COUNCIL

2009/10 Budget and Policy Framework - General Fund Revenue Budget and Capital Programme

04 March 2009

Report of Cabinet

PURPOSE OF REPORT

To present Cabinet's budget proposals in order that the City Council can approve the 2009/10 Revenue Budget and Capital Programme in accordance with statutory deadlines and the framework previously approved by Council.

This report is public.

RECOMMENDATIONS:

In respect of the General Fund Revenue Budget:

1. **That the City Council's 2009/10 General Fund Revenue Budget of £23.999M be approved, together with the supporting proposals as set out at Appendices A to D.**

2. **That the Medium Term Financial Strategy for 2009/12 as set out at Appendix E be approved.**

3. **That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances and the affordability of borrowing.**

In respect of the General Fund Capital Programme:

4. **That the current year's revised Capital Programme as set out at Appendix F be approved.**

5. **That the five-year Capital Programme from 2009/10 onwards, also as set out at Appendix F, be approved.**

6. **That the Capital Investment Strategy as set out at Appendix G be approved.**

1 INTRODUCTION

1.1 At Cabinet on 17 February Members reconsidered their General Fund budget proposals for 2009/10. Those items requiring Council approval are reflected in the recommendations above, although the recommendation relating to Prudential Indicators has been incorporated into the proposed Treasury Management Framework, which is the subject of a separate report elsewhere on this agenda. Furthermore, some items that have been included in the budget proposals were considered as separate items by Cabinet, and therefore at the time of producing this report, they were still subject to call-in.

1.2 For the Housing Revenue Account (HRA), the budget and rent setting exercise was completed at the Council meeting held on 04 February, therefore there are no specific recommendations contained within this report for Council Housing services.

1.3 With regard to the Corporate Plan, proposals for the specific targets and outcomes to be considered for each corporate priority will be finalised after Council has approved the detailed proposals of the Revenue Budget and Capital Programme included in this report. Final recommendations relating to the Corporate Plan will therefore be presented to the Council meeting to be held on 08 April, following consideration by the Council's Business Committee.

1.4 Supporting information in connection with Cabinet's budget proposals is outlined in the following sections. In addition Members are requested to refer to earlier Cabinet reports for additional information as appropriate.

2 2008/09 GENERAL FUND REVENUE BUDGET UPDATE

2.1 At the last meeting Council approved this year's overall revised budget position, reflecting a net overspending of £571K. Within that amount, however, Cabinet have approved a number of changes as follows:

- Very recently the Council was notified of a further award of Local Authority Business Growth Incentive (LABGI) grant, amounting to £344K in the current year. Whilst the award is subject to consultation, it has been calculated based on the same principles as used for earlier awards and therefore no major changes are expected.

- The review of earmarked reserves has now been completed, as reflected in the attached appendices. Most notably, a Restructuring Reserve of £933K has been created, to provide funding for costs arising as a result of the various staffing changes and reductions associated with other budget proposals. In support of this, Cabinet has requested the Personnel Committee to review the Council's Redeployment and Early Termination of Employment policies.

- Other remaining reserves still provide for some limited progress regarding accommodation and customer services integration, but this is on the basis that any wider plans will not be taken forward at present. Once the Council's financial prospects are more certain, any future plans can be re-assessed.

3 **2009/10 GENERAL FUND REVENUE BUDGET PROPOSALS**

3.1 In line with the resolutions of the last Council meeting, updated revenue proposals for 2009/10 have been prepared, as set out at ***Appendix A***. These take account of various base budget adjustments as well as many other specific budget proposals considered by Members.

3.2 Also the Collection Fund position has now been reviewed, indicating that overall the Fund is broadly in balance and therefore there are no surpluses or deficits for distribution. This too has been taken account of in Cabinet's budget proposals.

3.3 The most significant changes in the base budget position relate to the following:

– repayment of capital related debt, and a review of investment interest rates
– concessionary travel, based on latest usage forecasts
– contributions to and from earmarked reserves
– updates regarding various grant notifications and income, e.g. benefits & planning.

