

COUNCIL

2010/11 Budget and Policy Framework - General Fund Revenue Budget and Capital Programme

03 March 2010

Report of Cabinet

PURPOSE OF REPORT

To present Cabinet's budget proposals in order that the City Council can approve the 2010/11 Revenue Budget and Capital Programme in accordance with statutory deadlines and the framework previously approved by Members, and approve the Council's future financial strategy for the medium term.

This report is public, with the exceptions of Appendices A and A(i), which are exempt by virtue of paragraph 3 of Schedule 12a of the Local Government Act 1972.

Appendices A and A(i) are for information purposes only and can be found at the end of the Agenda.

RECOMMENDATIONS:

- 1. That the City Council's 2009/10 Revised Budget of £24.046M be approved, with the net overspending of £47K being met from Balances.**
- 2. That the City Council's 2010/11 General Fund Revenue Budget of £24.740M be approved, together with the supporting proposals as set out at Appendices B to E.**
- 3. That the Medium Term Financial Strategy covering both revenue and capital investment, and as set out at Appendix F, be approved.**
- 4. That the Capital Programme as set out at Appendix G be approved, together with the supporting Prudential Indicators at Appendix H.**
- 5. 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.**

1 INTRODUCTION

- 1.1** At Cabinet on 16 February Members reconsidered their General Fund budget proposals; those items requiring Council approval are reflected in the recommendations above. It should be noted that some specific issues 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 03 February and therefore there are no specific recommendations contained within this report regarding council housing.
- 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 next Council meeting, scheduled in April.
- 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 **2009/10 GENERAL FUND REVENUE BUDGET UPDATE**

- 2.1 At the last meeting Members considered the position regarding the current year's budget but given the uncertainties surrounding Icelandic investments at the time the report was produced, no firm recommendations were made regarding the revised position.
- 2.2 A capitalisation directive has now been received from Government, however, and this provides a way forward in managing the estimated additional potential losses associated with not gaining priority creditor status for claims against Glitnir. Landsbanki claim assumptions could change in future, but they will be formally reviewed again at outturn.
- 2.3 As such, the revised budget for 2009/10 remains at £24.046M and it is proposed that the net overspending of £47K be met from surplus balances. Whilst corporate financial monitoring information indicates a comparatively small net underspending against the proposed revised budget, there are still various budgetary uncertainties that may impact on outturn. Importantly though, there is no further net overspending forecast at this point.
- 2.4 There is only one other item highlighted that may result in further potential spending in the current year, that being the proposal for Lancaster Market. Details of this are set out in the attached **exempt Appendix A**. At the February Cabinet meeting Members resolved, subject to call-in:
 - (1) *That approval be given to a letting of the Market Hall, Lancaster, to a single retailer on the basis set out in the report, subject to the revenue and capital implications identified within the report being approved by full Council as part of the 2010/11 budget process. Such report (to full Council) to include a cash flow forecast.*
 - (2) *That, subject to that approval by full Council, in order to facilitate the letting to a single retailer, whether in accordance with the proposal in recommendation (1) or to any alternative single trader should that proposal fail to materialise, approval be given to serve notices to terminate the leases/licences to existing market traders.*
 - (3) *That subject to recommendation (1) being approved, further reports be made on the staffing implications of operating the markets.*
 - (4) *That the opportunity to increase the number of days on which the Charter Market operates be investigated.*

(5) That subject to recommendation (1) being approved, in accordance with the council's Financial Regulations, approval be given to an exception to the Contract Procedure Regulations to enable the appointment of Cushman Wakefield to undertake the design/project management work on the Market Hall building.

- 2.5 The cash flow forecast referred to in resolution (1) above is now included at **exempt Appendix A(i)**. Whilst the proposals impact mainly in 2010/11 and beyond, potentially there could be a small amount of expenditure incurred in the current year. A separate potential source of financing has been identified, however, and therefore either way, the Market proposals would have no bearing on the recommendations for the 2009/10 Revised Budget.

3 **2010/11 GENERAL FUND REVENUE BUDGET PROPOSALS**

- 3.1 In line with the resolutions of the last Council meeting, updated revenue proposals for 2010/11 have been prepared as set out at **Appendix B**. 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 in surplus, of which £19K is attributable to the City Council. This too has been taken account of in Cabinet's budget proposals.
- 3.3 The most significant changes to the budget proposals since the February Council meeting relate to the following:
- a £20K reduction in the Budget Requirement, to tie in with a 3.75% increase in Council Tax;
 - removal of the proposed £111K growth to acquire a vehicle tracking system for the refuse collection service;
 - the addition of more minor growth, to reinstate previous funding levels for Countryside Projects and the Areas of Outstanding National Beauty (AONBs);
 - the inclusion of various base budget changes and other relatively minor changes to savings proposals;
 - and finally, and perhaps most significantly, the inclusion of the Lancaster Market proposals referred to earlier, albeit that the up front costs would be funded from monies held within the Capital Support Reserve. The balance on this had previously been earmarked for any additional liabilities arising in connection with Luneside East; this is considered later within section 5 of this report.
- 3.4 In terms of savings and growth, the items reported into Council in February amounted to a £131K net reduction for 2010/11. As a result of the changes highlighted above, the new savings and growth proposals result in a reduction of £223K, but with much greater impact in subsequent years. Given the financial pressures facing the Council, the overall aim of this budget exercise has been to reduce net spending on an ongoing basis and it must be recognised that future savings cannot be achieved through efficiency measures alone. The savings and growth proposals set out at Appendix B should be considered with this in mind.
- 3.5 Taking account of all the above, the budget proposals are now based on a £120K contribution to Balances in 2010/11. This would result in estimated Balances being

