

Budget Framework 2017 to 2021 01 March 2017

Report of Cabinet

PURPOSE OF REPORT

To present Cabinet's budget framework proposals in order that the City Council can complete its budget setting for 2017/18 and update its financial strategy to 2021.

This report is public.

RECOMMENDATIONS:

- (1) That the General Fund Revenue Budget of £15.839M for 2017/18 be approved, resulting in a Council Tax Requirement of £8.623M excluding parish precepts, and a Band D basic City Council tax rate of £213.97.**
- (2) That the Medium Term Financial Strategy (MTFS) be approved as set out at Appendix A, subject to Council agreeing the following:**
 - (a) That the supporting General Fund revenue budget proposals be approved, as summarised at Annexes 1 and 10.**
 - (b) That the Housing Revenue Account budgets and future years' projections be approved, as set out at Annex 2.**
 - (c) That the Policy and Statement on Provisions and Reserves be approved, as set out at Annexes 3 and 4.**
 - (d) That the General Fund Capital Programme be approved, as set out at Annex 5.**
 - (e) That the Council Housing Capital Programme be approved, as set out at Annex 6.**
 - (f) That the budget transfer (virements and carry forwards) limits be approved, as set out at Annex 7.**
- (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.**

1 INTRODUCTION

- 1.1 At its meeting on 14 February Cabinet finalised its budget framework proposals for General Fund, with Council Housing proposals being finalised at the earlier meeting on 17 January. These are all now reflected in the recommendations of this report. Government published the final Settlement for debate on 22 February and whilst there are some minor presentational changes arising, there is no impact on council tax.
- 1.2 Supporting information in connection with Cabinet's proposals is outlined in the following sections. Members are requested to refer to earlier Cabinet reports for further background information.

2 STRATEGIC CONTEXT

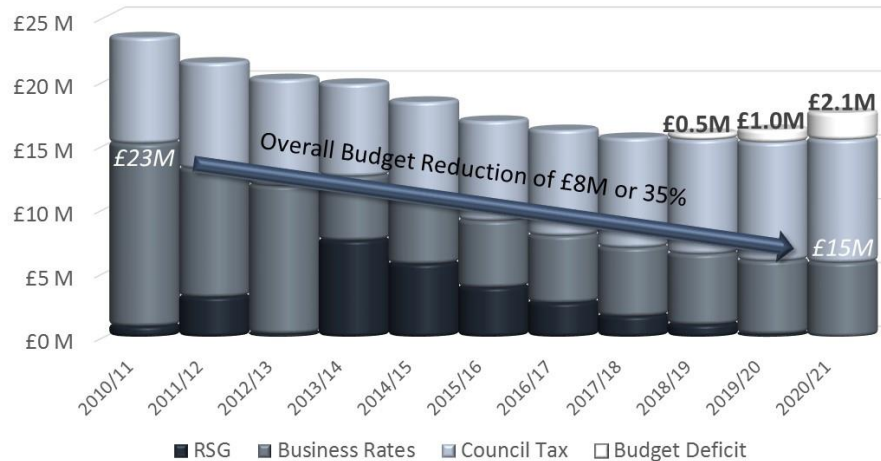
- 2.1 As reported previously, in strategic terms the main challenge of budget setting is to match priorities and corporate planning objectives against what is affordable financially. To achieve this, in previous budget exercises the Council has sought to redefine the outcomes and reduce many of the actions within the Corporate Plan, in support of the existing four priorities of:
- Health and Wellbeing
 - Clean and Green Places
 - Community Leadership
 - Sustainable Economic Growth
- 2.2 In light of the two-phased budget approach being taken and the forthcoming strategic review of the Council's services and priorities, it is not intended at this stage to undertake an annual refresh of the Corporate Plan. Instead, performance information against current corporate planning will be fed into that strategic review, with the ultimate outcome informing new Corporate Plan proposals from 2018/19 onwards.
- 2.3 Nonetheless, the Council's financial challenges continue and in order to protect future viability, there is no real choice other than to focus on balancing the budget for the medium term. This aim is central to Cabinet's two-phased budget strategy.
- 2.4 By continuing to make efficiency savings and increase income generation, and by keeping with steady annual increases in council tax, Cabinet is in a fortunate position to present balanced budget proposals for 2017/18 – allowing for some modest growth in connection with predominantly statutory areas, but importantly, creating a £500K reserve to support economic strategy and growth, whilst strengthening other reserves to support the development of future budget plans.
- 2.5 For Council Housing services, Cabinet has managed to contain the ongoing reductions in housing rents whilst putting in place plans to improve support to tenants, to help them cope better with Government's ongoing welfare reform agenda. Also, Council Housing services will contribute to the proposals for tackling anti-social behaviour.
- 2.6 Council is requested to consider the budget proposals in context. The key points and main changes since last Council are outlined in the following sections.