3.4 In terms of savings and growth proposals, the items reported into Council in February amounted to only £306K net. Much work has been undertaken since then, and the new savings and growth proposals result in a reduction in net spending of £1.325M. Given the financial pressures facing the Council, in particular from current economic conditions and from concessionary travel, the overall aim of this budget exercise has been to reduce net spending on an ongoing basis, and it must be recognised that such a level of savings cannot be achieved through efficiency measures alone. The savings and growth proposals set out at Appendix A should be considered with this in mind.

3.5 In order to achieve the necessary savings, Cabinet approved a number of specific budget proposals at its meeting on 17 February and these are reflected in the appendix. In response to various concerns, however, Cabinet chose not to take the following savings options forward:

– closure of community pools
– turfing over of various flower beds
– reductions to the dog warden service
– removal of Special Responsibility Allowances for Group Leaders & Administrators.

3.6 Taking account of all the above, the budget proposals are now based on a £187K contribution from Balances in 2009/10. This would result in balances being broadly at their minimum level, and therefore no further contributions are scheduled in years 2010/11 and 2011/12. Updated statements on all provisions and reserves are included at ***Appendices B and C.*** These include the changes referred to earlier, in the current year.

3.7 Council is now recommended to approve the schedule of budget proposals as set out in the appendices. This would result in a net General Fund Revenue Budget (excluding parish precepts) of £23.999M, as shown at ***Appendix D,*** representing a 3.4% or £788K increase in net revenue spending. This ties in with a 4.0% increase in the basic City Council Tax Rate, excluding parish precepts, as agreed at the last Council meeting. The actual Band D Tax rate payable has now been confirmed as £185.31, representing a cash increase of £7.14, though this excludes any impact from the recent abolition of the Special Expenses adjustment for non-parished areas. It does correspond with the Council Tax amounts that the Secretary of State is expected to consider when considering capping, however. Recommendations regarding the full Council Tax charges for the district are included later on the agenda.

4 PROSPECTS FOR FUTURE YEARS

4.1 Indicative revenue spending and Council Tax forecasts for 2010/11 and 2011/12 have been reported and updated on an ongoing basis during the budget process. The latest projections are also included at ***Appendix D*** and are summarised below:

	Revenue Budget Projections			**Council Tax Projections**	
	Net Budget *£000*	**Annual Increase** *%*	**Assumed Contribution from Balances** *£000*	**Average Band D Tax Rate**	**Annual Increase (YOY)** *%*
2010/11	25,785	7.4	--	£217.52	17.4
2011/12	26,705	3.6	--	£230.96	6.2

4.2 As in previous years, some limited work has been done in analysing the drivers behind future years' budget increases and this will be used to inform further budget reviews. From the work undertaken so far, it is clear that the projections are as robust as they can be, taking into account the inherent risks and assumptions underlying any financial projections.

4.3 It is also recognised that certain key issues have yet to be addressed, and these will need to be resolved or clarified during the next year or so. The main issues are:

- Final outcome of Fairpay / Job Evaluation
- prospects for recovery of Icelandic investments
- Luneside East & other regeneration plans
- future plans for Access to Services (accommodation / customer services)
- future responsibilities regarding Concessionary Travel (from 2011/12 onwards)
- pension costs (from 2011/12 onwards)
- wider organisational review of Council services
- achievement of other ongoing efficiency savings and reductions in services.

Coupled with the above, future prospects for the UK Economy as a whole will have a major bearing.

4.4 Regarding Government funding, the Council received a good three-year provisional Settlement for the period to 2010/11, but prospects are gloomy and authorities may well see real reductions in their funding levels in the not too distant future.

4.5 Whilst the Council has the potential to achieve substantial recurring savings of over £1M during this budget exercise, based on current forecasts there is still a considerable way to go before the Council has what could be viewed as a financially sustainable budget. The Council needs to maintain focus on the medium term, in order to make future budget exercises easier to manage and deliver. Should there be an over-reliance on one-off savings, this makes future years' budget setting much more difficult, including managing various stakeholder expectations. With these points in mind, a number of other potential savings measures are to be taken forward during 2009/10, to inform budget setting for 2010/11 onwards. There are highlighted at the bottom of Appendix A.

