money market fund (Global Treasury Funds plc) and Corporate Deposit Account continue to be used to maximise returns on sums that do not warrant by size or need being invested as short or long term investments.

The authority to respond to different interest rates throughout the financial year is delegated to the Borough Treasurer. In his absence the Council's response to short term fluctuations is jointly agreed between any two of the Financial Services Manager, the Head of Accountancy and the Group Accountant

Approved methods of raising finance are:-

- All long-term loans (in excess of 365 days) to be raised through the PWLB, Bond Issue or Loan Receipt (1989 Housing Act).
- All short term loans (less than 365 days) to be raised through dealings on the London Money Markets using
  - o Tradition UK Limited
  - o ICAP
  - o Other brokers at the discretion of the Borough Treasurer.
  - o Directly via the Council's bank

It is proposed to add R P Martins to this list with immediate effect. This will enable the Council to access market information that will help make dealing more efficient and potentially produce direct financial benefits.

During 2006/07, to date the Council been in a net investment position and this expected to continue for the remainder of 2006/07 and during 2007/08.

#### ▪ **Expected Movement in Interest Rates**

Interest Rate uncertainty is set to persist in the year ahead. The threat of higher inflation is considered a real danger for the UK economy in the near term, not least the possibility that the increase in RPI to 4.4% could translate to a buoyant pay round. Whether or not this transpires will remain an open question but regardless of this Monetary Policy Committee will almost certainly err on the side of caution when it comes to setting policy.

The Monetary Policy Committee announced the long-awaited increase in base rates following its August meeting rising from 4.5% to 4.75%. This was followed by further increases in November and January, when Interest Rates rose to the current 5.25% rate. Long-term interest rates will follow an erratic course but are likely to remain under modest upward pressure until the financial markets are convinced that the US interest rate cycle has peaked and the next move in dollar rates is in a downward direction.

#### ▪ **Borrowing and Debt Strategy 2007/08 – 2009/10**

The growing uncertainty over future interest rates increases the risks associated with treasury activity. As a result the Council will take a cautious approach to its treasury strategy.

Long-term fixed interest rates are expected to rise modestly and peak at 5.5 or 5.75%. The Borough Treasurer, under delegated powers, will take the most appropriate form of borrowing depending on the prevailing interest rates at the time, taking into account the risks shown in the forecast above. It is likely that longer term fixed rates will be considered if borrowing levels remain relatively low and rates ease,

although the likelihood is that mainly short term money will be used in 2007/8.

Capital programme funding estimates indicate that the Council may need to borrow additionally for capital purposes in 2007/08 and beyond, as projections indicate that usable Capital receipts are likely to reduce considerably

#### ▪ **Investment Strategy 2007/08**

The main principle governing the Council's investment criteria is the security and liquidity of its investments, although the yield or return on the investment will be a consideration, subject to adequate security and liquidity.

After this main principle the Council will ensure:

- o It has sufficient liquidity in its investments. For this purpose it will adopt procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.
- o It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the Specified and Non-Specified investment sections below.

In the normal course of the council's cash flow operations it is expected that both specified and non specified investments will be utilised for the control of liquidity as both categories allow for short term investments. The Council will maintain the majority of its investments in specified investments.

The use of longer term instruments (greater than one year from inception to repayment) will fall in the non-specified investment category. These instruments will only be used where the council's liquidity requirements are safeguarded. This will also be limited by the investment prudential indicator below.

The approved organisations for investment have been reviewed and should be agreed as follows (with immediate effect):

- UK and Irish Clearing Banks and their wholly-owned subsidiaries\*
- UK Building Societies \*
- Other Local Authorities
- The Bank of England
- Money Market funds and deposit accounts as operated by the Council's bank

\* subject to a minimum credit rating of P1 Short Term, A3 Long Term and a maximum of £4 million (increased from £3 million) with any single borrower other than the Council's bank.

In view of the rates available, current levels of capital receipts/deposits and the planned slow-down in the proposed capital programme, a further 3 £1M investments have recently been placed for 3, 4 & 5 years respectively. This will prolong the benefit that we are gaining from current high interest rates and fits in well with the rest of the portfolio.

This decision anticipates the remaining receipts/deposits due from Priddy's Hard phase 1 due shortly. Unless Priddy's Hard phase 2 produces a change in the situation, it is now very unlikely that we will be in a position to justify any further investments of over 364 days until after 31 March 2008. Accordingly, investments during the remainder of 2006/7 and 2007/8 will be short term (specified), aimed at maintaining liquidity of funds.

In order to limit interest rate exposure all investments are to be fixed rate transactions; the Borough Treasurer is provided with a networked report enabling him to assess performance. The Borough Treasurer, under delegated powers, will undertake the most appropriate form of investments depending on the prevailing interest rates at the time, taking into account the relevant risks

▪ **Treasury Management Prudential Indicators and Limits on Activity**

There are four treasury prudential indicators. The purpose of these prudential indicators is to contain the activity of the treasury function within certain limits, thereby reducing the risk or likelihood of an adverse movement in interest rates or borrowing decisions impacting negatively on the Council's overall financial position. However if these are set to be too restrictive they will impair the opportunities to reduce costs. The indicators are:

- Upper limits on variable rate exposure – This indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments. This indicator is now quoted as an absolute value to aid treasury management.
- Upper limits on fixed rate exposure – Similar to the previous indicator this covers a maximum limit on fixed interest rates. This indicator is also now quoted as an absolute value to aid treasury management
- Maturity structures of borrowing – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are specified as upper and lower limits.

- Total principal funds invested for greater than 364 days – These limits are set to reduce the need for early sale of an investment, and are based on the availability of investments after each year-end. The indicator has been reached in the current financial year and will be exceeded by year end. It has therefore been increased for both 2006/7 and future years.

The Council is asked to approve the following prudential indicators:

	2006/07		2007/08		2008/09	
	Upper		Upper		Upper	
	£'000	£'000	£'000	£'000	£'000	£'000

Limits on activity	Investments	Borrowing	Investments	Borrowing	Investments	Borrowing
Limits on fixed interest rates	(15,000.0)	11,896.0	(13,000.0)	15,059.0	(9,000.0)	17,899.0
Limits on variable interest rates	(8,000.0)	0.0	(8,000.0)	0.0	(8,000.0)	0.0

Maturity Structure of fixed borrowing	(Lower)	(Upper)	(Lower)	(Upper)	(Lower)	(Upper)
Under 12 months	0%	30%	0%	30%	0%	30%
12 months to 2 years	0%	0%	0%	0%	0%	0%
2 years to 5 years	0%	0%	0%	0%	0%	0%
5 years to 10 years	0%	30%	0%	30%	0%	30%
10 years and above	0%	100%	0%	100%	0%	100%

Maximum percentage of principal sums invested for over 364 days	70% (revised from 50%)	80%	90%
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#### ▪ Performance Indicators

The Code of Practice on Treasury Management requires the Council to set performance indicators to assess the adequacy of the treasury function over the year. For the year ahead, it is suggested that we monitor the following areas against these benchmarks

- Number of transactions for borrowing and lending.
- Average rate of interest achieved on investments and paid on borrowing, to be compared with the budgeted rate and the average 7 day rate as the year progresses.