3 GENERAL FUND

3.1 Revenue Budget

- 3.1.1 The financial challenges still facing the Council, and the progress made so far, must both be appreciated and these aspects are shown in the following diagram.

The Budget: Past, Present and Future



- 3.1.2 In essence, it is still anticipated that the Council will have to reduce its annual net spending on services by another £2M or so by 2021, on top of the £7M+ it has already saved.
- 3.1.3 Full details are provided in the updated Medium Term Financial Strategy (MTFS), which is set out in **Appendix A** for Council's consideration. This incorporates all of Cabinet's budget proposals. In addition, the detail behind specific General Fund savings and growth is attached at **Appendix B**.
- 3.1.4 As was reported in February, the bulk of the MTFS remains much the same. It will be updated as necessary during next year, as part of the strategic review process. The key figures and targets set out in the MTFS are replicated below.

Target	2017/18	2018/19	2019/20	2020/21
Target Budget Requirement	£15.839M	£15.688M	£15.487M	£15.784M
Target Council Tax Requirement	£8.623M	£8.956M	£9.295M	£9.640M
Target Council Tax Increase (Band D)	£5.00 2.39%	£5.00 2.34%	£5.00 2.28%	£5.00 2.23%
Target Council Tax Rate (Band D)	£213.97	£218.97	£223.97	£228.97
Year on Year Net Savings Requirement (assumes recurring savings achieved)	-	£0.512M	£0.994M	£2.103M
Cumulative Net Savings Requirement	-	£0.512M	£1.506M	£3.609M

- 3.1.5 Taking account of the proposed £5 increase in Band D council tax and the final Settlement, the resulting General Fund Revenue Budget needs to be set at £15.839M. In simple terms this translates into a 4.1% year on year reduction in net spending.
- 3.1.6 Setting the Revenue Budget at £15.839M would result in a 2.4% increase in the basic City Council tax rate for the district. The actual basic Band D City Council tax payable (excluding parish precepts) would be £213.97, which would raise income of £8.623M for City Council services. Increases for other bandings are included in the attached MTFS.
- 3.1.7 In support, Council is recommended to approve updated revenue proposals as summarised at **Annexes 1 (i and ii) and 10** to the MTFS. These take into account the decisions of Cabinet at its meeting on 14 February, subject to call-in.
- 3.1.8 Regarding Community Pools, in line with the resolution from December Council and the position statement sent to all Members on 01 February, the recent consultancy report concludes that whilst there appears to be viable business cases for Carnforth and Heysham pools, unfortunately this is not the case for Hornby pool. Regrettably, this means that Hornby pool will cease to operate on 31 March 2017 and the building will transfer back to the County Council, for them to decide its future. Carnforth and Heysham pools will be funded until the end of September 2017, by which time it is hoped that the schools will be in a position to take them on. In terms of the budget, Cabinet's proposals currently anticipate that the County Council will provide funding to support the extension for the two pools for the six month period. If sufficient funds are not forthcoming, the shortfall will be met from the Budget Support Reserve.
- 3.1.9 In finalising its budget proposals, Cabinet has also given due consideration to the various points fed back from the January Budget and Performance Panel and February Council meetings, the responses to which are set out below:

- **More detailed information be provided prior to Budget Council regarding Key Performance Indicators (KPI's) in relation to new posts proposed as growth items within the Budget Proposals.**

As far as possible given time constraints, more information has been reflected in the relevant growth proposals attached at Appendix B. They will be reviewed, updated and reported on as need be during the course of the year.

- **Further details be provided regarding the £500,000 reserve to be earmarked for supporting economic growth.**

More information has been reflected in the relevant growth proposals also attached at Appendix B. Any use of the reserve will be reported on as part of the usual arrangements during the course of the year.

- **Consideration be given to reappraising the Solar Farm, Middleton.**

Whilst the last appraisal undertaken indicated that the project was not financially viable, it was recognised that circumstances may change and so was worth keeping the project under review. This will be done as part of next year's strategic review / prioritisation process, allowing it to be considered

alongside all other potential competing investment opportunities and demands. It is now shown in Annex 10 to the MTFS.