4.6 A year ago, the forecast increases in Council Tax for 2009/10 and 2010/11 were 13.1% and 8.8% respectively. A year on, the proposed rate increase for 2009/10 is down to 4% but 2010/11 is now forecast at around 17%. To some degree this follows a similar pattern in previous years but there are many factors that have changed the projections; the major ones being:

- the economy as a whole, and its impact on income and services
- service growth coming on line in 2010/11 (e.g. food waste recycling)
- the timing and nature of savings proposals, in particular one-off items
- to a lesser degree, changes in contributions from balances.

4.7 Given this context, at this time Council is recommended to retain the 4.0% target increase for Council Tax in years 2010/11 and 2011/12, and these have been incorporated into the updated Medium Term Financial Strategy (MTFS) set out at ***Appendix E.*** In considering the Strategy, the following points are highlighted:

- Should Members wish to retain the existing target of a 4% year on year Council Tax increase, the net savings requirements would be:

  2010/11: £1.073M
  2011/12: £1.322M

  These are also shown in Appendix D. No general headroom for future years' growth has been quantified, other than for those items previously considered (e.g. food waste). Instead, the savings requirements would need to be increased to cover any such needs.

- It is again assumed that Cabinet would attempt to generate additional savings beyond those required to meet the proposed MTFS targets, to support the options of either allowing further growth, and/or allowing lower increases in Council Tax.

- In the main, the content of the strategy document is the same as in previous years but the main text changes are shaded, for ease.

5 GENERAL FUND CAPITAL PROGRAMME

5.1 With regard to the current year's programme, a review of all capital schemes has now been undertaken. After allowing for various changes and estimated slippage, the exercise has resulted in a Revised Gross Programme totalling £11.653M for 2008/09. Capital receipts unapplied as at 31 March 2009 are estimated at £370K (to be carried forward for use in the following year).

5.2 The proposed programme for the current year is included at ***Appendix F,*** for Council's approval. It is highlighted that the appendix includes two versions of the programme. The first sheet shows the full Gross Capital Programme, which sets out the total estimated cost of schemes including any amounts to be funded from external grants and contributions, etc. The second sheet shows the Net Capital

Programme that focuses on only the City Council's own contributions to schemes. This second sheet also includes a small summary statement on capital receipts.

5.3 With regard to future years, at earlier meetings Members have approved a number of financing principles to be followed in determining the General Fund Capital Programme. In line with these, a balanced programme for the five-year period to 2013/14 is also set out at ***Appendix F*** for Council's approval.

5.4 Other than the inclusion of the Chatsworth Gardens scheme, subject to funding, and the re-scheduling of various other projects to ease pressure on the funding position in 2009/10, there have been few changes to the capital position overall. In total the 5-year draft Capital Programme (from 2008/09 onwards) now amounts to £34.63M.

5.5 In Council considering the proposals for next year onwards, the basic funding assumptions are as follows:

- A £1.401M reduction in the underlying need to borrow, to offset the interim increase approved by Council back in December / November.

- £8.983M of applied capital receipts over the period. A further £717K is receivable, but any additional resources such as this would not be allocated to fund new capital expenditure. Instead, these balances will be left for now, to help with any potential funding difficulties arising over the period.

- £779K funding from revenue / reserves. This has increased by £250K, to provide additional cover for legal costs associated with Luneside compensation claims.

- £26.269M funding from grants and contributions.

5.6 The funding position is balanced in all years, and should the programme and its financing be delivered as currently planned, there would be a surplus in capital receipts of £717K at the end of 2013/14.

5.7 With regard to the timing of specific capital receipts, around £4.5M (of the £7.1M due in 2009/10) is needed to fund capital spending in that year. There is a clear risk in that schemes may not be able to progress as planned, if receipts are not received early enough in the financial year.

5.8 There are also a number of points and risks to note regarding specific schemes:

i. For Luneside, the draft programme provides only for defending existing compensation claims, and for settling such claims at previously budgeted levels. In the event that further liabilities arise, the Council would have no option other than to meet such liabilities from an increase in its borrowing assumptions and this has been provided for within the Council's proposed borrowing limits accordingly, for approval by Council. Regarding any revenue implications and any assessment of Prudential Code implications, (i.e. affordability, sustainability and prudence), these would be considered at that time. For now though, and on the basis that this provision is a fall-back for an asset that would still be under development, no provision for any future years' repayment needs to be provided as yet – although clearly this would change if the borrowing provision is needed. In such a situation, this would add further pressure to future years' revenue budgets and this risk should be noted.