## 6.0 CONCLUSION

6.1 This report considers the financing of the Council's capital expenditure plans and their impact on the capital financing requirement and borrowing limits. The Treasury Management Strategy is detailed. Prudential Code indicators are included throughout.

<b>Financial implications:</b>	As contained in the report.
<b>Legal implications:</b>	The formulation of a plan or strategy for the control of the authority's borrowing, investments or capital expenditure is a function reserved for the Council.
<b>Service Improvement Plan implications:</b>	This report is required in order that to fulfil statutory requirements associated with the achievement of both service improvement plan and corporate plan targets.
<b>Corporate Plan</b>	
<b>Risk Assessment</b>	As contained in the report
<b>Background papers:</b>	Budget working papers
<b>Appendices/Enclosures:</b>	

## Agenda item no 6

<b>Board:</b>	<b>POLICY AND ORGANISATION BOARD</b>
<b>Date of meeting:</b>	<b>30<sup>th</sup> JANUARY 2007</b>
<b>Title:</b>	<b>BOARD BUDGET 2007-2008</b>
<b>Author:</b>	<b>FINANCIAL SERVICES MANAGER</b>
<b>Status:</b>	<b>FOR RECOMMENDATION</b>

### Purpose

The purpose of this report is to consider the Board's revised 2006/07 and 2007/08 budgets, including the Board's fees and charges for 2007/08 and capital programme, and recommend thereon to the Policy and Organisation Board for inclusion in the Council's overall budget proposals

### Recommendation

The Board is requested to recommend to P&O Board its requirements for

- the revenue budget (revised 2006/07 and estimate 2007/08) – to include the amended figures for Gosport Victim Support and Relate at paragraph 1.7
- the fees and charges for 2007/08
- the capital programme 2006/07 to 2011/12

## **1.0 BACKGROUND**

- 1.1 The Board is required to consider and recommend to P&O Board its requirements for the 2006/07 and 2007/08 financial years.
- 1.2 P&O Board will consider its own and other Board requirements on 30th January, and make recommendations to Council regarding the overall Council budget.
- 1.3 Members have been circulated with drafts of both the Budget and Fees and Charges Books for 2007/08. The draft figures have been compiled in line with the guidance contained in the Council's budget strategy (P&O Board 28<sup>th</sup> June 2006).
- 1.4 This Boards budgets are contained on the following pages:
  - Revenue budgets        pages 21 to 34

- Revenue variances      appendix 1, pages 2 & 3
- Capital programme      pages 51

1.5 The Budget Book includes a revised presentation of some services that is aimed at providing a presentation that more readily aligns with the Council's service unit structure. Council Management Team and the Group Leaders have approved these changes which also yield a paper saving.

1.6 There are several general points regarding the reported figures :

- Capital Finance charges

A notional depreciation charge is made to revenue services and administration accounts. This charge represents the cost of using the council's assets during the year and is cancelled by an opposite and equal figure within the P&O Board budget – there is therefore no real cost to the Council. This accounting treatment is obligatory and is carried out by all local authorities.

- Administration Recharges

Administration recharges represent the cost of the Council's service units – both frontline and support – that are incurred in providing the Council's services. They are a recharge of the total service unit costs which are overseen by the Personnel Sub and P&O Boards. They can vary between both services and boards and reflect the complexity of the Council's structure and services provided.

- Variance Analysis

The variance analysis shows the major budgetary variations from (i) the original budget to the revised budget and, (ii) the revised budget to the estimated budget.

In practice, at the lowest level, there will always be many budgetary variations – both positive and negative - as officers manage budgets and provide for service delivery under delegated authority. These will also include virements in line with financial regulations. The variance analysis attached to this report includes the major variations only.

1.7 P&O Board on 23<sup>rd</sup> January 2007 amended three budgets within Assistance to Voluntary Organisations on page 29 of the previously circulated budget book.

- Gosport Victim Support reduced from £6,000 to £3,000 in 2006/07
- Gosport Victim Support reduced from £6,000 to £3,000 in 2007/08
- Relate reduced from £7,000 to 5,000 in 2007/08

These budgets will be updated in the final budget book and the resulting balances of £3,000 in 2006/07 and £5,000 in 2007/08 will be taken to reserves.

## **2.0 REVISED BUDGET 2006/07**

2.1 The revised budget for 2006/07 for this Board is £4,821,520, a decrease of £48,490 (1.0%) on the original budget for 2006/07 of £4,870,010.

2.2 Excluding the net decrease in Capital Finance charges (£71,520) and the movement in Admin Recharges (-£339,580) - both as described in paragraph 1.6 above - the net cost of the Board's services has increased in the revised budget by £362,610.

2.3 The major variations that have been incorporated into the revised 2006/07 budget are listed in the variance analysis.

### **2.4 Housing Benefits**

The specific government grant that the Council receives towards the costs of administering the service is, as advised by the Department of Work & Pensions (DWP), now deducted from the cost of administration recharges and is not shown as a separate income budget. This change in practice does not affect the net cost of the service but does reduce the income budget by £394,000 in comparison to the original budget.

### **2.5 Local Taxation**

In 2005/06 court costs income exceeded that expected by £75,300 and it was acknowledged in the Approval of Accounts report that this area required further investigation. The November 2006 Budget Monitoring report to P&O Board provisionally included additional income of £40,000 and the revised budget includes additional income of £61,000

### **2.6 Depot**

Expenditure increases of £52,210 – principally in respect of maintenance and utility charges and including a one off cost of £14,400 in respect of mobile communications equipment has been offset by increased income and recharges.

### **2.7 Licensing**

Additional income of £30,740 - that is forecast to continue into 2007/08.

### **2.8 Civic Events**

An additional sum of £11,870 has been included, principally to cover the HMS Sultan Honorary Freedom Parade and Royal Hospital Haslar Freedom of the Borough event.

## 2.9 Interest

Both the Treasury Management report to P&O Board in September and the Budget Monitor in November, expected the Council's net investment position to continue resulting in net investment income significantly exceeding original estimates.

The additional income is expected to be approximately £135,000 although the final outcome will depend on many factors including market conditions, capital expenditure and receipts

## 2.10 Audit Fees

External audit fees attributable to the General Fund are expected to be £113,860 in 2006/07 an increase over that budgeted of £29,850. This is mainly due to a move to a full accruals basis for this budget in accordance with recommended practice.

