

## Budget Report 2012/13

This report provides a commentary on the revenue budgets for 2012/13, as set out line by line in the Estimates Book, together with future projections until March 2015. The following paragraphs summarise its contents in relation to income and expenditure, dividing the Council's services between those shown in the summary as revenue generators and those contributing a net deficit to the general fund balance. Notes are also provided on planned capital expenditure for the year ahead. The final sections address contributions to reserves and, the setting of the precept and approval of the capital programme priority list for 2011/12.

### Expenditure Analysis

At the outset it should be noted that the Town Council's costs will be under considerable inflationary pressure during 2011/12, the main sources of which are summarised below:

Inflation – RPI (Dec 11)	4.8%
Rates	5% increase
Utility Bills	10% increase

The following table summarises the Council's greatest costs during the last two full financial years, together with the 2011/12 probable out-turn and the draft 2012/13 budget estimate. These headings account for approximately 70 per cent of Council expenditure. These costs fell by 8.1 per cent between 2009/10 and 2010/11, in part due to the disposal of the Holiday Park. They are projected to have increased by 8.4 per cent for 2011/12 due, almost entirely, to projected increased spending on repairs and maintenance of council-owned property. The draft budget projects stability going forward, with these costs rising by approximately 1.8 per cent in 2012/13.

<b>Greatest Budget Expenditure</b>	<b>09/10 Actual</b>	<b>10/11 Actual</b>	<b>11/12 Probable Out-turn</b>	<b>12/13 Draft Budget</b>
Wages	781,395	704,925	<b>683,500</b>	742,560
Repairs and Maintenance	44,062	64,463	<b>160,680</b>	109,100
Rates	96,593	94,334	<b>98,205</b>	103,425
Utilities	71,370	48,596	<b>63,040</b>	67,320
Public Convenience Cleaning	50,850	50,800	<b>59,000</b>	59,000
Legal and Professional Fees	31,036	13,157	<b>30,000</b>	30,000
Insurance	56,586	50,916	<b>28,000</b>	29,500
Computer Services	24,496	29,188	<b>24,725</b>	28,930
Car Parks Cash Collection/Security	32,060	29,892	<b>24,025</b>	25,000
Refuse Disposal	18,428	20,045	<b>22,345</b>	25,500
Seaweed Removal & Beach Raking	15,910	15,440	<b>17,105</b>	17,960
	1,222,786	1,121,756	1,216,275	1,238,295

The Council's options for further reducing these costs are limited. The total salaries and wages budget has been tightly controlled by the wage freeze that has been imposed for the last two financial years. The government has recently announced that pay increases will not exceed 1% per annum for the next two financial years. As reported to the Personnel Committee last December, the Council's recruitment freeze cannot be taken further without posing a serious challenge to continued service delivery. The budget for 2012/13 shows an increase in expenditure, assuming that vacant posts are filled to provide management support at both the Depot and Town Hall (where work will be required for the new Neighbourhood Plan). The total of £742,569 represents a relatively small increase on last year's budget total of £733,410.

In terms of repairs and maintenance costs, no major repair schemes are planned outside of the capital programme. Costs have peaked during 2011/12 due to the £40,000 budget for the demolition of the WW2 shelter on Peveril Point, although half of this will be funded by a grant from Dorset County Council received in the last financial year. Looking forward, the largest single item is a £30,000 budget for repairing public conveniences.

Non-domestic rates payments to Purbeck District Council continue to rise, with a 5% increase projected for 2012/13.

In April 2009 the Town Council joined the County Council procurement of gas and electricity which initially reduced bills. This arrangement came to an end earlier this year, although the Town Council has continued to purchase its gas and electricity through the same body as the County Council, which is now the LASER procurement organisation. As a result of continued rising prices, a 10% increase in utility bills has been incorporated into the budget. As last year, a significant proportion of the Council's utility costs is the water bill for the Station building (albeit reduced to £6,152 in 2010/11 from £7,413 in 2009/10). This matter remains part of the ongoing lease negotiations with Swanage Railway Company.