- **Request made for realistic savings as many did not come to fruition last year.**

Difficulties were experienced in some key areas, but this was not across the board. As in-year reporting has shown, many savings have been successfully achieved. Latest monitoring indicates that key initiatives such as green waste charging and Salt Ayre are now performing well, and at least meeting (or potentially exceeding) budget targets. Monitoring will continue, with action being taken as need be if issues do arise. For next year, it is reiterated that new savings proposals are much smaller than last year's, with less risk attached.

3.2 Provisions, Reserves, and Balances

- 3.2.1 As a whole, Cabinet's budget proposals are based on Balances reaching £4.476M by 31 March 2017. The s151 Officer advises that the minimum level of General Fund Balances should be retained at no less than £1.5M.
- 3.2.2 Should the outturn for this year be as expected, the position would mean that the Council has around £3M of surplus Balances available for use over and above the recommended minimum level of £1.5M. Further information is included within the attached MTFS.
- 3.2.3 A full review of other reserves and provisions has been completed as reflected in the policy and statements at **Annexes 3 and 4** to the MTFS. These funds will help progress a number of initiatives in line with the Council's priorities, as well as providing more flexibility to support future planning. The policy is in line with the s151 Officer's further comments and advice, which is included at the end of this report.

3.3 Capital Programme

- 3.3.1 The proposed General Fund investment programme for the period to 2020/21 is included at **Annex 5** to the MTFS, for Council's consideration.
- 3.3.2 There have been no further updates since the last Council meeting, other than some re-profiling of expenditure and financing between this year and next.
- 3.3.3 The proposed programme retains a strong focus on ensuring that the Council's infrastructure and facilities are fit for purpose, as well as retaining previously approved measures to help promote health and wellbeing, and public realm improvements to help promote economic growth.
- 3.3.4 The current year's Revised Programme now stands at £14.496M. During the next four years, a further £25.192M of investment is currently planned, giving a total 5 year programme of £39.688M.
- 3.3.5 Overall the programme is balanced, allowing for a gross increase of £18.464M in the underlying need to borrow (known as the Capital Financing Requirement or

CFR). This has not changed from the position reported to February Council. Over the course of the last year, the full financing movements are as follows:

Movements in forecasts over the last year (Budget Council March 2016 to March 2017)	Movements** in Financing
Key Changes:	£'000
CFR Increase	+804
Increase in Capital Receipts	+1,349
Use of Earmarked Reserves	+288
Direct Revenue Financing	+27
External Grants and Contributions	+281
Total Changes	+2,749

****** Movement from the original 4-year 2016/17 to 2019/20 programme, to the proposed 5-years for 2016/17 to 2020/21.

3.3.6 Capital receipts forecasts have increased by £1.349M to £2.089M over the period to 2020/21 to reflect recent disposal decisions. Many have either already been received already or are contractually bound, and therefore associated financing risks are fairly low.

3.3.7 In terms of CFR related charges against the revenue budget, over the next four years they are estimated as follows:

	Minimum Revenue Provision	External Interest (excl. recharge to HRA)	Total CFR Related Charges
	£'000	£'000	£'000
2017/18	1,488	1,083	2,571
2018/19	2,006	1,093	3,099
2019/20	2,102	1,097	3,199
2020/21	2,266	1,103	3,369

3.3.8 Whilst the CFR is expected to rise in the coming years, the increased capital receipt expectations have helped avoid the need for a greater rise. Through future asset management reviews it is anticipated that capital financing costs can be further offset, with relevant performance measures being developed as part of updating the Council's Corporate Property Strategy, for monitoring and reporting during the course of the year. It is acknowledged that this work has been delayed, and so Cabinet's revenue budget proposals increase capacity to help ensure that real progress can be achieved in the coming year.

3.3.9 The above capital investment plans link closely with aspects of treasury strategy, included elsewhere on the agenda. Furthermore it is clear that the availability of

capital funding impacts on the Council's planning and decision-making. Essentially capital investment decisions cannot be divorced from revenue budget setting and the challenge of balancing priorities against affordability applies equally to both.

