LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

BUDGET AND POLICY FRAMEWORK – UPDATE

SUPPLEMENTARY REPORT

Cabinet

Tuesday, 5th December 2017

The following supplementary report is now enclosed as follows:

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		(Cabinet Member with Special Responsibility Councillor Whitehead) Report of the Chief Officer (Resources).

Agenda Item 12

CABINET

Budget and Policy Framework Update 2018 to 2022
05 December 2017

Report of Chief Officer (Resources)

PURPOSE OF REPORT					
This report provides an update on the Council's budget strategy and financial outlook, to help inform development of Cabinet's corporate planning and budget proposals.					
Key Decision		**Non-Key Decision**		**Referral from Officer**	**X**
Date of notice of forthcoming key decision	06 November 2017				
This report is public.					

RECOMMENDATIONS OF COUNCILLOR WHITEHEAD:

1. **That the proposed changes to budget strategy as set out in section 3.4 of the report be approved.**

2. **That the draft budgetary position for current and future years be noted, accepting that this is an interim update.**

3. **That prior to Christmas and drawing on information contained within this report, Cabinet:**

   - **continues to refine its proposals for an ambitious, deliverable and affordable Corporate Plan; and**

   - **identifies its initial budget proposals from 2018/19 onwards**

   to form the basis for engagement and consultation in the New Year, ahead of Budget Council.

1 **INTRODUCTION**

1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning proposals and a balanced budget for Council's consideration.

1.2 This report presents proposed changes to budget strategy to take account of recent matters, and an overview of the Council's latest financial outlook to inform further development of Cabinet's initial budget and corporate planning proposals, ahead of wider engagement and consultation.

1.3 There will be the opportunity in the New Year for Cabinet to refine its proposals, taking account of any emerging issues and feedback from stakeholders.

2 CORPORATE STRATEGY UPDATE

2.1 Cabinet has continued its work on refining its outline corporate planning proposals and a draft was presented to Budget and Performance Panel at its meeting on 14 November.

2.2 In terms of feedback, the Panel asked a number of questions on various matters, including local businesses, regeneration and growth, income generation, environmental sustainability, benchmarking and future trends.

2.3 Cabinet is requested to consider those points, and the budget update provided later in this report, to inform further development of an ambitious, yet deliverable and affordable Corporate Plan.

2.4 With regard to future external engagement, arrangements are in hand for public drop-in sessions to be held in the New Year at a small number of locations across the district.

3 BUDGET STRATEGY UPDATE

3.1 Cabinet determined its outline budget strategy and timetable at its meeting on 08 August and since then there have been some significant developments, including Cabinet's emerging corporate planning proposals touched on above. The following sections provide an overview of other matters from a national perspective and more specifically, in relation to the Canal Corridor North scheme.

3.2 National Longer Term Prospects for Local Government Finance

3.2.1 In terms of the general picture, the prospects for local government finance remain highly uncertain and very challenging. Following the last General Election, Government chose not to include the Finance Bill in the Queen's Speech and this created doubt over future planned local government finance reforms. Various work streams are continuing, however, and the following provides a very brief update on recent developments.

3.2.2 Fair Funding Review

To inform baseline funding allocations beyond 2019/20, Government has confirmed its continued commitment to its Fair Funding Review, to address concerns regarding the fairness of current funding distributions across local government, taking account of relative spending needs (i.e. to meet core service demands taking account of demographic factors etc) and relative resources (i.e. the ability to generate income from local taxation and fees and charges).

Implementation of the Review was previously linked with 100% business rates retention, but Government's stated aim is to get the review right and therefore a new target implementation date has yet to be set. This is likely to be 2020/21 at the earliest – but it could well be later.

A consultation document is expected shortly. Furthermore it is expected that during the course of next year, various other technical papers will be issued and the Local Government Association (LGA) is planning to commission some modelling work, to help authorities assess any various options and inform future consultation responses.

3.2.3 **100% Business Rates Retention**

Government's latest stance is that they remain committed to this policy, although they wish to work with local authorities and representative bodies on its design – the Government/LGA joint working group is now fully operational, after being put on hold post-election. Government also recently announced an extension of the pilot scheme to include two-tier areas, to inform the development of future options. As primary legislation would be needed for the scheme's introduction, it is thought that there is insufficient parliamentary time to allow this prior to 2020/21 – so implementation of any arrangements could well be later.

3.2.4 **Treasury Management and Prudential Code Developments**

Government is currently consulting on proposed changes to the statutory guidance on local authority investments, and on capital financing charges (known as Minimum Revenue Provision or MRP). Furthermore, the Chartered Institute of Public Finance and Accountancy (Cipfa) is expected to update the professional codes on local authority borrowing and on treasury management more generally. These changes were touched on in the recent Council report regarding Canal Corridor North. The various changes are designed to ensure that any commercial investment activities are covered through the regulatory framework, with a strengthened focus on due diligence requirements, but nonetheless the changes could present some opportunities to help with the budgetary pressures attached to capital financing. The changes are expected to be implemented for 2018/19 onwards, and so this area will be kept under review.

3.3 **Local Considerations: Providing for Canal Corridor North (CCN)**

3.3.1 The scale of the CCN proposals and their potential impact on the Council's corporate and financial planning framework should not be under-estimated, and neither should the work involved in seeking to address the scheme's financial pressures and risks, to secure a financially viable and sustainable scheme.

3.3.2 Alongside that work, the Council already has the challenge of addressing its future budget deficit, an update on which is set out later in this report. Addressing that deficit should create a financial outlook and environment to help facilitate CCN progression. Alternatively, if the Council's outlook and/or financial standing worsens, this could hinder (or in the worst case, prevent) the Council from taking an active role in the scheme.