that much above their minimum level as at the end of March 2011. The existing Medium Term Financial Strategy (MTFS) does not provide specifically for the application of such surplus balances. In effect, assuming no further overspending arises in the current year, these monies would be available for Council to allocate in due course, as part of future MTFS reviews or budget processes. Updated statements on all provisions and reserves are included at **Appendices C and D**.

- 3.6 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 £24.740M as shown also at **Appendix E**, representing a 3.1% or £741K increase in net revenue spending. This ties in with a 3.75% 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 £192.25, representing a cash increase of £6.94. The year on year % increases referred to are the figures that the Secretary of State is expected to review when considering capping. 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 2011/12 and 2012/13 have been reported and updated on an ongoing basis during the budget process. The latest projections are also included at **Appendix E** and are summarised below:

	Revenue Budget Projections (allowing for savings & growth)			Council Tax Projections	
	Net Budget	Annual Increase	Assumed Contribution from Balances	Average Band D Tax Rate	Annual Increase (YOY)
	£000	%	£000		%
2011/12	24,938	0.8	--	£208.32	8.4
2012/13	25,292	1.4	--	£227.18	9.1

- 4.2 Importantly, the above figures include the savings from Community Pools and Lancaster Market. In February Cabinet reaffirmed its decision to terminate the existing Pools management agreement with the County Council and therefore this saving is now included within the base budget. Clearly though the Lancaster Market proposal is still subject to Council approval and it is therefore included within Cabinet's specific budget proposals.

- 4.3 As a result of these key items and other savings, future years' budget forecasts are much more manageable than has previously been the case. Nonetheless, other work has been done in analysing the drivers behind future years' budget increases. For 2011/12, the Council Tax forecast is influenced by:

- Funding assumptions for concessionary travel. As the future responsibilities for this function and any associated funding transfers have not been resolved, at present the draft net budgets for 2011/12 onwards assume that the £690K additional grant awarded for next year will remain as a one-off. The actual outcome could be better or worse for the Council.
- The cost of City Council elections, estimated at around £150K.

- 4.4 In addition, the current projections for 2011/12 and 2012/13 assume a 3% year on year cash reduction in Government support and unfortunately this has offset many of the savings approved earlier during the budget. Had this not changed, the Council's financial outlook would have been much better.
- 4.5 It is also recognised though that the Council is still facing other key challenges and issues and these should be progressed during the next year or so. These include:
- further review of the pay and grading structure
 - any changes to prospects for recovery of Icelandic investments
 - Luneside East, Chatsworth Gardens & other potential regeneration plans
 - pension costs
 - wider organisational review of Council services, and any accommodation plans.
- 4.6 Coupled with the above, future prospects for the UK economy as a whole will have a major bearing, as may Government priorities.
- 4.7 Notwithstanding the progress that has been made during this budget exercise, based on current forecasts there is still a way to go and many uncertainties to be resolved 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. There is a consistent message regarding the bleak outlook for public finances and Council is advised not to assume that financial prospects will improve without some difficult decisions being needed.
- 4.8 Given this context, at this time Council is recommended to approve a 3.75% 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**, as well as the other appendices. In considering the Strategy for revenue planning, the following points are highlighted:
- The proposal represents a small reduction in the previous 4% year on year target increase. The resulting new net savings requirements (over and above current budget proposals) would be:

2011/12:	£385K
2012/13:	£881K
 - A number of actions to generate savings from 2011/12 onwards are included at the bottom of Appendix E. This includes decisions such as the termination of the Museums Partnership, which will be reflected within the savings and efficiency programme for 2011/12 onwards.
- 4.9 It can be seen from the attached MTFS that it now incorporates both revenue planning and capital investment for General Fund as the two are intrinsically linked. The Strategy also includes information on the key strategic and financial risks that Cabinet has considered in formulating its budget and planning proposals.
- 4.10 Once approved, the Strategy and associated projections will continue to be reviewed and updated regularly. In this way the Council can maintain an informed view about its financial outlook and the implications for corporate priorities and service delivery.

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 £11.4M for 2009/10. Taking account of the capitalisation directive and slippage on other schemes, this year's programme assumes a £1.842M increase in the underlying need to borrow, also known as the Capital Financing Requirement (CFR).