The Town Council's public toilet cleaning contract tender is likely to be determined later in the Estimates' meeting. To be prudent, the budgeted figure is the larger of those submitted by the two highest scoring companies. Although this remains the single most costly of the Council's contracts local taxpayers can be assured that this has been through a robust tendering exercise.

As last year, legal and professional fees are likely to remain a significant cost for the Council whilst existing legal disputes are resolved and the backlog of outstanding legal agreements is addressed. Much progress has been made this year and it is anticipated that this budget heading will reduce from 2013/14 once most of these issues have been addressed. The Town Clerk has made enquiries of Legal Services at Weymouth and Portland Borough Council to see if they would be willing to take on the Town Council's property-related legal work, but they were unable to provide the resources required.

The Council's contract for insurance went out to tender in spring 2011, ahead of the schedule set out in last year's budget report. This has resulted in savings in excess of £20,000 per annum.

It was agreed last year that Council officers enter into discussions with the Council's computer service provider regarding possible cost reductions, although these may not be achievable until the contracts come up for renewal.

The costs of car park cash collection have been reduced from December 2010, saving £6,000 per annum. A further saving of up to £2,500 may be achievable if cash-counting is brought in-house for future winter periods, but it will be necessary to carry out a full risk assessment and implement any mitigation measures before approval can be given to bring the service in-house.

The Operations Manager keeps the costs of refuse removal, beach raking and seaweed clearance under review, although inflationary pressures are evident. Joining the newly-formed Dorset Waste Partnership may provide an opportunity for the Town Council to reduce costs of refuse collection and disposal in the future, although it has not been possible to discuss this during the organisation's formative phase.

The Town Council is committed to the identification and implementation of efficiency savings that do not have a detrimental impact on service delivery. Savings totalling £60,908 per annum were implemented during 2010/11 arising from reduced staffing at the Depot, a reduction in car parking security services, renegotiating the photocopier contract for the Town Hall/TIC and automation of the weather station. This year a further £23,000 has been saved from insurance costs and £16,000 from reduced audit fees. Deferring recruitment to fill vacant posts will also contribute an estimated £50,000 saving against budgeted expenditure for 2011/12.

Overall, it is clear that in recent years cost increases in a number of the Council's major items of expenditure have been largely off-set by significant savings and underspends. Although efforts are continuously made to identify savings across the organisation, this is unlikely to be the case in forthcoming years.

It was agreed by the Finance and Performance Management Committee on 14<sup>th</sup> December 2011 that Council officers seek savings in 2012/13 through the following actions:

- seek savings by reviewing computer services;
- conclude negotiations with Swanage Railway regarding water usage;
- Operations Manager to risk assess cessation of cash collection and counting services for future winter seasons;
- review the cost effectiveness of methods of car park fee payment;
- explore the possibility of joining the Dorset Waste Partnership.

## Income Analysis

The following table summarises the Council's greatest sources of income during the last two full financial years, together with the probable out-turn for 2011/12 and the draft budget estimate for 2012/13. These headings, together with the precept, account for over 80 per cent of Council income. A 3.0 per cent decrease in these income streams is projected between 2011/12 and 2012/13.