3.3.3 To summarise, the Council's wider financial outlook and the progression of CCN are interlinked, and aligning decision-making timescales regarding CCN and the usual budget process poses some challenges. To demonstrate:

- The 2018/19 budget will need to be set prior to having certainty whether CCN will go ahead or not (unless any key partners withdraw).

- Before the 2019/20 budget, CCN heads of terms will be considered and so at that time, there will be robustness in terms of the scheme's overall financial appraisal and any interim liabilities (e.g. during construction) – and thereby greater certainty on the future of the scheme.

- Any CCN scheme would not be expected to go unconditional until around 2020/21, ahead of the 2021/22 budget.

- Market/economic expectations etc. would continue to be monitored and these would influence budget setting through to 2023/24 (around CCN estimated completion) and beyond.

- During this time and drawing on the comments earlier, Government is expected to continue with the local government finance review, which could be implemented prior to CCN opening. The review, if implemented, could be good or bad news for the Council.

3.3.4 In effect, the scale and timelines for the development inevitably result in an extended period of uncertainty that needs to be managed. Such uncertainty should be recognised as unavoidable if any major scheme such as CCN is to be delivered.

3.4 **Budget Strategy Changes**

3.4.1 The above factors require some changes to budget strategy, in context of the Council needing to address its forecast structural budget deficit. In considering changes, the key challenges are as follows:

- Managing and prioritising any increases in the Council's various capital financing and borrowing limits, to help tackle the Council's ongoing budget deficit (through robust invest to save initiatives) whilst retaining sufficient headroom to facilitate the CCN scheme and other high priority investment needs – and always ensuring that any such longer term borrowing is prudent, affordable and sustainable. This is no easy task, and it is set in context of the expected tightening of the regulatory framework.

- Managing and prioritising the use of the Council's available reserves and balances, again to help tackle the ongoing budget deficit by providing one-off capacity to develop robust business cases and plans, whilst also retaining sufficient flexibility to cover interim financial pressures pre-and post- construction of CCN. Fundamentally, sufficient reserves and balances must be retained to protect the Council's financial standing.

3.4.2 These challenges are complex. Cabinet proposes that the Council should be more commercial, transformational and business-like in its dealings. These aims can and should generate income and reduce expenditure, thereby helping to balance the budget. Members also have ambition in terms of economic and other growth for the general wellbeing of the district, but these may not deliver material financial returns. The Council generally remains ambitious in the range and quality of services it wishes to deliver, and has not sought to make significant savings by reducing these. Whilst all these aims are valid, the Council does not yet have a sustainable budget and in any period of change and transition, some financial and budgetary risks typically increase, especially in terms of the difficulties inherent in accurately forecasting the timing and level of income generation. This has been evidenced recently for green waste and Salt Ayre Leisure Centre as examples - "optimism bias" is a widely recognised, systematic tendency, and it will have applied to other projects and initiatives too. In context of emerging strategic priorities, Members are advised that they cannot expect to deliver everything, all at the same time.

3.4.3 These factors will feed into the s151 Officer's future statutory advice regarding robustness and affordability of spending plans, and minimum balances levels. They will also feed in to the External Auditor's assessment of the Council's financial sustainability, as represented through his VFM conclusion. Arrangements are being put in place to commission further work to support this, in addition to the standard audit.

3.4.4 In light of these points, it is advised that an update to budget strategy is required, making provision for a mid-year update to the budget involving both Cabinet and Council. The key proposals are as follows:

Prior to next Budget Council:

- Focus on balancing 2018/19 through driving down costs / gain any "quick win" efficiencies & income generation, minimising growth in that year (especially recurring growth) to cover essential needs.

- Identify high priority invest to save/efficiency proposals that are supported in principle and progress work to establish their robust business cases, providing one-off resources/ capacity through the budget to do so (especially so for more transformational ideas).

- Reject/defer any low priority investment plans for now.

- Commence development of a programmed approach to help manage the Council's various initiatives (including major budget proposals), focusing and phasing the Council's resources to optimise impact and affordability/delivery.

- Further develop understanding of the Council's risk appetite in context of its ambition. A facilitated workshop (or more) will be organised to help Members ascertain their appetite and strategy with regard to all capital related borrowing, including that for invest to save initiatives.

- Commence development of other budget proposals, including service reductions, as a contingency in the event that income generation and efficiency schemes do not generate sufficient savings. Some facilitation through the Local Government Association would be considered.

The above approach is designed to balance the need to progress the business cases for major initiatives to inform Members' future decision-making, against the need to maintain as much headroom as possible within borrowing limits and reserves and balances for supporting CCN.

Post Budget Council – to Summer 2018:

- Implement quick win / resourced measures approved in the 2018/19 budget.

- Ascertain robust business cases, priority ranking and potential programming for major transformational (invest to save/efficiency) projects.

- Ascertain options, ranking and potential programming for service reductions.
- Refine the CCN financial appraisal and borrowing limit / reserves & balances impact.
- Review the Council's general financial outlook drawing on outturn as well as forward-looking matters.
- Ascertain future capital investment strategy proposals in light of Council's ambition, financial outlook and risk appetite.
- Review the reserves and balances strategy in light of the above.
- Revisit MTFS and the budget taking account of all of the above:
  - Make mid-year referrals to Council regarding budget decisions on transformation projects and any service reductions as appropriate.
- Alongside this, Council would take decisions on the progression of CCN.

3.4.5 The approach addresses the pressing short-term need of balancing next year's budget, whilst also putting in place some building blocks for the future and maximising scope for managing the potential implications of CCN. There is still much work to be done in establishing robust business cases for any transformational projects under consideration. As long as capacity exists for their development in the coming months, in reality reviewing the budget halfway through next year should result in little, if any, delay.

3.4.6 Budget strategy is very much about priorities and focus; Cabinet's views and direction is sought, and the following financial update should be considered in context of all the above points.