ii. Similarly the draft programme makes no provision for any new Access to Services developments, as highlighted earlier, nor any capitalisation of any potential losses in respect of Icelandic investments.

iii. As in previous years, for several proposed schemes their funding positions and/or their business cases are not finalised and whilst they are included provisionally within the draft programme, this is only on the basis that positive outcomes will be forthcoming. It is highlighted that the recently approved arrangements for strengthening programme management and project support will assist with ensuring that robust appraisals are undertaken, before any such schemes progress.

iv. Other potential capital schemes have been omitted at this stage, and will only be incorporated into the Programme should they gain the relevant approvals to progress.

v. Members will see from the attached draft Programme that by far the biggest area of capital investment to be funded from the Council's own resources still relates to Municipal and other Building Works. Under the Financial Regulations, schemes cannot progress until funding is in place, and section 5.7 above touches on the risks involved. Notwithstanding the financial pressures, there could be a need to progress some emergency works to ensure that key health and safety standards are met and buildings can be kept in operation, irrespective of the funding position (this is also catered for within Financial Regulations.) In this regard, an additional interim increase of £1M has been built into the proposed borrowing limits on a similar basis to that approved by Council last year (i.e. short term only, to be 'repaid' through future capital receipts). A strict approach would be adopted to ensure that the use of any such facility is kept to an absolute minimum, and Members would be updated on any usage of this facility, accordingly.

vi. Finally, and also with regard to Municipal and Other Building Works, it is recognised that the draft Programme assumes that the bulk of backlog 'repairs' will constitute capital expenditure, given the amount of structural works involved, but there is significant risk in this approach (i.e. some costs might have to be charged to revenue instead). Specific arrangements have been put in place to manage this, but it is an area that will require close monitoring. It will also be covered by future plans for facilities management generally.

5.9 Overall the draft programme allows for some very limited new investment in various facilities and regeneration continues to form the key part, although this relies heavily on external funding. This fits with proposed priorities, and the Council's financial prospects.

5.10 The Council is still ambitious, however, and this continues to reflect in its appetite for bidding for (and success in attracting) external funding. As is evidenced in the Luneside position though, delivering externally financed schemes can have significant financial and other risks attached, leading to potential difficulties regarding affordability. In ensuring that the recommended programme fits well with proposed priorities but is still affordable, prudent and financially sustainable, there has been the need to delay or put on hold some investment plans, the most notable of which is the wider Access to Services accommodation scheme.

5.11 The Capital Investment Strategy has been updated to reflect all of the above and is attached at ***Appendix G*** for consideration. This also outlines the management arrangements for actually delivering and monitoring the Programme. As with the MTFS document, the main changes (other than figures and tables) have been shaded, for ease.

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 Local Government Act 2003 places explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. Previous Cabinet and Council reports have already included details of this advice, together with the risks and assumptions underpinning the budget process. A summary is provided below for information. In addition the legislation requires that the Council should have regard to the s151 officer's report, hence the recommendation.

The s151 Officer is also responsible for ensuring that when setting and revising Prudential Indicators, which include borrowing limits and relate mainly to capital investment plans, all matters to be taken into account are reported to Council for consideration.

Reserves and Provisions

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed, given that measures are in place to manage and reassess other key issues such as Fairpay / Job Evaluation, and recognising that the arrangements to deal with any principal losses arising from Icelandic investments have effectively been postponed, in line with Government Regulations. The budget proposals and future plans include a number of measures that involve reductions to the staffing establishment. With this in mind, a restructuring reserve has been created but clearly actual costs arising cannot yet be accurately assessed. This will need careful monitoring and control as the year progresses.
- Unallocated balances of £1M for General Fund are reasonable levels to safeguard the Council's overall financial position. £1M represents about 4.2% of the General Fund Net Revenue Budget. This advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific service policy change indicates otherwise.

  At present the General Fund budget proposals assume that estimated surplus balances as at 01 April 2009 (£191K) will, in the main, be used to support next year's revenue budget. The use of any further surplus balances arising would be linked with future MTFS reviews, and would require Council approval.