## 2.11 Budget Monitoring Report

The main service variances that have arisen during the budget process that were not included in the last budget monitoring report to P&O Board in November 2006 were:

- additional net expenditure on Housing Benefits
- increased income from Licensing Fees
- additional expenditure on Audit Fees

## 3.0 BUDGET 2007/08

3.1 The budget for 2007/08 for this Board is £4,793,340, a decrease of £76,670 (1.6%) on the original budget for 2006/07 of £4,870,010; and a decrease of £28,180 (0.6%) on the revised budget for 2006/07 of £4,821,520.

3.2 Excluding the net increase in Capital Finance charges (£25,430) and the movement in Admin Recharges (+£16,360) - both as described in paragraph 1.6 above - the net cost of the Board's services has decreased by £69,970 from the revised budget to the estimated budget.

3.3 The major variations are listed in the variance analysis and the following are commented on further

## 3.4 Local Land Charges

Under guidance issued by the government, it is anticipated that from 1<sup>st</sup> April 2007, Local Authorities will be required to levy local land charge fees that do not exceed the costs of the service. The reduction in income is anticipated to be £158,320.

### 3.5 Priddys Hard – Explosion Museum

The budget provides for the scaling back of the museum from 1<sup>st</sup> April 2007. This initiative is expected to reduce the net costs of running the museum by £152,080 leaving an estimated net cost for the maintenance of the buildings and artefacts in the museum and the museum operation of £155,050.

If approved, it is important that officers progress quickly with the necessary steps in order to achieve the estimated budget savings.

### 3.6 Interest

The Council's net investment position is expected to continue but at a reduced level – this will decrease net investment income by an estimated £53,050.

### 3.7 Minimum Revenue Provision (MRP)

MRP is the statutory charge that must be made to the revenue account in respect of the underlying borrowing that has taken place to finance the Council's capital programme to date.

Two factors are leading to significant increases in this charge from now on

- The Council has been shielded from the full effects of the MRP charge in the past by the Commutation Adjustment. This is a government notified adjustment that dates from 1992 and is effectively a slowly reducing credit that can be offset against the annual MRP charge. This annual credit is now declining rapidly.
- Those schemes within the Council's capital programme that are not fully financed by external means require Council financing either from capital receipts or by borrowing. The low level of capital receipts mean that borrowing is increasingly the only option and this has a direct impact on the revenue budget by increasing the MRP charge (as well as reducing net investment income).

### 3.8 Item 8

Item 8 is a prescribed financing adjustment between the General Fund (GF) and the Housing Revenue Account (HRA). It is required to ensure that each fund bears a fair share of the costs involved in financing the capital programme. The projected levels of HRA borrowing necessary to finance the HRA part of the capital programme are leading to an increase in this charge.

#### **4.0 FEES AND CHARGES 2007/08**

- 4.1 The recommended fees and charges are included within the draft Fees and Charges book.

#### **5.0 CAPITAL PROGRAMME 2006/07 TO 2011/12**

- 5.1 The draft Capital Programme is included on page 51 of the Budget Book.
- 5.2 Where capital expenditure is not supported by external funding (government grant, developer contributions, commuted sums etc) there is a direct and material impact on the Council's revenue budget by way of lost interest and borrowing costs.
- 5.3 The figures in the columns headed 'Local Resources' at the right hand side of the capital programme pages show those schemes that do not benefit from external funding and therefore either draw on what remains of the Council's general capital receipts or may require borrowing.
- 5.4 While the full capital programme including the overall funding and the end impact on the revenue budget will be considered within the Council's overall budget report, it should be appreciated that many of the P&O Board capital schemes are discretionary and the amounts listed under local resources will impact on capital balances and the revenue budget as outlined above.

#### **6.0 RISK ASSESSMENT**

- 6.1 Generally, Council budgeting processes include an element of risk in respect of the many variables involved. These include:
- New statutory responsibilities
  - Government led or notified activities
  - Demand led activities which may result in the Council have to react to external factors
  - Contractual obligations
  - Market & economic factors including interest rates
- 6.2 To counter these risks and uncertainties, the Council should be proactive in monitoring and controlling its services and budgets and taking prompt corrective action when necessary.
- 6.3 P&O Board budgets that may be considered of at least a medium risk in terms of the possibility of a variation and the corresponding potential impact include Local Land Charges income and Housing Benefits.

6.4 Budget risks are considered further in the Council Budget report to P&O Board due to their potential impact on the robustness of the Council budget and reserve levels.

## 7.0 CONCLUSION

7.1 This report summarises the P&O Board revenue and capital budgets for 2006/07 and 2007/08 together with it's fees and charges and seeks a recommendation of the Board's requirements.

<b>Financial implications:</b>	As contained in the report.
<b>Legal implications:</b>	The Council has to set a balanced and robust budget and is also under an obligation to carry out its functions effectively, efficiently and economically
<b>Service Improvement Plan implications:</b>	The budget submissions reflect both service improvement plans and the corporate plan.
<b>Corporate Plan</b>	
<b>Risk Assessment</b>	As contained in section 6 of the report
<b>Background papers:</b>	Budget working papers
<b>Appendices/Enclosures:</b>	None

**GOSPORT BOROUGH COUNCIL**

**REFERENCE**

**TO: POLICY AND ORGANISATION BOARD –  
30 JANUARY 2007**

**FROM: COMMUNITY AND ENVIRONMENT BOARD –  
22 JANUARY 2007**

**TITLE: BOARD BUDGET 2007/08**

**AUTHOR: FINANCIAL SERVICES MANAGER**

**Attached is a copy of the report that was considered by the Community and Environment Board on the 22 January 2007 (Appendix 'B'), together with the Minute extract and Board Resolution (Appendix 'A').**

**RECOMMENDATION:** That the Policy and Organisation Board approve the requirements of the Community and Environment Board for:

(a)

- the revenue budget (revised 2006/07 and estimate 2007/08);
- the fees and charges for 2007/08;
- the capital programme for 2006/07 to 2011/12; and

(b) to regularise and extend for a further year the existing trial arrangements for larger Gosport Market pitch sizes on Tuesdays.

**EXTRACT FROM THE MINUTES OF THE  
COMMUNITY AND ENVIRONMENT BOARD MEETING  
22 JANUARY 2007**

The Mayor (Councillor Mrs Cully)(ex-officio)(P); Chairman of the Policy and Organisation Board (Councillor Cully) (ex-officio)(P), Councillors Ms Ballard (P), Carr (P), Champion (P), Clinton (P), Dickson, Edgar (P), Kimber (P), Smith (P), Wright (Chairman)(P) and Mrs Wright (P)

**Minute No.**

**39. BOARD BUDGET 2007-2008**

Consideration was given to a report of the Financial Services Manager (a copy of which is affixed in the Minute Book as Appendix A), which summarised the Board's revised 2006/07 and 2007/08 budgets, including the Board's fees and charges for 2007/2008 and capital programme. The Board's budget recommendations would be forwarded to the Policy and Organisation Board for inclusion in the Council's overall budget proposals.