4 GENERAL FUND REVENUE BUDGET UPDATE

4.1 CURRENT YEAR POSITION

4.1.1 In support of the existing Corporate Plan, at Council on 02 March Members approved the current year's budget at £15.839M, giving rise to a council tax requirement of £8.623M, excluding parish precepts. Since then, various changes have become apparent through monitoring and an in-depth update of the current year budget has been completed, the results of which are included at ***Appendices A and B.***

4.1.2 Net spending of £16.105M is now forecast, which results in a comparatively small net overspending of £266K or 1.7%. Quarter 2 monitoring indicated a slightly better position, in that a net underspending of £241K was forecast. The following table summarises the main changes for the year:

2016/17 Summary Position	2017/18 Latest Forecast £'000
Net Shortfall in Demand-led Income	+458
Additional Grant Income	(141)
Net Savings on Capital Financing Costs	(111)
Other Operational Net Savings	--
NET (UNDER) / OVER (+) SPENDING	**+266**
Provisional Financing:	
From Balances	*266*

4.1.3 On the whole, and in view of the fact that the Council's gross budget is in the region of £100M, it is pleasing to report that so far the revised budget is generally in line with recent monitoring expectations. This helps provide assurance regarding the robustness of those arrangements. The position does highlight the areas where approved budgetary savings have not been achieved, however, and therefore there are some measures to be taken forward, both in terms of monitoring and regarding the robustness of the Council's budgeting generally, which links to the earlier comments regarding optimism bias. The position also fits with the general tightening of budgets over the years, coupled with increasing spending demands. Year on year, there is now less scope for general underspending.

4.1.4 Final proposals regarding this year's revised budget will be presented to Cabinet in January, for referral on to February Council. If practical other savings measures will be identified but if this proves impossible, then any overspending would need to be met from Balances. (The original budget was based on a contribution to Balances of £165K, so this would be adjusted, to become a contribution from Balances of £101K.)

4.2 FUTURE YEARS' NET SPENDING FORECASTS

4.2.1 The first full draft of future years' budgets has also been produced. The forecasts are summarised at ***Appendix B*** and in simple terms the outlook over the next four years is as follows:

	2018/19 £'000	2019/20 £'000	2020/21 £'000	202/22 £'000
Original Net Budget Forecasts	16,200	16,481	17,887	N/A
Current Net Forecasts	16,400	17,003	18,755	19,523
Increase in forecast Net Spending	**200**	**522**	**868**	**N/A**

4.2.2 A number of key points are highlighted:

- Provisional increases in respect of pay, price and other economic conditions may be updated to reflect the Bank of England's November Inflation report and they are therefore still subject to change. General inflation of 2.6% is currently assumed for next year (2.2% thereafter) and provisionally, pay inflation of 1.5% year on year is assumed. The latter represents an increase of 0.5% and it takes account of Government's decision to lift the 1% public sector pay cap (which does not apply directly to local authorities, but it inevitably influences pay negotiations). This assumed increase in pay inflation has resulted in the following extra cumulative pressure on the budget forecasts.

  2018/19 - £88K
  2019/20 - £175K
  2020/21 - £296K
  2021/22 - £398K

- Pay policy generally continues to add above inflationary pressure. Members will recall that there is an outstanding obligation to review the Council's pay and grading structure, not least to ensure that it is fit for purpose, to help the Council modernise, innovate and transform.

- Capital financing costs have been updated to reflect the latest draft capital programme, set out later in this report.

- Specific Government grants have been updated where possible. Notably the budget has been updated on a cost-neutral basis to allow for funding and costs in recognition of the new burdens being placed on local authorities under the Homeless Reduction Act. Funding of £25K has been awarded in 2018/19, rising to £78K by 2021/22.

- It is anticipated that legislation will be in place shortly to effect the 20% increase in planning fees, as previously supported by Cabinet Members. The budget makes no assumptions as yet regarding this, however; its implications and proposals for using the additional income will be reported in due course.

- Provision for extra waste collection rounds has been made from 2019/20 onwards, as a step change in recognising housing growth in the district over the last few years.

- Whilst any operational savings arising have been built in, the draft position does not include any specific savings options and proposals requiring Member consideration. As background, during the last budget Council approved a number of other savings options to be explored further during the course of this year and a commentary on those is included at ***Appendix C***. The recommendations of this report request Cabinet to identify its initial budget proposals to form the basis for the planned public engagement. It is anticipated that Cabinet will draw on the appendix and on its corporate planning proposals to inform its budget proposals accordingly.

- Finally there are still a number of major national, regional and local matters, ranging from Brexit to Combined Authorities (and Canal Corridor North as mentioned earlier), that cannot yet be appraised fully and so their potential impact is not provided for within the Council's financial projections. The opportunities and risks will be kept under review, both prior to and after Budget Council. Some matters could have major implications for the Council's financial outlook.

4.2.3 Uncertainties are inherent in any budgeting and planning exercise; nonetheless the budget review work done to date provides a good base on which to plan and prioritise.

4.3 **FUTURE FUNDING PROSPECTS: GOVERNMENT RELATED**

4.3.1 Cabinet may recall that current budget forecasts to 2019/20 are based on the Government's 4-year funding offer. Whilst the Chancellor has announced his Autumn Budget, other than some comparatively minor changes to local taxation matters there was nothing to indicate that there will be any substantive changes to local authorities' general funding prospects in the short to medium term. As yet, however, Government has made no formal Local Government Funding Settlement announcement and it is not yet known when that announcement will be made.

4.3.2 Looking to the longer term and drawing on the comments made earlier regarding the Fair Funding Review and 100% Business Rates Retention, it is impossible to foresee what any new arrangements might mean for the Council and therefore there is greater uncertainty and risk in forecasting beyond 2020. Recognising this, the budget forecasts for 2020/21 and beyond simply assume that:

- retained business rates income will increase only by estimated inflation;
- revenue support grant will fall out completely in 2020/21; and
- the existing renewable energy business rate scheme will continue.