<b>Greatest Sources of Income</b>	<b>09/10 Actual</b>	<b>10/11 Actual</b>	<b>11/12 Probable Out-turn</b>	<b>12/13 Estimate</b>
Car Parking (includes Co-Op net income; excludes market income)	532,767	530,291	<b>539,605</b>	521,260
Investment Income	99,850	174,260	<b>182,000</b>	155,000
Beach Bungalow Rents	68,828	68,810	<b>70,635</b>	72,750
Boat Park	37,903	37,572	<b>40,215</b>	41,900
Wilts & Dorset Rent	37,250	37,250	<b>37,250</b>	37,250
Sea Breeze Restaurant	33,000	33,000	<b>33,000</b>	33,000
Cemetery Charges	24,086	30,130	<b>30,825</b>	31,440
Holiday Park Rental	13,336	30,000	<b>30,000</b>	30,000
Market Income	17,431	28,743	<b>24,000</b>	24,000
Beach Ice Cream Kiosks	21,500	21,500	<b>23,250</b>	23,250
Putting Fees	20,406	17,891	<b>19,085</b>	18,500
Santa Fe and Games Room Rent	18,000	18,000	<b>18,000</b>	18,000
Private Beach Hut Sites	14,267	14,632	<b>14,715</b>	15,165
Railway Rent and Store Room	14,425	14,425	<b>14,425</b>	14,425
Forte's Ice Cream Kiosk	11,655	11,655	<b>11,655</b>	11,800
Bowls Fees	10,137	9,763	<b>10,635</b>	10,100
Beach Concessions	9,025	9,155	<b>9,155</b>	9,300
Heritage Toilets	13,236	12,043	<b>9,105</b>	12,000
TIC Advertising Boards	9,208	9,225	<b>8,150</b>	8,300
Fishermen's Huts	8,144	7,573	<b>8,025</b>	8,075
Allotment Rents	6,207	6,506	<b>6,900</b>	7,100
Tennis Fees	6,211	7,771	<b>6,065</b>	5,500
DCC Lengthsman Contribution	0	0	<b>6,000</b>	10,000
	<b><u>1,026,872</u></b>	<b><u>1,130,195</u></b>	<b><u>1,152,695</u></b>	<b><u>1,118,115</u></b>

At the Transport Committee Meeting held on 22<sup>nd</sup> November 2011 it was acknowledged that there is little scope for increasing car parking charges as a means of generating additional revenue. Visitor numbers were down by 3.2 per cent during summer 2011 compared with the previous year. This trend was experienced across Bournemouth and Poole, and also affected visitor attractions such as Swanage Railway. This was no doubt

not helped by the poor weather during the main summer months. Taking account of the recommendation to reduce the 24-hour charge from £9 to £8, and the possibility of a continued decline in usage in these difficult economic times, a prudent approach has been taken by budgeting for an £18,000 fall in income for 2012/13.

A reduction in investment income of £27,000 has been incorporated in the draft budgets. In order to meet government guidelines, security and liquidity are being maximised, resulting in a reduced yield. Interest rates are lowest in the most secure institutions and the duration of investments is being reduced to ensure liquidity in a financial crisis. As such, a return of 1% has been applied to the £5 million not invested in the CCLA property fund. Given continuing uncertainty in the Eurozone it is possible that the Council will have to transfer the majority of its funds into the Government's DMADF Account, paying only 0.25% per annum. This is, therefore, one of the most significant risks facing the Council over the next 12 months, and a shortfall of £77,500 has been incorporated in the risk assessment of the general fund balance.

The majority of other income streams are predicted to remain stable or marginally increase. The Council's seasonal income from Beach Huts, the Boat Park and the Heritage Toilets remains healthy. A fault in the Heritage Centre toilet turnstile led to the reduction in income during 2011. Income from Beach Gardens has been relatively strong this year, but income is predicted to return to a more typical out-turn next year.

Income from property rental also remains stable, with some minor uplifts to rents negotiated in respect of the Beach Ice Cream Kiosks and Beach Concessions. A number of rent reviews are outstanding and additional income may be achieved during the forthcoming year from Forte's ice cream kiosk, Swanage Railway, and the Taxi Office. There is also the opportunity to derive a small rental income from additional properties, including the lower grammar school field and the Town Hall annexe.

Although last year saw the withdrawal of the £4,500 agency contribution from Dorset County Council for weed clearance, the Council has this year entered into a lengthsman scheme under which the County Council will contribute £10,000 per annum towards highway works carried out by the Town Council's workforce.

Overall, the Council's income streams remain healthy, but the two most significant sources of revenue have the least resilience to external factors. Therefore, a prudent budget setting process requires that an estimated downturn be incorporated.

### **Reserves and Balances**

The Town Council is required by section 50 of the Local Government Finance Act 1992 to calculate 'the financial reserves which the authority estimates it will be appropriate to raise in the year for meeting its estimated future expenditure'. The Town Council has an obligation to ensure adequate investment is made in its assets and if the Council is to protect 85% of its capital receipt from the disposal of Swanage Bay View Holiday Park, in line with its Medium Term Financial Strategy, there is the need to maintain earmarked reserves for capital projects.