4 COUNCIL HOUSING (THE HOUSING REVENUE ACCOUNT)

4.1 Rent Policy

- 4.1.1 The Council has a legal requirement to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account (HRA). This covers the maintenance and management of the Council's housing stock.
- 4.1.2 Prior to 2016/17 the HRA was well placed to invest and enhance its service provision significantly, but the Council's opportunities in this area have fundamentally reduced as a result of recent Government policy changes.
- 4.1.3 Unfortunately, through the Welfare Reform and Work Act 2016, the Government removed the flexibility that local authorities previously had in determining their own rent policies. The Council's current rent policy fits with the latest statutory requirements, and it is summarised as follows:

For general properties, average rent of £71.69 applies for 2017/18, representing a 1% year on year reduction.	For sheltered and supported properties, average rent of £66.97 applies for 2017/18, also representing a 1% year on year reduction.
For 2018/19 to 2019/20 average rents will reduce by 1% year on year.	
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).	
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.	

- 4.1.4 The restrictions on rent setting to 2019/20 brought about by the change in Government policy were estimated to cost around £90M over the life of the 30-year business plan. Furthermore there is no certainty regarding Government rent policy beyond 2020 and the associated risks attached to assumed future rent increases from 2020/01 onwards must be recognised.
- 4.1.5 On a much smaller scale, the Council does still have discretion in setting garage rents and these have increased, to bring them more in line with the current market.

4.2 Revenue Budget

- 4.2.1 Despite these constraints and uncertainties, Cabinet remains committed to improving services to its housing tenants, and it also recognises the challenges that tenants face in the wake of ongoing welfare and other potential social housing reforms. Drawing on this, there are two growth areas included in Cabinet's HRA budget proposals:
- a) Provision for additional tenancy and household support, to encourage tenant independence and sustainability to mitigate the effects of government welfare reforms and the wider public sector housing reforms (reported to December Cabinet).
 - b) The HRA's contribution to tackling anti-social behaviour (included at Appendix B, item number 16).
- 4.2.2 In terms of savings, various operational measures have been built into the draft budget forecasts. In particular, £300K of capital financing savings have been identified and whilst there will be some comparatively minor service and tenant impact arising, the change is predominantly a financing matter.
- 4.2.3 Council should note also that actions arising from the ongoing review of how council houses are repaired and maintained are likely to have resource implications. These will be quantified and considered in due course, and fed into the next update of the HRA Business Plan. This is important, not least to help avoid any overspendings as are expected in the current year.
- 4.2.4 The associated summary of HRA budget proposals is attached at **Annex 2**.

4.3 Capital Programme

- 4.3.1 The proposed Council Housing capital programme is included at **Annex 6**.
- 4.3.2 Future years' programmes are set in line with the HRA Business Plan wherever possible. Drawing on this, together with the 2014 stock condition survey and allowing for revenue funded maintenance, the draft programme should enable current housing stock to be maintained to the appropriate standards.
- 4.3.3 In terms of other investment, due to current uncertainty surrounding future Government policy, there is still no new build provision within the programme. The current position on schemes is as follows:
- the two schemes at Carnforth are being taken to full planning approval, alongside progressing the scheme for additional sheltered housing bungalows;
 - the conversion of the ex-scheme manager houses into two sheltered flats at Parkside Court, Westgate and Melling House, Hala are underway;
 - work on all other schemes has ceased for now, until the impact of all the legislative and policy changes being introduced by Government are properly understood and have been appraised.

- 4.3.4 There may well be other options to explore how the Council might seek to help increase housing stock, for example through the setting up of a housing company, but complex matters such as this need careful consideration, hence they may be considered during next year as part of the strategic review and 2018/19 budget planning.
- 4.3.5 Taking account of the above points, the total draft five year programme for 2016/17 onwards now stands at £20.822M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement.

4.4 Provisions, Reserves and Balances

- 4.4.1 A formal review of the HRA's Balances, Reserves and Provisions has been undertaken, the outcome of which is also reflected in **Annexes 3 and 4**.
- 4.4.2 In terms of Balances, after reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer has advised increasing the minimum level of HRA Balances to £500K from 01 April 2017 to support the budget forecasts, as part of the overall medium term financial planning for the HRA. This is in recognition that the recent and ongoing changes in respect of social housing/rent policy have substantially increased risks around rental income and the viability of the service going forward, and the lack of a clear legislation framework for rent policy beyond 2019/20 adds considerably to these risks.
- 4.4.3 As at 31 March 2017 HRA Balances are forecast to be £1.825M, which is £1.325M above the recommended new minimum level.
- 4.4.4 All other surplus resources are held in the Business Support Reserve. As at 31 March 2017, around £8.5M is expected to be available in this reserve and the first spending priority is still to support existing commitments over the lifetime of the 30-year Business Plan.