4.3.3 Likewise, in the absence of any firm information it is also assumed that the New Homes Bonus (NHB) scheme will continue in its current form. Minor changes may be announced as part of the Settlement. There are no guarantees regarding its longer term future, however, and so this too represents a significant risk.

4.3.4 The following table summarises current Government-related core funding assumptions. From this and the comments above, Members can appreciate how important various future funding arrangements are to the Council's financial outlook.

	2017/18 £'000	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Revenue Support Grant	1,605	941	200	0	0
General Business Rate Income (at safety net)	4,676	4,826	4,998	5,129	5,267
Settlement Funding (adjusted re safety net)	**6,281**	**5,767**	**5,198**	**5,129**	**5,267**
Renewable Energy Business Rate Income	935	965	994	1,015	1,042
New Homes Bonus Income	1,854	1,417	1,361	824	824
Total Forecast Funding	**9,070**	**8,149**	**7,553**	**6,968**	**7,133**
Year on Year Reduction / + Increase		**£0.921M 10.1%**	**£0.596M 7.3%**	**£0.585M 7.7%**	**+£0.165M +0.2%**
Net Reduction over 4-year Period					**£1.937M or 21.4%**

4.3.5 A briefing note will be produced for all Members once the detailed Settlement has been received and its impact assessed. In any event, it will be reported formally into January's Cabinet meeting.

4.4 LOCAL TAXATION

4.4.1 Council Tax Rates and Targets

Alongside the main Settlement, Government is expected to confirm its proposals regarding council tax referendum thresholds, whereby district councils may increase their Band D tax rates year on year by the higher of £5 or 2% - the Council's financial strategy and budget forecasts already provide for such an increase. A £5 increase at Band D for next year would result in a tax rate of £218.97, equating to a rise of 2.34%. It would be some years (i.e. 2024/25) before the lower 2% threshold applied to the City Council, should the policy be retained for that long.

Government has not signalled any intention to introduce referendum thresholds for parish and town councils, but it has indicated that it is reviewing evidence of whether such councils are applying restraint, if/when setting increases that are not as a result of taking on additional responsibilities. Government has previously indicated it "wishes to ensure that parishes continue to have the flexibility to take on responsibilities from other tiers of government without being unduly constrained by council tax referendum principles". It has previously suggested a mechanism for doing so, where agreement for transfer of responsibilities is reached with parishes, and so this remains an area that could present potential policy options. The downside is that Government's stance on council tax limitation policy has typically varied over the years with no long term certainty, and this does not facilitate sound planning.

4.4.2 Localised Council Tax Support (LCTS)

A report will be presented to December Council, seeking consideration of some very minor changes to the LCTS scheme but these would have no material financial implications. Recent trends continue to show a reduction in the total value of support awarded, and in part this accounts for increased council tax base forecasts for future years. The risk is that if future economic circumstances reverse that trend, then the tax base forecasts would need to reduce, which would have an adverse impact on the Council's financial outlook.

4.4.3 Council Tax Charging Policy

A report will be also be presented to December Council on options for reducing various discounts on empty homes, as well as increasing premiums on long-term empties, drawing on the increased flexibility to be made available as outlined in the Chancellor's Autumn Statement. Current budget forecasts are simply based on existing policy.

4.4.4 Other Council Tax Matters

Council tax income due (i.e. the amount collectable) continues to rise. Aside from council tax rate decisions, the increase is the net result of all the various changes that occur in the tax base, be they in relation to new homes being built, empty properties coming back into use, reductions in the net amount of LCTS, and the myriad of other banding, discount and exemption changes that occur on a daily basis. Furthermore, actual collection is holding up reasonably well.

Recognising previous year trends, original financial forecasts were based on council tax base growth of 600 Band D properties or 1.5% year on year. Growth in the tax base translates into more council tax income being collectable.

Recent monitoring has indicated that the tax base is slightly higher than that estimated, resulting in expectations of a £150K surplus for this year over budgeted income, of which £20K (13%) would be retained by the City Council and the reminder distributed to other major precepting authorities (Police, Fire, County Council). Figures will be finalised in January in line with statutory requirements.

In view of the latest monitoring and next year's growth expectations, the latest tax base projections provisionally assume an increase of 900 Band D equivalent properties for 2018/19. The tax base will be finalised later this month, once decisions have been made regarding the LCTS scheme and any council tax charging policy charges at December Council.

It is impossible to forecast the tax base with absolute certainty and so risks will always exist. Nonetheless, the exposure is considered manageable and all indications are that housing needs will continue to grow. The tax base forecasts do not yet make any specific assumptions regarding future land allocation policy, however.

On the downside, a bigger population increases the demands and pressures on many council services (such as refuse collection, tax collection, planning and environmental health services, from the City Council's perspective). As far as possible these are considered in drafting the budget but this is not an exact science and as ever, the pressures will need to be kept under review. This will be particularly so once land allocations have been determined and the Local Plan adopted.

4.4.5 **Business Rates Income**

This continues to pose the biggest headache, in financial planning and budgeting terms.

- Since last budget the revaluation exercise has been implemented. Collection rates are holding up well.

- Also on a positive note it is anticipated that the Renewable Energy Rate Retention Scheme will continue at least in the short term, although its longer term future is not yet clear. Conversely, the Council's hugely disproportionate exposure to rating appeals continues to be at the centre of forecasting uncertainties, and the recent revaluation exercise increases that exposure to some degree.

- Whilst all this uncertainty continues, the Council is still not in a position to take part in the Lancashire business rates pool. A small number of other Lancashire authorities are understood to be in a similar position.

- Budget forecasts continue to be based on the Council being at safety net but a detailed review of future expectations is underway, ahead of statutory timescales. That work will also determine to what extent the Council can access the surplus funds (of over £4M) reported as part of the 2016/17 outturn.