Robustness of Estimates

A variety of exercises have been undertaken to establish a robust budget for the forthcoming year. These include:

- Producing a continuation budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.
- Reviewing the Council's priorities and its associated service activities and spending / income generation plans. This has been supported by the Star Chamber exercise and by consultation. It includes putting some wider plans on hold for the time being, e.g. accommodation.
- Reviewing the Council's medium term financial strategy and planning, following its adoption last March, together with other corporate financial monitoring information produced during the year.
- Undertaking a review of the Council's affordable borrowing levels to support capital investment, in line with the Prudential Code, but taking account of Government Regulations regarding Icelandic investments.
- Reviewing the level of reserves and other sources of financing, to ensure as far as possible that funding arrangements are in place for potential but un-quantified costs and liabilities (again this excludes any provision for Icelandic investments, but does cover Luneside and future restructuring).

These measures ensure that as far as is practical at this stage, the estimates and assumptions underpinning the budget are robust. The major areas of uncertainty, however, and therefore risk, relate to:

– Prospects for recovery of Icelandic investments. As yet, there is no information on which to make an informed view regarding how much of the total amounts owing (£6M plus £260K accrued interest to October 2008) will be returned. Members will be aware that updates on the Icelandic investments position are to be reported into Council, to inform budget considerations. A summary statement is set out at ***Appendix H****,* regarding the current position of the three banks in which the Council holds investments. Now that the budget exercise for 2009/10 is completed, it is intended that formal updates will be included through the usual routes (i.e. in particular through quarterly PRT meetings). Monthly updates from the Local Government Association (LGA) to Group leaders will continue.

– For a number of budget savings proposals, the exact detail of how these will be achieved is not yet clear, although options do exist to achieve them. (Salt Ayre savings is one such example). Overall, keeping next year's spending line with the budget overall will be challenging, given the number of savings to be achieved, and the additional work identified to help with future years. There are substantial risks attached to such approaches, but they should be manageable as long as robust arrangements are put in place. Again, this is as aspect that will require careful monitoring. For all savings and growth proposals, formal arrangements will be implemented to monitor and review progress, and to allow remedial actions to be taken if required. This will include reporting through existing Performance Review Team (PRT) meetings.

– Fairpay / Job Evaluation. Based on current modelling there is sufficient funding in place to address the costs of this in the medium term, but until the new pay and grading structure is finally adopted, financial (and other) risks still remain.

- Assumed capital and other income from property sales. As reported previously, these assumptions are still significant, though the budget proposals should help provide some flexibility if difficulties arise.

- Potential liabilities arising from capital schemes. As outlined in the report, if necessary further borrowing may be required and this would add further pressure to the revenue budget.

- The economic position generally poses further risks, especially given the uncertainties that still exist in the financial sector, together with the potential implications of recession for service demands and income levels. Again however, as far as possible these have been taken account of in developing the budget.

It is anticipated that most, if not all of the above should become clearer during 2009/10 and the Council's financial and performance monitoring arrangements should enable timely identification of any additional actions required.

Affordability of Spending Plans

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having particular regard to the impact on council tax and housing rents. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political, local and national influences.

The factors that have been taken into account in considering capital investment plans include the following.

- Availability of capital resources, including capital grants, capital receipts, etc
- Existing commitments and service / priority changes
- Revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing
- Future years' revenue budget projections, and the scope to meet borrowing costs
- The likely level of government support for borrowing and for revenue generally.
- The likely need for further capital investment and prudential borrowing, as yet un-quantified, to address other potential liabilities arising.

In considering and balancing these factors, the capital proposals to date are based on a net reduction in prudential borrowing of £1.4M over the period from 2009/10 to 2013/14. As far as possible, measures have been taken to minimise capital investment, in recognition of the pressures facing the Council. That said, it is acknowledged that some degree of unsupported borrowing may be unavoidable to address Luneside and Municipal Building Works. It is acknowledged that if this is the case it will add further pressure to the revenue budget, at least in the short term, and further revenue savings would be required to ensure affordability. These issues have been built into the draft Prudential Indicators elsewhere on the agenda, for approval by Council.

LEGAL IMPLICATIONS

Legal Services have been consulted and there are no legal implications arising directly from this report.

DEPUTY MONITORING OFFICER'S COMMENTS

The Deputy Monitoring Officer has been consulted and has no further comments.

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