Members attention was drawn to a review of the operation of Gosport Market, which was mid-way through a 10 year agreement, and it was recommended that the existing arrangement for larger pitch sizes for the Tuesday market be extended for a further year and that no increase be made in the consent fee charged to stallholders in 2007/08 (now unchanged since 2002/03). Officers would re-examine the legislation under which the market was operated prior to the re-letting of the concession with a view to improving returns to the Council.

Members were advised that recommended fees and charges were set out within the draft Fees and Charges Book.

The draft Capital Programme 2006/7 to 2011/12 for the Board was included in the Budget Book that had been previously distributed.

RESOLVED: That

(a) the Board recommend to the Policy and Organisation Board its requirements for:

- the revenue budget (revised 2006/07 and estimate 2007/08);
- the fees and charges for 2007/08;
- the capital programme for 2006/07 to 2011/12; and

(b) approval be given to regularise and extend for a further year the existing trial arrangements for larger Gosport Market pitch sizes on Tuesdays.

## APPENDIX 'B'

(Agenda item no. 5)

<b>Board:</b>	<b>COMMUNITY AND ENVIRONMENT BOARD</b>
<b>Date of meeting:</b>	<b>22nd JANUARY 2007</b>
<b>Title:</b>	<b>BOARD BUDGET 2007-2008</b>
<b>Author:</b>	<b>FINANCIAL SERVICES MANAGER</b>
<b>Status:</b>	<b>FOR RECOMMENDATION</b>

### **Purpose**

The purpose of this report is to consider the Board's revised 2006/07 and 2007/08 budgets, including the Board's fees and charges for 2007/08 and capital programme, and recommend thereon to the Policy and Organisation Board for inclusion in the Council's overall budget proposals

### **Recommendation**

The Board is requested to recommend to P&O Board its requirements for

- the revenue budget (revised 2006/07 and estimate 2007/08)
- the fees and charges for 2007/08
- the capital programme 2006/07 to 2011/12

To regularise and extend for a further year the existing trial arrangement for larger Gosport Market pitch sizes on Tuesdays (2.4 refers)

## **1.0 BACKGROUND**

- 1.1 The Board is required to consider and recommend to P&O Board its requirements for the 2006/07 and 2007/08 financial years.
- 1.2 P&O Board will consider its own and other Board requirements on 30th January, and make recommendations to Council regarding the overall Council budget.
- 1.3 Members have been circulated with drafts of both the Budget and Fees and Charges Books for 2007/08. The draft figures have been compiled in line with the guidance contained in the Council's budget strategy (P&O Board 28<sup>th</sup> June 2006).
- 1.4 This Boards budgets are contained on the following pages:

- Revenue budgets        pages 3 to 14
- Revenue variances    appendix 1, pages 1 & 2
- Capital programme    pages 47 to 50

1.5 The Budget Book includes a revised presentation of some of the C&E Board services that is aimed at providing a presentation that more readily aligns with the Council's service unit structure. Council Management Team and the Group Leaders have approved these changes which also yield a paper saving.

1.6 There are several general points regarding the reported figures :

- Capital Finance charges

A notional depreciation charge is made to revenue services and administration accounts. This charge represents the cost of using the council's assets during the year and is cancelled by an opposite and equal figure within the P&O Board budget – there is therefore no real cost to the Council. This accounting treatment is obligatory and is carried out by all local authorities.

- Administration Recharges

Administration recharges represent the cost of the Council's service units – both frontline and support – that are incurred in providing the Council's services. They are a recharge of the total service unit costs which are overseen by the Personnel Sub and P&O Boards. They can vary between both services and boards and reflect the complexity of the Council's structure and services provided.

As part of last years restructuring report and following the setting up of the 'Streetscene' operation, staff formerly included under 'employees' (principally against Dog Control and Parking) are now recharged as part of Admin Recharges. This is shown in the variation list and within the (new) Streetscene heading in the budget book.

- Variance Analysis

The variance analysis shows the major budgetary variations from (i) the original budget to the revised budget and, (ii) the revised budget to the estimated budget.

In practice, at the lowest level, there will always be many budgetary variations – both positive and negative - as officers manage budgets and provide for service delivery under delegated authority. These will also include virements in line with financial regulations. The variance analysis attached to this report includes the major variations only.

- 1.6 A subjective analysis (an analysis by type of expenditure as opposed to by service heading) is in the table below.

	<b>ORIGINAL 2006/2007</b>	<b>REVISED 2006/2007</b>	<b>ESTIMATE 2007/2008</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Employees	555,630	320,040	313,710
Premises	587,810	631,390	483,560
Transport	48,640	22,250	20,180
Supplies and Services	483,230	552,580	439,640
Third Party Payments	2,920,450	2,943,460	3,018,930
Transfer Payments	834,200	844,150	925,730
Administration Recharges	2,305,080	2,689,620	2,822,370
Miscellaneous	181,090	182,970	146,400
Capital Finance	630,280	630,990	605,560
	8,546,410	8,817,450	8,776,080
Income	(2,229,670)	(2,053,320)	(1,841,500)
	6,316,740	6,764,130	6,934,580

## 2.0 REVISED BUDGET 2006/07

- 2.1 The revised budget for 2006/07 for this Board is £6,764,130, an increase of £447,390 (7.1%) on the original budget for 2006/07 of £6,316,740.
- 2.2 Excluding the increase in Capital Finance charges (£710) and the movement in Admin Recharges (£384,540) - both as described in paragraph 1.6 above - the net cost of the Board's services has increased in the revised budget by £62,140.
- 2.3 The major variations that have been incorporated into the revised 2006/07 budget are listed in the variance analysis.
- 2.4 Gosport Market

Officers have met with the current operators (Hughmark) in order to review the current operation of the Tuesday and Saturday markets which are mid way through a 10 year agreement.

In common with most other markets, the numbers of stalls has reduced in recent years with a consequent loss of income to both the Council and the operator.

In order to avoid significant further deterioration which would also be detrimental to trade in the High Street, it is recommended that

- The existing arrangement for larger pitch sizes for the Tuesday market be extended for a further year
- No increase be made in the consent fee charged to stallholders in 2007/08 (now unchanged since 2002/03)

Officers will re-examine the legislation under which the market is operated prior to the reletting of the concession with a view to improving returns to the Council

## 2.5 Waste

Waste Recycling income from paper, glass and kerbside has been recalculated using the latest rate per tonne and tonnage predictions. Additional income for 2006/07 of £51,120, including a backdated adjustment for 2005/06 of £12,050, is forecast.

50 additional litter bins at a cost of £18,000 have been purchased and installed across the Borough.