4.5 **BALANCING THE GENERAL FUND BUDGET TO 2021**

4.5.1 Drawing together the net spending and core funding prospects, the General Fund revenue outlook is as follows. In line with recent quarterly monitoring expectations, projected budget deficits have increased, worsening the outlook somewhat and increasing the challenge to achieve a balanced, sustainable budget.

	2018/19 £'000	**2019/20 £'000**	**2020/21 £'000**	**2021/22 £'000**
Latest Net Revenue Budget Forecasts	**16,400**	**17,003**	**18,755**	**19,523**
Latest Funding Forecasts:				
Settlement Funding (adjusted re safety net)	5,767	5,198	5,129	5,267
Renewable Energy Business Rate Income	965	994	1,015	1,042
Target Council Tax (Based on £5 increase)	9,022	9,362	9,708	10,037
Council Tax Surplus (Provisional)	20			
Resulting Estimated Budget Deficit or Net Savings Requirement	**626**	**1,449**	**2,903**	**3,177**
As compared with:				
Approved MTFS: Projected Savings Requirements	512	994	2,103	N/A
Deterioration in Forecasts *(see below)*	**+114**	**+455**	**+800**	**N/A**

4.5.2 The main reasons for the net deterioration in budget expectations are shown below:

Key Reasons for Net Deterioration	**2018/19 £'000**	**2019/20 £'000**	**2020/21 £'000**
	(Favourable) / +Adverse		
Additional Council Tax Income – Increase in Properties & Forecast Surplus *(2018/19 only)*	(86)	(67)	(68)
Pay Award – Increase in Assumptions	+127	+207	+331
Reduced Income from Green Waste Charging	+264	+239	+218
Net Reduced Income at Salt Ayre Leisure Centre	+122	+104	+126
Additional Waste Collection Rounds	-	+195	+296
Reduced Capital Financing Costs	(197)	(201)	(196)
Additional Investment Interest	(112)	(12)	(15)
Other Net Changes across all Services	(4)	(10)	+108
Net Total	**+114**	**+455**	**+800**

4.5.3 The bulk of the increased pressure on future years' budgets can be accounted for by inflation-linked rises, shortfalls in budgeted income referred to earlier, and a small number of other operational matters. All key factors have been commented on elsewhere in the report.

4.5.4 Members are advised to consider the proposed changes to budget strategy set out earlier, in context of the worsening budget outlook. An annual net savings target of around £3M for the medium term poses a great challenge to the Council, and Cabinet will note from the Government funding commentary earlier that there is plenty of scope, unfortunately, for prospects to worsen - for example, if renewable energy and NHB schemes do not continue as assumed. On the other hand there could be scope for funding prospects to improve, but it is impossible to try to quantify that scope until more is known on future Government policy. Further scenario planning and sensitivity analysis will be undertaken at the appropriate time.

4.6 GENERAL FUND PROVISIONS, RESERVES AND BALANCES

4.6.1 A full review of all provisions, reserves and balances will be reported for Cabinet's consideration, as is usual during the budget.

4.6.2 In terms of Balances, if the current year's revised budget forecast does not change, then Balances would reduce to £4.789M by 31 March 2017. If advice on the minimum level (currently set at £1.5M) remained unchanged, then this would mean that over £3M of Balances would be available to help achieve a sustainable budget over the next few years, on top of any available earmarked reserves.

4.6.3 Prior to Budget Council the s151 Officer will provide her formal advice regarding minimum balances levels. On the assumption that the Council increases its reliance on income generation and that its earmarked reserves will reduce over time, the logical expectation should be that the s151 Officer will advise on an increase to minimum levels, to cover off the inevitable increased risk profile (through having less sources of funding available to deal with any "shocks" arising such as from optimism bias or from reduced demand for chargeable services).

4.6.4 These matters will be explored further in the coming weeks. Drawing on the Council's existing Medium Term Financial Strategy (MTFS), in broad terms the working principle is that surplus Balances would be used to help manage the risks, lead-in times and up-front investment costs associated with implementing savings measures.

5 GENERAL FUND CAPITAL PROGRAMME UPDATE

5.1 Alongside updating revenue expectations, the capital programme has been updated provisionally for known or expected changes to date. To keep basic revenue and capital planning horizons the same, the programme has also been rolled on a year to 2021/22.

5.2 Gross capital investment of £30.661M is currently forecast over the period, with a provisional increase in the Capital Financing Requirement (or underlying need to borrow) of £13.328M. This is now £1.721M higher, predominantly as a result of forecast vehicle, equipment and system replacements.

5.3 A full draft capital programme summary is included at ***Appendix D***, with the movements summarised below. Note that the bulk of these are driven purely by slippage brought forward from last year and the extension of the programme into 2021/22.

	Gross Programme £'000	Change in Underlying Borrowing Need: CFR £'000
Original 4-Year Programme (2017/18 to 2020/21)	**25,192**	**11,552**
Key Changes:		
Approved Net Slippage *(Cabinet June 2017, minute 8)*	1,924	1,208
Officer Delegated Changes *(through Quarterly Monitoring)*	346	-
Vehicle, Plant and Equipment Renewals	1,198	1,198
ICT Renewals	(356)	(356)
Disabled Facilities Grants	2,039	-
Corporate Property Works	-	(274)
Changes in Other Council Funded Schemes	281	-
Other Net Changes in Externally Funded Schemes	37	-
Total Net Increase	**5,469**	**1,776**
Resulting 5-Year Draft Programme (to 2021/22)	**30,661**	**13,328**

5.4 In financing terms, the full movements are as follows:

	Movements in Financing £'000
Key Changes:	
CFR Increase identified in above table	1,776
Increase in Capital Receipts	272
Increased Use of Earmarked Reserves	689
Reduction in Direct Revenue Financing	(41)
External Grants and Contributions	2,773
Total Changes	**5,469**

5.5 Whilst the CFR is expected to rise over the period, capital receipt expectations have been increased to reflect recent disposal decisions. These factors have direct bearing on the level and phasing of capital financing costs chargeable to revenue in future years, as reflected in the revenue budget forecasts reported in section 3.