In addition to the statutory Capital Receipts Reserve (containing the funds received from the disposal of the Holiday Park and other assets such as Herston Public Conveniences), the Council has established the following earmarked reserves:

- Festive Lights
- Vehicle and Plant replacement
- King George's Play Area and Skate Park equipment replacement
- King George's changing facilities
- General Play Equipment replacement
- Car Park Machine upgrade
- Tennis Court refurbishment (to receive contributions from STC and Swanage Tennis Club)
- Repairs and Renewals Fund
- De Moulham Estate Service Road maintenance
- Insurance and contingency reserve
- Public conveniences refurbishment

These reserves were only established in the last financial year and are therefore still running at a relatively low level (see **Appendix 1**). This is despite the proposal to make an additional £100,000 contribution during the current financial year as a result of the deferral of the largest items on the capital programme. Hence the draft budget proposes a further £110,000 contribution during 2012/13. It is also proposed that the majority of capital spending for the forthcoming year should be taken from the Capital Receipts Reserve.

### **Precept Setting and General Fund Balance**

Under section 50 of the Local Government Finance Act 1992 Town and Parish Councils must take the following factors into account in setting their annual budgets:

- the expenditure it will incur in the year in performing its functions
- an allowance for contingencies in relation to expenditure
- the financial reserves it will be appropriate to raise for meeting its future expenditure
- the financial reserves necessary to meet a revenue account deficit for any earlier financial year
- the sums which will be payable to it for the year
- the amount of the financial reserves which the authority estimates it will use.

An assessment of the General Fund Balance should take into consideration the council's level of working balances and a risk assessment of contingencies. In terms of working balances, the Practitioner's Guide for Town and Parish Councils states that it is generally accepted that councils should carry general revenue reserves of between three and twelve months of gross expenditure. In Swanage Town Council's case this would be a sum between £435,000 and £1.7 million.

This figure has also been subjected to a risk assessment (see **Appendix 2**), which suggests that £367,440 of revenue funds may be called upon in a worst case scenario during the financial year. This includes the contingent liabilities related to Swanage Bay View Holiday Park. In the current economic climate it is of utmost importance that the Council's financial position is robust enough to address the issues identified in the risk assessment and that every effort is made to withstand any unforeseen shocks.

At budget setting last year it was estimated that the precept would rise by 2.5% per annum in the following three financial years, equivalent to the sum being given to principal authorities by central government. Such an increase is justified by the fact that the Council's total income, excluding precept, is projected to fall by 5.2% in the forthcoming year, and expenditure is projected to increase by 1.3%. Inflationary pressures are projected forward in **Appendix 3.1**, which illustrates a widening gulf between income and expenditure if current inflation is sustained. **Appendix 3.2** contains a summary of the contents of the budget book for comparative purposes.

Even with this increase in precept, which would produce an additional £14,625 in 2012/13, this draft budget generates a relatively small general fund balance for the year of £46,750, once contributions are made to reserves and capital expenditure. This will result in a projected general fund balance at 31<sup>st</sup> March 2013 of £414,091. This sum satisfies the risk assessment, although it is short of the minimum of £435,000, equivalent to three months' expenditure.

It is acknowledged that there is considerable pressure being placed on local authorities by central government to freeze Council Tax bills and it is clear that the Town Council could take that step, and both maintain its services and meet its risk assessed general fund balance for the forthcoming financial year. However, this would reduce balances by a further £14,625, resulting in a general fund balance under £400,000, well below the £435,000 minimum.

Last year's increase of 1% was achieved without increasing household bills due to an increase in the Council Tax base. That would not be repeated this year as the Council Tax base has decreased by a small amount (see paragraph 2.2 of the review of the Medium Term Financial Strategy for further details).

After careful consideration at its December meeting, the Finance and Performance Management Committee recommended adoption of the draft budget, including a 2.5% increase in precept. This is illustrated in **Appendix 4**.

Martin Ayres  
Town Clerk & RFO

January 2012