## 2.6 Parking

A general downturn in parking income in 2006/07 together with the Council's decision to allow free parking in the short stay car parks in the Town Centre is estimated to result in a shortfall of income of £182,000. Approximately £88,800 results from the free parking in short stay car parks and £93,200 from the general reduction in income. Factors affecting the latter include buoyant income in 2005/06 from the Festival of the Sea which has not been repeated and the competition from the privately owned Haslar Marina car park.

## 2.7 Concessionary Travel

The introduction of the free County wide farepass scheme from 1st April has resulted in a bigger demand for farepasses than budgeted for. It was generally acknowledged by all Councils that both demand and the unit cost of farepasses (which depends on usage) would be difficult to predict accurately and the figures supplied by the Hampshire consultants were used in compiling the original budget with this in mind.

Current indications are that an increase in the budgeted cost of the farepass of £78,670 will be offset by a reduction in the budgeted cost of tokens of -£68,720 leaving a net additional cost of £9,950.

## 2.8 Budget Monitoring Report

The main service variances that have arisen during the budget process that were not included in the last budget monitoring report to P&O Board in November 2006 were:

### Income

- reduced income for the Market, Cemetery and Parking;
- additional income for Waste Recycling.

### Expenditure

- reduced expenditure on Concessionary Travel
- additional expenditure on Waste Collection, Street Cleansing

### **3.0 BUDGET 2007/08**

3.1 The budget for 2007/08 for this Board is £6,934,580, an increase of £617,840 (9.8%) on the original budget for 2006/07 of £6,316,740; and an increase of £170,450 (2.5%) on the revised budget for 2006/07 of £6,764,130.

3.2 Excluding the reduction in Capital Finance charges (-£25,430) and the movement in Admin Recharges (+£132,750) - both as described in paragraph 1.5 above - the net cost of the Board's services has increased by £63,130 from the revised budget to the estimated budget.

3.3 The major variations are listed in the variance analysis and the following are commented on further

#### **3.4 Parking**

The budget for 2007/08 reflects free parking in the short stay car parks for a full year and is estimated to further reduce income by £161,200 from the revised budget.

#### **3.5 Abandoned Vehicles**

The County Council has given notice that the contract for administering Abandoned Vehicles will be taken back in house. The precise details of this arrangement are to be finalised and for budget purposes it has been assumed, based on experiences in other counties, that the the Council will save the cost of collection (a Borough responsibility) and lose the previously received County administration contribution and that these two factors will offset each other.

#### **3.6 Concessionary Travel**

An increase in the number of tokens issued for 2007/08 has been provided for (+£24,870) and financial projections from the Hampshire consultants (MCL) indicate that farepass costs are likely to increase. Factors affecting this budget include: the actual number of tokens issued, the usage made of the farepasses issued (as opposed to the actual numbers distributed), which of the two options eligible people will take and whether they subsequently move from one to other and the aging population.

### **4.0 FEES AND CHARGES 2007/08**

4.1 The recommended fees and charges are included within the draft Fees and Charges book.

## **5.0 CAPITAL PROGRAMME 2006/07 TO 2011/12**

- 5.1 The draft Capital Programme is included on pages 47 to 50 of the Budget Book.
- 5.2 Where capital expenditure is not supported by external funding (government grant, developer contributions, commuted sums etc) there is a direct and material impact on the Council's revenue budget by way of lost interest and borrowing costs.
- 5.3 The figures in the columns headed 'Local Resources' at the right hand side of the capital programme pages show those schemes that do not benefit from external funding and therefore either draw on what remains of the Council's general capital receipts or may require borrowing.
- 5.4 While the full capital programme including the overall funding and the end impact on the revenue budget will be considered by P&O Board on 30<sup>th</sup> January, it should be appreciated that most of the C&E Board capital schemes are discretionary and the amounts listed under local resources will impact on capital balances and the revenue budget as outlined above.
- 5.5 The capital programme includes for the construction of a new Landing Stage at no cost to the Council – effectively assuming that it will be externally funded – although no agreement has yet been reached.

## **6.0 RISK ASSESSMENT**

- 6.1 Generally, Council budgeting processes include an element of risk in respect of the many variables involved. These include:
- New statutory responsibilities
  - Government led or notified activities
  - Demand led activities which may result in the Council have to react to external factors
  - Contractual obligations
  - Market & economic factors including interest rates
- 6.2 To counter these risks and uncertainties, the Council should be proactive in monitoring and controlling its services and budgets and taking prompt corrective action when necessary.
- 6.3 C&E Board budgets that may be considered of at least a medium risk in terms of the possibility of a variation and the corresponding potential impact include Gosport Market income and Concessionary Travel.
- 6.4 Budget risks are considered further in the Council Budget report to P&O Board due to their potential impact on the robustness of the Council budget and reserve levels.

## 7.0 CONCLUSION

7.1 This report summarises the C&E Board revenue and capital budgets for 2006/07 and 2007/08 together with its fees and charges and seeks a recommendation of the Board's requirements to P&O Board.

<b>Financial implications:</b>	As contained in the report.
<b>Legal implications:</b>	The Council has to set a balanced and robust budget and is also under an obligation to carry out its functions effectively, efficiently and economically
<b>Service Improvement Plan implications:</b>	The budget submissions reflect both service improvement plans and the corporate plan.
<b>Corporate Plan</b>	
<b>Risk Assessment</b>	As contained in section 6 of the report
<b>Background papers:</b>	Budget working papers
<b>Appendices/Enclosures:</b>	None

**GOSPORT BOROUGH COUNCIL**

**REFERENCE**

**TO: POLICY AND ORGANISATION BOARD –  
30 JANUARY 2007**

**FROM: HOUSING BOARD – 24 JANUARY 2007**

**TITLE: HOUSING GENERAL FUND BUDGET 2007/08**

**AUTHORS: BOROUGH TREASURER AND HOUSING SERVICES  
MANAGER**

**Attached is a copy of the report that was considered by the Housing Board on the 24 January 2007 (Appendix 'B'), together with the Minute extract and Board Resolution (Appendix 'A').**

**RECOMMENDATION:** That the Board recommends to the Policy and Organisation Board its requirements for the Revenue Budget (revised 2006/07 and estimate 2007/08) and the Capital Programme 2006/07 to 2011/2012.

**EXTRACT FROM THE MINUTES OF THE**  
**HOUSING BOARD MEETING**  
**24 JANUARY 2007**

The Mayor (Councillor Mrs Cully) (ex-officio) (P), Councillors Allen, Burgess, Cully (P), Foster (P), Foster-Reed (P), Gill (P), Mrs Mudie (P), Philpott (P), Rigg (P) and Mrs Wright (P).

Also in attendance: Tenant Representative – Mrs Janne Carter

It was reported that, in accordance with Standing Orders, notice had been received that Councillors Hook and Langdon would replace Councillors Burgess and Allen for this meeting.