5.6 As stated each year, all of the Council's capital investment plans need to be affordable, sustainable and prudent, and capital investment is intrinsically linked to the revenue budget. Whilst changes are planned in the regulatory framework for capital investment and borrowing, it is anticipated that councils will continue to have autonomy to set their own limits, in light of local circumstances. The recent CCN report to council outlined some examples of how councils have used capital investment to progress the commercialism agenda. There is no one 'right answer' regarding how much borrowing any council might consider as being appropriate. More information on other authorities' positions will be shared in due course, and this will help Members' development of their future capital investment strategy. Cabinet will note form the budget strategy proposals set out earlier that workshops are being arranged to help with this complex issue.

5.7 The draft capital programme will continue to be updated during January and February as Cabinet's budget proposals develop; all in all there is scope for considerable change. The current update may be regarded simply as a snapshot, therefore. It is not presented for approval.

6 COUNCIL HOUSING (HOUSING REVENUE ACCOUNT- HRA)

6.1 As reflected in the MTFS, Cabinet's current rent policy for council housing is summarised as follows:

<table>
<tr><td>For general properties, average rent of £71.69 applies for 2017/18, representing a 1% year on year reduction.</td><td>For sheltered and supported housing properties, average rent of £66.97 applies for 2017/18, also representing a 1% year on year reduction.</td></tr>
<tr><td colspan="2">For 2018/19 to 2019/20 average rents will reduce by a further 1% per year.</td></tr>
<tr><td colspan="2">Following relevant properties becoming vacant, they will be re-let at 'formula rent' less the relevant cumulative year on year reduction applicable (i.e. generally 2% for 2017/18 rising to 4% in 2019/20).</td></tr>
<tr><td colspan="2">For 2020/21 onwards, it is assumed that council housing rents revert to increasing by 2% year on year, subject to annual review and any future determinations that may be issued by Government from time to time.</td></tr>
</table>

6.2 The policy was driven by legislative changes introduced through 2016 legislation, which marked a significant change in direction for national social housing rent policy.

6.3 The restrictions on rent setting brought about by that change were estimated to cost the City Council around £90M over the life of the 30-year business plan – requiring an efficiency-drive from the service and raising questions over the viability of any new-build plans.

6.4 More recently, Government has clarified its intentions regarding rent policy for 2020/21 onwards and from then onwards – or at least for a period - local authorities should be able to revert to increasing general average rents year on year by inflation (based on the Consumer Price Index (CPI)) plus 1%. For forecasting purposes this equates to a 3% year on year increase, being 1% higher than the 2% provided for in current forecasts. Coupled with other transformational and efficiency measures, it should give more flexibility regarding the service and its future financial sustainability.

6.5 Government's intentions regarding its other previous policy announcements, such as charging higher rents for those tenants on high incomes and selling off high value properties, are still on hold and not yet clear.

6.6 A full update on the HRA budget and financial outlook will be presented to January Cabinet, including options to ensure that the service's 30-year business plan is viable and that its ongoing budget is balanced, whilst delivering value for money to tenants.

7 DETAILS OF CONSULTATION

7.1 As referred to in the report and as reflected in the recommendations.

7.2 In addition to the planned public drop-in events, the usual high level consultation with relevant stakeholders on the budget will be undertaken primarily through the Budget and Performance Panel meeting in January, prior to Budget Council in early March. More specific consultation may be required depending on the budget savings options being considered. Consultation on council housing matters will be undertaken through the District Wide Tenants' Forum.

8 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

8.1 Regarding the budget strategy, Cabinet may approve the proposals as set out, or require changes to be made to the suggested approach. The overriding aim of any budget setting process is to approve a balanced budget by statutory deadlines, allocating resources to help ensure delivery of the Council's corporate and service objectives. The proposed approach is in line with that broad aim, drawing on various strategic matters. Any changes that Cabinet puts forward should also be framed in that context.

8.2 In term of the actual budget position, this report is primarily for information, to assist Cabinet in its budget deliberations. No specific decisions are sought at this time.

RELATIONSHIP TO POLICY FRAMEWORK The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.
CONCLUSION OF IMPACT ASSESSMENT **(including Diversity, Human Rights, Community Safety, Sustainability etc)** None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.
FINANCIAL IMPLICATIONS As set out in the report.
SECTION 151 OFFICER'S COMMENTS The section 151 Officer (as Chief Officer (Resources)) has produced this report as part of her responsibilities.

LEGAL IMPLICATIONS Legal Services have been consulted, but at this stage there are no legal implications arising.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no comments to add.	
BACKGROUND PAPERS None.	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**