4.5 Business Plan Impact

- 4.5.1 Taking into account all of the above changes, at present the 30-year business plan is broadly balanced, in that an indicative surplus of around £7.6M is projected. In essence, this indicates that for now the HRA is financially sustainable but given the sensitivities attached to forecasting so far in advance, and the uncertainties over Government policy changes, that indicative forecast could swing markedly over time. It is important to keep matters under review, therefore.

5 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

5.1 Revenue Budget

Council may adjust its General Fund revenue budget proposals, as long as the overall budget for 2017/18 balances and fits with its approved council tax level. The Chief Officer (Resources), as s151 Officer, continues to advise that wherever possible, emphasis should be on reducing future years' net spending.

Similarly, Council could consider alternative budget proposals for the HRA, but it cannot change rent levels.

5.2 Capital Investment and Programming

For capital, Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2016/17 and 2017/18 must balance.

5.3 Other Budget Framework Matters (Reserves and Provisions / MTFS)

Given known commitments, risks and council tax and housing rent restrictions there is little flexibility in financial terms, but Council could consider different budget strategies to be appraised for future years, or alternative arrangements for approving the use of various reserves, or different virement and/or carry forward limits. On the whole, however, previous arrangements have worked reasonably well and so no other fundamental changes are proposed.

5.4 Section 151 Officer's comments and Advice

Council is required to note this formally in the minutes of the meeting, hence it is reflected in the recommendations

5.5 Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision-making.

6 CONCLUSION

6.1 This report addresses the actions required to complete the budget setting process for 2017/18, and for updating financial strategy on an interim basis, ahead of a more fundamental review to be undertaken during the course of next year.

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) No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc. Relevant equality impact assessments are included as background documents to this report.
LEGAL IMPLICATIONS
Legal have been consulted and are content with the report but will consider the details of any budget option proposals in due course to ensure legal aspects are fully considered and any issues (including impact on support services) will be reported to Members.
FINANCIAL IMPLICATIONS
As set out in the report.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

Various budget proposals have resource implications and these have been taken account of in Cabinet's consideration of budget options. Their implementation would be in accordance with council policies and procedures, as appropriate.

SECTION 151 OFFICER'S COMMENTS

The Local Government Act 2003 placed 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; this requirement is addressed below. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far.

Provisions, Reserves and Balances

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.
- Unallocated minimum balances of £1.5M for General Fund and £0.5M for the Housing Revenue Account are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards in place, taking a medium to longer term view.

The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific policy change indicates otherwise. It is dependent upon Council not varying substantially from the planned use of any surplus balances as outlined in this report.

As a very simple measure, the inherent value of the risks facing the Council by far exceeds the total of all reserves and balances. Whilst it is not the case that all these risks could fall due immediately, Members should appreciate the need for holding balances and reserves more generally, and using them wisely. It is inappropriate to view simply the level of funds held, without considering the reasons as to why those funds might be needed.

Robustness of Estimates

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

- producing a base 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. In particular, this has drawn on previous years' spending and income generation patterns to tighten budgets and reduce the scope for underspending;
- reviewing the Council's services and activities, making provision for expected changes;
- reviewing the Council's MTFS, together with other corporate monitoring information produced during the year;
- undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust, and the proposed MTFS presents a reasonable approach for the way forward.

Affordability of Spending Plans

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration.

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 for General Fund and housing rents for Council Housing investment. Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political and national influences.

The factors that have been (and should be) taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing liabilities, service needs, commitments and planned service / priority changes
- options appraisal arrangements (including the extent to which other liabilities may be avoided, through investment decisions)
- 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 revenue generally

In considering and balancing these factors, the capital proposals to date are based on a substantial net increase in the Council's Capital Financing Requirement (CFR) for General Fund over the period to 2020/21, with the bulk of this relating to service infrastructure. The MTFS makes provision for reducing this call through the application of receipts arising from future property rationalisation, thereby helping to manage down CFR related costs. This is an acceptable (and advisable) approach to retain.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer reminds Council that the decisions (recommendations 1 and 2) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 of the Council Procedure Rules, and accordingly a recorded vote should be taken.

BACKGROUND PAPERS

Equality Impact Assessments for budget proposals.

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