- 5.2 The proposed programme for the current year is included at **Appendix F**. 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. The first sheet also includes a small summary statement on capital receipts.
- 5.3 With regard to future years, previously Members have approved a number of principles to be followed in determining capital investment plans. In line with these, a balanced programme for the five-year period to 2014/15 is also set out at **Appendix F** for Council's consideration. The proposed programme stands at £29.4M and the key changes made since the last Council meeting include the following:
- Unfortunately the funding bid to the North West Development Agency (NWDA) regarding the Townscape Heritage Initiative 'A view for Eric' has been unsuccessful. The outline scheme and its financing assumptions have therefore been removed from the draft programme; alternative options are now being explored for consideration by Members in due course.
 - Whilst the Council has received its allocation of Regional Housing Pot (RHP) funding, it has still not yet received notification of the funding available for Disabled Facilities Grants. On the basis that the Council would wish to consider various options for allocating RHP monies, the draft programme does not now include any specific proposals. Cabinet will receive a separate report in due course on this matter to determine the detailed allocations.
 - The Lancaster Market proposal would involve a re-fit of the property in order to make it suitable for a single trader. The estimated costs of this have been included, together with the funding assumptions as outlined in the attached report. In effect this would be an invest to save scheme, with the financing costs more than offset by the estimated savings in future years.
 - The proposal to acquire a vehicle tracking system for the refuse collection service has been removed, together with its associated revenue financing.
 - Additional contributions totalling £180K have been taken from the Renewals Reserve, in order to balance the Programme.
- 5.4 In Council considering the proposals for next year onwards, the basic funding assumptions are now as follows:
- A £591K reduction in the underlying need to borrow (or CFR).
 - £9.590M of applied capital receipts over the period, with £1.7M required in 2010/11. None of this total has been received as yet. The risks attached have been well documented, in particular regarding land at South Lancaster.
 - £628K funding from reserves over the period.
 - £19.747M funding from grants and contributions.

- 5.5 In terms of managing the financing risks, the existing investment strategy makes provision for allowing *essential* works to progress before programmed financing is in place. Furthermore it is proposed that this arrangement be used to provide funding for any liabilities arising from the outcome of the Lands Tribunal for Luneside (see comments below).
- 5.6 There are 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, although only limited funds are still available within the Capital Support Reserve to help cover any additional liabilities arising. In the event that this proves insufficient, the Council would have no option other than to meet such liabilities from an increase in its underlying borrowing assumptions and this has been provided for within the Council's borrowing limits and prudential indicators. That said, very recent information indicates that a favourable outcome to the preliminary issues considered by the Lands Tribunal is likely, but this is still subject to detailed consideration and any appeals. The determination of these issues will introduce some clarity in assessing the final settlement of the compensation claims submitted to the Tribunal, and any resulting financing requirement. It is also reiterated that the draft programme still does not include any budget provision for resolving future development of the site. Options around this are still being assessed, centred around further external funding bids.
 - ii. The draft programme makes no provision for any new Access to Services developments, any Chatsworth Gardens scheme, nor does it have any general provision to facilitate other schemes, e.g. Square Routes. Other resources would need to be identified should there be any match funding requirements.
 - 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. This applies specifically to some Coastal Protection schemes and any developments associated with The Platform, as examples.
- 5.7 Overall the draft programme allows for some limited new investment in various facilities and regeneration continues to form a key part, although this relies heavily on external funding. The Council is still ambitious and this continues to reflect in its appetite for bidding for external funding, albeit that the availability for such sources has tightened recently with strong competition being demonstrated. Invest to save schemes are gaining prominence in the Council's spending plans; this fits with proposed priorities and the Council's financial prospects.
- 5.8 The capital investment elements of the MTFs have been updated to reflect all of the above and this is incorporated at **Appendix E** for consideration. In addition, the Council's Prudential Indicators have been updated to reflect the draft capital position and these are attached at **Appendix G**.

6 CONCLUSION

This report outlines the actions proposed to complete the budget setting process for 2010/11 and to set the financial planning framework for the medium term. The proposals fit with recent development of priorities and whilst they involve some difficult decisions, they would enable the Council to be better placed to face up to financial challenges expected in future years, in striving to achieve a sustainable budget position.

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.
- Unallocated balances of at least £1M for General Fund are reasonable levels to safeguard the Council's overall financial position. £1M represents about 4% 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.

Robustness of Estimates

A variety of exercises have been undertaken to establish a robust budget for the forthcoming year, as reported previously. These measures ensure that as far as is practical at this stage, the estimates and assumptions underpinning the revenue budget are robust.

Other key areas of risk are highlighted in the body of the report and specifically in Appendix F.

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 unquantified, to address other potential liabilities arising.

In considering and balancing these factors, the capital proposals to date are based on a net reduction of £591K in the underlying need to borrow (or CFR) over the period from 2010/11 to 2014/15, but with an increase of £1.842M in the CFR for 2009/10. These projections take account of the capitalisation directive to help manage currently estimated losses in Icelandic investments and the invest to save proposal for Lancaster Market. As far as possible, measures have been taken to reduce other capital investment, in recognition of the pressures facing the Council. That said, it is acknowledged that some degree of supported borrowing may be unavoidable to address Municipal Building Works as an example. 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 for approval by Council.

LEGAL IMPLICATIONS

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

LG Finance Settlement
Prudential Code

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