**42 HOUSING GENERAL FUND BUDGET 2007/2008**

The Board considered the report of the Borough Treasurer and Housing Services Manager (a copy of which is attached in the Minute Book as Appendix 'B') regarding the Board's revised 2006/2007 budget and the 2007/2008 budget for the Housing General Fund and recommends thereon the Policy and Organisation Board for inclusion in the Council's overall budget proposals.

A Member questioned the reduction in the Housing General Fund budget for 2007/08 as against the original and revised budgets for 2006/07 and the concern that homelessness and bed and breakfast costs could increase leaving a shortfall. The Housing Services Manager explained that a business plan to provide a hostel was being produced which would reduce our reliance on expensive bed and breakfast accommodation. Members were also informed of homelessness percentages in the Borough, that the Housing Options Team was working on homelessness using the range of initiatives available to prevent homelessness. It was further explained that the service was under pressure in some areas such as people with mental health difficulties and services for those between 16 and 25 years.

A Member questioned the provision for garage repairs in the Capital Programme in the light of the garage review due to be completed in Spring 2007. The Housing Services Manager advised that the Repairs Programme for 2007/08 would be presented to the Board on 7 March 2007.

The draft Capital Programme 2006/07 to 2011/12 for the Board was included in the budget book that had been circulated to Members previously.

**RESOLVED:** That the Board recommends to the Policy and Organisation

Board its requirements for the Revenue Budget (revised 2006/07 and estimate 2007/08) and the Capital Programme 2006/07 to 2011/2012.

Agenda item no. 6

<b>Board/Committee:</b>	Housing Board
<b>Date Of Meeting:</b>	24 <sup>th</sup> January 2007
<b>Title:</b>	Housing General Fund Budget 2007/2008
<b>Author:</b>	Borough Treasurer And Housing Services Manager
<b>Status:</b>	For Recommendation to Policy & Organisation Board

**Purpose**

This report considers the Boards revised 2006/2007 budget and the 2007/2008 budget for the Housing General Fund and recommends thereon to the Policy and Organisation Board for inclusion in the Council's overall budget proposals.

**Recommendation**

The Board is requested to recommend to P&O Board, its requirements for:

- the Revenue Budget (revised 2006/07 and estimate 2007/08)
- the Capital Programme 2006/07 to 2011/2012.

**1.0 Background**

1.1 This special meeting is for members to make recommendations on the draft budget.

1.2 There are several general points regarding these figures:

1.3 CAPITAL FINANCE CHARGES

A notional depreciation charge is made to revenue services and administration accounts. This charge represents the cost of using the council's assets during the year and is cancelled by an opposite and equal figure within the P&O Board budget – there is therefore no real cost to the Council. This accounting treatment is obligatory and is carried out by all local authorities.

1.4 ADMINISTRATION RECHARGES

Administration recharges represent the cost of the Council's business units – both frontline and support – that are incurred in providing the Council's services. They are a recharge of the total service unit costs as overseen by the Personnel Sub and Policy and Organisations Boards.

## **2.0 Report**

2.1 The Housing General Fund budgets are within the draft budget book as follows:

- Revenue budgets, pages 15 to 20
- Capital budgets, page 46

2.2 REVISED BUDGET 2006/2007

2.2.1 The revised budget for 2006/2007 for this Board is £561,390 an increase of £27,750 (5.2%) on the original budget for 2006/2007 of £533,640.

2.3 BUDGET 2007/2008

2.3.1 The budget for 2007/2008 for this board is £532,530, a decrease of £1,110 (0.2%) on the original budget for 2006/2007 of £533,640 and a decrease of £28,860 (5.1%) on the revised budget for 2006/2007 of £561,390.

## **3.0 Homelessness**

3.1 The Housing General Fund Budget consists of three service areas, namely Home Improvement Grants (HIG), Private Sector Housing and Homelessness. Whilst there has been very little variation in the budgets for Home Improvement Grants and Private Sector Housing, the Homelessness budget has experienced more significant variations.

3.2.1 The homelessness budget is complex and is considered high risk because of its dependency on demand coupled with the Council's statutory and social responsibilities.

3.2.2 The homeless budget falls into two broad categories:

- Emergency Accommodation-commercial bed and breakfast, Council lodgings and hostel accommodation
- Move-on accommodation- RAPS (rented accommodation in the private sector)

3.2.3 Whilst the provision of extra hostel accommodation has helped reduce expenditure relating to Bed and Breakfast the overall demand on the Homelessness budget has resulted in an increase in net expenditure of £25,050 from the original budget of £377,230 to a revised of £402,300.

## **4.0 Capital Programme**

- 4.1 The draft capital programme comprises of three areas.
- Social Housing – funding is from developer contributions with the exception of £450,000 included in 2007/08 for the introduction of a further hostel. This will be funded from the Council's capital resources (capital receipts or borrowing) and will only proceed if future revenue savings can meet financing costs ( 'a spend to save basis ')
  - Disabled facilities – a statutory responsibility with 60% of funding from specific government grants
  - Housing Renewal – a discretionary responsibility part funded by government grant of £60,000 per year.
- 4.2 It should be noted that where capital expenditure is not supported by external funding (government grant, developer contributions, commuted sums etc) there is a direct and material impact on the Council's revenue budget by way of lost interest and borrowing costs. The full capital programme including the overall funding and the end impact on the revenue budget will be considered by P&O Board on 30<sup>th</sup> January.

## **5.0 Risk Assessment**

- 5.1 The primary risks to the Housing (General Fund) Budget relate to Homelessness and cover such risk areas as a shortage of private sector lets, an over reliance on commercial Bed and Breakfast accommodation and complying with external grant funding conditions. The area of Homelessness is included within the risk assessment contained in the Council Budget Report 2007/08 identifying the major risk areas in the Council's budget.

## **6.0 Conclusion**

- 6.1 The Homelessness service is a particularly fluid service and is constantly changing and the budgeting process is becoming increasingly complex .An audit of the processes involved is currently underway seeking to simplify and improve the budgeting and financial reporting for this difficult area.
- 6.2 It is recommended that the revised budget for 2006/07 and the budget for 2007/08 be approved.