General Fund Revenue Budget Projections 2017/18 to 2021/22

For consideration by Cabinet on 05 December 2017

BUDGET PROJECTIONS

	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000 *NEW*
Original Revenue Budget / Forecast	**15,839**	**16,200**	**16,481**	**17,887**	**19,523**
Key Changes to Original Budget/Forecasts: *					
Pay Award & Living Wage Increase		127	207	331	
Green Waste Collection Charging	287	264	239	218	
Additional Waste Collection Rounds			195	296	
Salt Ayre Leisure Centre	231	122	104	126	
Additional Government Grants (UC, New Burdens)	(141)				
Additional Investment Interest		(112)	(12)	(15)	
Reduced Capital Financing Costs (MRP)	(111)	(197)	(201)	(196)	
Other net changes across all services		(4)	(10)	108	
General Fund Revenue Budget	**16,105**	**16,400**	**17,003**	**18,755**	**19,523**
Settlement Funding Assessment:					
Revenue Support Grant	(1,605)	(941)	(200)	0	0
Retained Business Rates	(5,357)	(5,530)	(5,726)	(5,880)	(6,038)
Business Rates - Safety Net Adjustment	401	415	429	441	453
Business Rates - Tariff Adjustment	280	289	299	310	318
Renewable Energy Income	(935)	(965)	(994)	(1,015)	(1,042)
Estimated Collection Fund Surplus	-	(20)	-	-	-
Council Tax Requirement	**8,889**	**9,648**	**10,811**	**12,611**	**13,214**
Estimated Council Tax Income	**8,623**	**9,022**	**9,362**	**9,708**	**10,037**
Latest Base Budget Deficit	**266**	**626**	**1,449**	**2,903**	**3,176**
Original MTFS Savings Requirement	***-***	***512***	***994***	***2,103***	
Change	***+266***	***+114***	***+455***	***+800***	

**** Note that Appendix B sets out a fuller analysis of key variances.***

Appendix B

General Fund Variance Analysis

For consideration by Cabinet 05 December 2017

	2017/18 Revised Compared to Original Budget		2018/19 Estimate Compared to Original Forecast	
	£	£	£	£
ORIGINAL BUDGET OR FORECAST		**15,839,000**		**16,200,000**
		ADVERSE / (FAVOURABLE)		
EXPENDITURE				
Employees				
Net turnover savings, incremental progression & restructures	(61,200)		(112,700)	
Additional Pay Award Provision (up to 1.5%)	0		87,300	
Living Wage Foundation increase	0	**(61,200)**	40,000	**14,600**
Premises				
Business Rates and Utility Savings	(77,200)		(59,700)	
Energy efficiency savings not achieved due to programming delays	64,600	**(12,600)**	0	**(59,700)**
Transport				
Increased cost of fuel		**11,700**		**19,500**
Supplies & Services				
Additional ICT costs from contract renewals	56,200		69,300	
External advice for Code of Conduct complaint	20,000		0	
Additional costs for Local Plan examination costs	0		76,000	
Local Elections	10,000		0	
Festivals savings not achieved due to programming delays	19,300		0	
Reduced Revenues Shared Service Mgt Fee	(48,000)	**57,500**	(28,000)	**117,300**
INCOME				
Charging for Green Waste Collection - less take up than originally anticipated	287,000		263,800	
Salt Ayre Leisure Centre (mainly reduced income)	230,700		121,700	
Additional NNDR legal costs recovered	(50,000)		(52,100)	
Other Net Fees & Charges Variances	(10,300)		2,800	
Additional grants (Universal Credit, New Burdens)	(141,000)		(4,000)	
Increased Investment Interest	(17,400)	**299,000**	(112,300)	**219,900**
Other Net Service Variances		**82,700**		**85,200**
CAPITAL FINANCING				
Reduced revenue financing of the Capital Programme (MRP)		**(111,100)**		**(196,800)**
LATEST NET REVENUE BUDGET POSITION		**16,105,000**		**16,400,000**
OVERALL NET OVERSPEND		**266,000**		

Update on Savings & Growth Options to be Explored Further in 2018/19 onwards

SERVICE	PROPOSAL	UPDATE
POTENTIAL SAVINGS		
Budget Proposals Arising From Previous Years		
Governance	Civic Regalia	Not being taken forward as most are donated or of little value, and potential for reputational damage.
Environmental Services	Electric Car Charging Points	On hold pending further review following advice received from APSE Energy.
Environmental Services	Review of Financial Viability of a Solar Farm at Middleton	Option for 2018/19 budget.
Regeneration & Planning	Platform Review	To be considered as part of wider developments.
Regeneration & Planning	Museums Review	Decision taken to bring service in-house. Option for 2018/19 budget.
Regeneration & Planning	VIC's Rationalisation	To be considered as part of wider developments.
Regeneration & Planning	Arts Grants Review	To be considered as part of wider developments.
Resources (Financial Services)	Reduction of Credit Card Charges	No longer viable due to change in legislation. Re-negotiation of charges still underway.
New Budget Proposals		
Resources (Property Group)	Office Accommodation Rationalisation / Corporate Property Strategy Review	Option for 2018/19 budget.
Environmental Services	Fleet Management Review	Option for 2018/19 budget.
Environmental Services	Trade Waste Scoping Exercise to Determine Expansion	Option for 2018/19 budget.
Environmental Services	Various Morecambe Concessions Review	Option for 2018/19 budget.
Environmental Services	Williamson Park Café (includes capital growth)	Option for 2018/19 budget.
Environmental Services	Car Parking Charges Review	On hold pending preparation of longer term car parking strategy.
Environmental Services	Advertising on Council Vehicles	On hold pending further investigation into need and income achievable.
Governance	Voluntary, Community & Faith Sector - Review of Funding	Report elsewhere on this agenda.
Health & Housing	Licensing Service Review	Deferred until Licensing Manager post filled, but no cashable savings expected.
Health & Housing	Salt Ayre - New facility for gymnastics, indoor ski/surfing (includes capital growth)	Alternative proposal for 2018/19 budget.
Revenues (Financial Services)	Centralised Payroll Function	Currently being implemented.
Resources (Revenues)	Review of Benefits Service (particularly Housing Benefit in light of Universal Credit roll-out)	Option for 2018/19 budget.
Resources (Revenues)	Review of Council Tax Discretionary Discounts and Exemptions	Option for 2018/19 budget.
POTENTIAL GROWTH		
Governance - HR	Learning & Development Capacity	Option for 2018/19 budget.
Governance - HR	Job Evaluation Review	On hold pending further investigation into need and costs.
Environmental Services	New CCTV System (includes capital growth)	Approved by Council 27 September 2017.
Environmental Services	Improve Lower Storey Garden (includes capital growth)	Subject to identifying external funding.
Environmental Services	Route Optimisation Software	Option for 2018/19 budget.
Environmental Services	"Pay on Foot" parking in St Nicholas Arcades Car Park (includes capital growth)	Full financial appraisal not undertaken to date, likely to be included as part of car parking strategy.
Regeneration & Planning	MAAP - Making the Heart of Morecambe (includes capital growth)	Option for 2018/19 budget.
Regeneration & Planning	MAAP - Improving Approach to Morecambe (includes capital growth)	Withdrawn - funded from other sources.
Regeneration & Planning	Lancaster Square Routes - Sun Square (includes capital growth)	No further bid submitted.
Resources (ICT)	Geographic Information Systems (GIS) Support & Development	Option for 2018/19 budget.
Resources (ICT)	Corporate Digital Projects (including mobile working and ICT modernisation strategy)	Links to options for 2018/19 and wider strategy development still underway.
All Services	Corporate Cultural Change	Underpinning theme; links to strategic planning and various budget proposals.