<b>Financial Implications:</b>	As set out in the report
<b>Legal Implications:</b>	The Council has to set a balanced and robust budget and has an obligation to discharge its functions effectively, efficiently and economically.
<b>Service Improvement Plan implications:</b>	The delivery of a comprehensive homelessness service is a key element of the Service Improvement Plan (SIP) for the Housing Service
<b>Corporate Plan:</b>	Better access to decent housing is a key Strategic Priority (Prosperity) for the Council.
<b>Risk Assessment:</b>	See Section 5.0
<b>Background papers:</b>	Draft Budget Book and Fees and Charges
<b>Appendices/Enclosures:</b>	None
<b>Report Author/Lead Officer</b>	Tim Hoskins/Julian Bowcher

**GOSPORT BOROUGH COUNCIL**

<b>BOARD/COMMITTEE:</b>	<b>POLICY &amp; ORGANISATION BOARD</b>
<b>DATE OF MEETING:</b>	<b>30 JANUARY 2007</b>
<b>TITLE:</b>	<b>COUNCIL BUDGET 2007/8</b>
<b>AUTHOR:</b>	<b>DEPUTY CHIEF EXECUTIVE &amp; BOROUGH TREASURER</b>
<b>STATUS:</b>	<b>FOR RECOMMENDATION TO COUNCIL</b>

**SUMMARY OF REPORT AND RECOMMENDATIONS**

The report outlines the financial situation of the Council's General Fund in the current year and, after consideration of the main factors affecting the outlook for 2007/8 including Exchequer support and Reserve levels, recommends a budget level for that year. The proposed budget is expected to result in an increase in the Borough's share of the Council Tax of 4% after taking account of reserve and tax collection fund balances. This increase equates to an extra 11p per week Council Tax for an average Gosport property (Band B).

**RECOMMENDATIONS**

It is recommended that the Board consider the budget requirements of all of the Council's Boards ( including Fees & Charges and Capital Programme) and recommend to Council a revised 2006/7 budget totalling £11,739,310 and a budget for 2007/8 totalling £12,302,210 (including a net contribution to reserves of £46,760).

**1.0 PURPOSE OF REPORT**

- 1.1 To recommend budget levels for General Fund services for 2007/8 and help determine, in due course, the level of Council Tax to be levied in the Borough. (Council will take the final decision on the Council Tax level for 2007/8 at a special meeting scheduled for 23 February 2007 when precepting authorities' requirements are known).

## **2.0 BACKGROUND**

- 2.1 The Council's finances have been steadily recovering following a prolonged period when overspending on statutory demand-led services such as Housing Benefits and Homelessness was a regular feature and reserves reached critically low levels. However, the need for a significant supplementary estimate in 2006/7 to cover expenditure slippage from 2005/6 and make good a substantial loss of income (Car Parking, Open Market, Planning Fees) and additional expenditure requirements (including Festival, Depot, Waste Collection, Housing Benefits, Priddy's Hard and Audit Fees) does not bode well. Feedback regarding likely grant settlements from 2008/9 is not encouraging (current assumption of 2% annual increases may be over-optimistic). In addition, many areas of the Council's finances will come under pressure from increased demand and above-RPI cost increases.
- 2.2 It is important that the Council tries to consolidate its financial position. Accordingly, a programme of service reviews is in place to enhance value for money and reduce pressure on future council tax levels, whilst addressing strategic priorities. It is almost certain that some services will have to be cut in order to work within Council Tax levels that will avoid Government capping in the future.
- 2.3 The Local Government Act 2003 requires the Council to consider whether its budget is balanced and robust with appropriate levels of reserves. It is considered that the currently proposed budget is balanced and robust and any proposed amendments must be considered in this context.
- 2.4 Conclusions about the adequacy of the proposed budget are based on both an examination of various aspects that are summarised in a risk assessment and the knowledge that there is a commitment to reviewing all services in order to achieve efficiencies in the longer term.
- 2.5 The total proposed net budget for 2007/8 is £12,302,210 and this represents an increase of £562,900(4.8%) on the original budget for the current year, of which over £360,000 relates to a net reduction in income, the remainder of the increase primarily being due to inflation.
- 2.6 Reserve powers for Government capping of the Council's budget still exist and the Government have made it clear that these powers will be used if necessary. It is probable that an increase in Gosport's Council Tax of over 5% would mean a risk of capping. Current Council policy is for annual increases of no more than 4%.
- 2.7 The final Exchequer Grant figure for 2007/8 of £7,110,143 is £244,088 higher than the current year.

### **3.0 REVISED 2006/7 EXPENDITURE & INCOME**

- 3.1 The revised budget totals £11,739,310, the same as the original. This has only been achieved by making use of a substantial supplementary estimate from reserves. (See para 2.1).
- 3.2 The draft budget book contains a list of variations that have arisen between the Council's original spending plans for the current year and the latest estimate of expenditure and income. There are a number of significant variations, many of which have previously been anticipated in budget monitor reports, plus a large number of smaller variations.
- 3.3 The Working Balance is being maintained at its target level of 7% (£840,000) by 31 March 2006 but the Revenue Financing Reserve is proving difficult to boost to an adequate level in order to fulfil its intended purpose, having been reduced to provide the supplementary estimate required in 2006/7.
- 3.4 Efforts will be made to improve the 2006/7 finances during what remains of the financial year.

### **4.0 BUDGET PROPOSALS FOR 2007/8**

- 4.1 Substantial variations to the Council's budget requirements compared to Revised 2006/7 arise from inflation (RPI currently 4.4%); additional costs associated with the bus pass scheme, Housing Benefits, Priddy's Hard Site, partly offset by Interest transactions and the absence of any Local Elections in 2007. £52,000 of additional grant income from an expected windfall under the temporary Business Growth Incentives scheme has been applied to appropriate services. A further report regarding the use of this funding will be brought to a future meeting of the Board once full details are known. A detailed analysis of all variations is contained in the draft budget book.
- 4.2 The 2007/8 budget totals £12,302,210 and this represents an increase of £562,900(4.8%) over the 2006/7 budget.
- 4.3 Every effort has been made to ensure that the proposed budget is balanced and robust. In particular, Managers have recommended levels of maintenance and administration expenditure that they believe are the minimum necessary amounts to ensure that service provision is maintained within current Council policy and that Health and Safety requirements are met. A substantial number of reductions made by Managers from the initial bids that were submitted inevitably means that some budgets will not be sustainable in the longer term.
- 4.4 Appendix 1 summarises a risk assessment of the budget areas considered most vulnerable. Generally, these risks are higher than in previous years and these risks should be borne in mind when considering reserve levels.

## **5.0 RESERVES**

- 5.1 General Fund provisions available for general use comprise a Working Balance and the Revenue Financing Reserve. The Board agreed ground rules for the operation of the Revenue Financing Reserve when Budget Strategy for 2006/7 was considered. Revenue Financing Reserve is to be used to ensure that fluctuations in annual maintenance requirements can be met, to underwrite uninsurable risks and for funding spend-to-save initiatives. Substantial additional maintenance requirements are expected to arise in the future from Asset Management Planning and recent claims experience is requiring more self-insurance in order to moderate premium increases. Maintaining a viable Revenue Financing Reserve is therefore considered essential for improved management of the Council's finances.
- 5.2 The Council's Working Balance minimum prudent target level of 7% of net expenditure currently equates to £860,000. This is very low compared to most local authorities and requires continuing budget contributions and use of council tax collection fund surpluses. The percentage link will be kept under review as the Working Balance nears £1M, with the probability that further increases might not be necessary beyond that point if the Council has acted appropriately to manage the higher risk areas of its income and expenditure and has reduced future budget commitments down to a sustainable level.
- 5.3 Provision is made in the 2007/8 budget to continue restoring reserves. General Fund Working Balance will be increased by £20,000 to £860,000 during 2007/8 and Revenue Financing Reserve will increase by £42,000 to £331,650. A Council Tax Collection Fund Surplus of £55,000 provides £20,000 towards these transfers in accordance with Council policy but £35,000 of the surplus is in excess of usual levels and is to be used to help keep the necessary tax increase down to 4%.

## 6.0 THE LONGER TERM OUTLOOK

- 6.1 A 3-year projection of revenue commitments (summarised in Appendix 2) indicates further pressures on budgets. A significant proportion of the projected increases relates to the revenue effect of capital investment contained in the Council's Capital Programme. Due to the time lag between spending capital monies and the impact on revenue accounts, much of the forecast increase in 2008/9 is now inescapable.
- 6.2 Projected budget totals including inflation are as follows:

	Budget £'000	Budget Increase %	Potential Council Tax Increase %
2008/9	13,149	6.9	13.7
2009/10	14,144	7.6	13.6
2010/11	14,836	4.9	7.3

Early action must be taken to cut the cost of services to an affordable level and/or increase income in order to reduce the projected Council Tax rises if the Council is to avoid the likelihood of capping in coming years. A proposed Medium Term Financial Strategy 2007/8-2011/12 will be brought before the Board in March 2007, reflecting the implications of the approved budget.

- 6.3 Efficiency Review and Best Value processes required by Government will assist in identifying economies that will improve the above forecasts, as will close monitoring of services using the Council's Performance Management Framework.

## 7.0 THE COUNCIL'S CAPITAL PROGRAMME

- 7.1 A separate report dealing with Treasury Management Strategy and Prudential Code of Borrowing for the coming year is on the agenda for recommendation to Council.
- 7.2 The Council's capital programme for the 6 years to 2011/12 amounts to over £37M and will require the use of capital receipts and borrowing totalling in excess of £12M.
- 7.3 There is a direct impact on revenue budgets arising from the capital programme and, where expenditure is not supported by Government grant, a resulting council tax requirement. (See para. 6.1 & Appendix 2). The ability of the Council to properly maintain and improve its assets is a concern, principally because of the revenue impact. The amount of discretionary capital expenditure in the capital programme must be strictly controlled in the future and it should be noted that some essential schemes (e.g. replacement landing stage) cannot be afforded unless the revenue implications can be met within future budgets. The Council is unable to fund such expenditure within the Prudential Code of Borrowing without such assurances.

## 8.0 COUNCIL TAX LEVELS FOR 2007/8

- 8.1 The budget of £12,302,210 for 2007/8 will result in an increase of 4% in Gosport's share of the Council Tax when that is set on 23 February 2007. The Band D tax is likely to be £190.63 for 2007/8.
- 8.2 Based on provisional data, the Council Tax increases resulting from alternative 2007/8 budget levels are as follows:

BUDGET £M	C T RISE %
12.1	0
12.2	2
12.25	3
12.35	5

(1% Council Tax is equivalent to approximately £50,000 net expenditure).

## 9.0 CONCLUSION

- 9.1 The proposed 2007/8 budget of £12,302,210 is considered both balanced and robust, producing an increase of 4% in Gosport's Council Tax. The outlook for 2008/9 and beyond is further upward pressure on budgets, in excess of general inflation.
- 9.2 A budget book containing the budget and Medium Term Financial Strategy as finally approved will be circulated by April.

Financial Implications:	Council's General Fund Budget for 2007/8
Legal Implications:	The Council has to set a balanced and robust budget and is also under an obligation to carry out its functions effectively, efficiently and economically
Service Improvement Plan implications:	The budget submissions reflect both service improvement plans and the corporate plan.
Corporate Plan:	Ditto.
Risk Assessment:	As contained in section 6 of the report and para's. 2.6 & 4.4
Background papers:	Draft Budget Book Draft Fees and Charges Book Budget working papers
Appendices/Enclosures:	1. Risk Assessment 2. 4 year projection
Report Author/Lead Officer	Peter Wilson

**BUDGET RISK ASSESSMENT (GENERAL FUND)**

Budget Area	Risk	Budget £'000	Likelihood	Impact	Comment
Political Balance	Problems delivering difficult decisions (planning decisions, service level changes).	N/A	H	H	
Homelessness	Additional demand.	2,219	H	M	Strategy is under review.
Housing Benefits	Error/overpayment rates increase + grant formula changes.	18,134	H	M	
Gosport Market Income	Reduction in stall numbers.	191	H	L	Downward trend appears to be levelling off.
Maintenance & Administration	Inadequate provision.	3,100	H	L	Essential expenditure has been provided for.
Land Charges Income	Recession/policy change.	154	M	M	Budget reflects prudent forecasts and policy change.
General Income	Shortfall due to unpredicted demand changes.	2,500	M	M	Budget reflects prudent income forecasts.
Inflation	Exceeds allowance.	350	M	M	Inflation expected to peak soon and reduce in 2007/8.
Insurance	Claims experience forces more self-insurance.	300	M	M	Storm damage is an increasing concern (£100,000 excess).
Concessionary Fares	Increased cost of bus passes.	483	M	M	Negotiations with the operator are ongoing.
Interest Income (net)	Reduces from forecast or capital receipts & deposits get spent earlier than anticipated.	156	L	H	The Council is becoming over-dependent on investment income.
Vacancy Savings target	Target cannot be achieved.	120	L	L	Budgeted provision is realistic based on recent experience.

**NOTES**

- 1 Assessment is of 2007/8 budget taking account of past trends and budget monitoring.
- 2 Likelihood: High = most years, Medium = Occasional, Low = rare.
3. Impact: High = over £100,000; Medium = £50 – 100,000; Low = less than £50,000

## APPENDIX 2

### PROJECTED GENERAL FUND FOR THE YEARS TO 2011/12 (AT CURRENT PRICES)

	(£'000)			
	2008/9	2009/10	2010/11	2011/12
A 2007/8 Base Budget	12,302	12,302	12,302	12,302
B Revenue Increases				
Private Housing Condition Survey			60	
Local Elections	70		70	
Insurance Premiums		100	100	100
Contract re-tendering		350	350	350
Other	7	26	21	28
	77	476	601	478
C Additional Financing Charges *	245	441	556	619
D (A+B+C)	12,624	13,219	13,459	13,399
E Less Revenue Decreases				
Planning Grant	-125	-125	-125	-125
Business Growth Grant			-52	-52
New Revenue Streams	50	100	150	150
	-75	-25	-27	-27
<b>F PROJECTED BUDGET TOTALS</b> (D-E)	<b>12,699</b>	<b>13,244</b>	<b>13,486</b>	<b>13,426</b>

\*Arising from the Capital Programme and accounting requirements