Appendix C

General Fund Capital Programme

For consideration by Cabinet 05 December 2017

Service / Scheme	2017/18 Gross Budget	2017/18 External Funding	2017/18 Net Programme	2018/19 Gross Budget	2018/19 External Funding	2018/19 Net Programme	2019/20 Gross Budget	2019/20 External Funding	2019/20 Net Programme	2020/21 Gross Budget	2020/21 External Funding	2020/21 Net Programme	2021/22 Gross Budget	2021/22 External Funding	2021/22 Net Programme	5 YEAR PROGRAMME Total Gross Programme	5 YEAR PROGRAMME Total External Funding	5 YEAR PROGRAMME Total Net Programme
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Environmental Services																		
Vehicle Renewals	2,105,000		2,105,000	1,234,000		1,234,000	1,371,000		1,371,000	1,886,000		1,886,000	515,000		515,000	7,111,000	0	7,111,000
Bins & Boxes Scheduled Buy-Outs	50,000		50,000			0			0			0			0	50,000	0	50,000
Car Parks Improvement Programme	73,000		73,000	23,000		23,000			0			0			0	96,000	0	96,000
Happy Mount Park - Pathway Replacements	6,000		6,000	3,000		3,000	103,000		103,000			0			0	112,000	0	112,000
Bay Cottage Play Area	47,000	(40,000)	7,000			0			0			0			0	47,000	(40,000)	7,000
CCTV	85,000		85,000			0			0			0			0	85,000	0	85,000
Grosvenor Park Play Area	54,000	(54,000)	0			0			0			0			0	54,000	(54,000)	0
Health and Housing																		
Disabled Facilities Grants	1,103,000	(1,103,000)	0	3,015,000	(3,015,000)	0	1,607,000	(1,607,000)	0	1,607,000	(1,607,000)	0	1,607,000	(1,607,000)	0	8,939,000	(8,939,000)	0
Salt Ayre Sports Centre - Redevelopment	1,251,000		1,251,000			0			0			0			0	1,251,000	0	1,251,000
Regeneration and Planning																		
Sea & River Defence Works & Studies	3,488,000	(3,488,000)	0	1,199,000	(1,199,000)	0	3,000	(3,000)	0	3,000	(3,000)	0	3,000	(3,000)	0	4,696,000	(4,696,000)	0
Amenity Improvements (Morecambe Promenade)	10,000		10,000	14,000		14,000			0			0			0	24,000	0	24,000
Luneside East			0			0			0			0			0	0	0	0
Lancaster Square Routes	34,000	(15,000)	19,000	11,000	(11,000)	0			0			0			0	45,000	(26,000)	19,000
Morecambe THI2: A View for Eric	62,000	(47,000)	15,000	514,000	(391,000)	123,000			0			0			0	576,000	(438,000)	138,000
MAAP Improving Morecambe's Main Streets	381,000		381,000	61,000		61,000	300,000		300,000			0			0	742,000	0	742,000
Pedestrian/cycleway Sainsbury's Mcbe s106 Scheme			0			0			0			0			0	0	0	0
Lancaster District Empty Homes Partnership	60,000		60,000	89,000		89,000			0			0			0	149,000	0	149,000
Bay Arena Improvements	11,000	(8,000)	3,000			0			0			0			0	11,000	(8,000)	3,000
Cable Street Christmas Lights			0	30,000		30,000			0			0			0	30,000	0	30,000
S106 Highways Works			0	200,000		200,000			0			0			0	200,000	0	200,000
Resources																		
ICT Systems, Infrastructure & Equipment	485,000		485,000	280,000		280,000	143,000		143,000	389,000		389,000	250,000		250,000	1,547,000	0	1,547,000
Corporate Property Works	2,088,000		2,088,000	2,067,000		2,067,000			0			0			0	4,155,000	0	4,155,000
Energy Efficiency Works	440,000		440,000	301,000		301,000			0			0			0	741,000	0	741,000
GENERAL FUND CAPITAL PROGRAMME	11,833,000	(4,755,000)	7,078,000	9,041,000	(4,616,000)	4,425,000	3,527,000	(1,610,000)	1,917,000	3,885,000	(1,610,000)	2,275,000	2,375,000	(1,610,000)	765,000	30,661,000	(14,201,000)	16,460,000

Financing :	2017/18 Net Programme	2018/19 Net Programme	2019/20 Net Programme	2020/21 Net Programme	2021/22 Net Programme	Total Net Programme
Capital Receipts	(1,142,000)	0	0	0	0	(1,142,000)
Direct Revenue Financing	(135,000)	0	0	0	0	(135,000)
Earmarked Reserves	(724,000)	(630,000)	(378,000)	(63,000)	(60,000)	(1,855,000)
Increase / (Reduction) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)	5,077,000	3,795,000	1,539,000	2,212,000	705,000	13,328,000

Appendix D