



LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Cabinet

Tuesday, 22 January 2008

The following reports were received too late to be included on the main agenda for this meeting and were marked 'to follow'. They are now enclosed, as follows:

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
6	1 - 5	GRANTS TO VOLUNTARY ORGANISATIONS - NEW SERVICE LEVEL AGREEMENTS	Information received after publication of the Agenda.	Head of Democratic Services

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
12	6 - 61	BUDGET AND POLICY FRAMEWORK UPDATE	Information received after publication of the Agenda.	Head of Financial Services

CABINET

Grants to Non-Housing Voluntary Organisations – Review of Service Level Agreements

22nd January 2008

Report of Budget & Performance Panel

PURPOSE OF REPORT				
That Cabinet consider the recommendations of the Budget and Performance Panel regarding the Review of Service Level Agreements (SLAs) and Grants to Non-Housing Voluntary Organisations, as part of the budget process.				
Key Decision		Non-Key Decision		Referral from Budget & Performance Panel
				X
Date Included in Forward Plan		August 2007		
This report is public				

RECOMMENDATIONS FROM PANEL:-

To consider the recommendations of the Budget & Performance Panel resolved at their meeting on 15th January 2008:-

- (1) That officers explore the opportunity to offer a three year SLA for £2,000 per annum with no inflation for the provision of equality and diversity assistance and advice in the district.
- (2) That the Council offers a further three year SLA to Relate toward the rent of a fixed £6,800 per annum with no inflation.
- (3) That the Council offers a further three year SLA to One Voice at £6,000 per annum with no inflation via a joint SLA with Thumbprint if possible.
- (4) That the Council offers a further three year SLA to Lancaster International Twinning Society at £4,100 per annum, with inflation, and that the Council offers assistance/promotional material where possible.
- (5) That the Council offers a further three year SLA to Lancaster Citizens Advice Bureau at £87,300 per annum with no inflation and £7,200 for rent with no inflation. Furthermore the new SLA must include the provision for a money advice case worker to be located in the Customer Service Centre within Lancaster Town Hall at no additional cost to the Council, and the requirement for both Citizens Advice Bureaux to continue to explore potential efficiency savings through closer working.

- (6) That the Council offers a further three year SLA to Morecambe and Heysham Citizens Advice Bureau at £88,300 per annum with no inflation and that the opportunity be explored for a money advice case worker to be located in the Customer Service Centre within Morecambe Town Hall at no additional cost to the Council. Furthermore a requirement be included in the SLA for both Citizens Advice Bureaux to continue to explore potential efficiency savings through closer working.
- (7) That the Council offers a further three year SLA to North Lancashire Victim Support at £5,000 per annum with no inflation.
- (8) That the Council offers a further three year SLA to Preston Community Transport at £12,600 with inflation per annum.
- (9) That the Council offers a one year SLA to Lune Valley Transport at £3,300 with a future SLA subject to consideration of further information arising from the review of Community Transport Contracted services to support the new statutory Concessionary Travel scheme.
- (10) That the Council offers a further three year SLA to Age Concern Lancashire at £7,500 per annum with no inflation.
- (11) That the Council offers a new SLA to the Samaritans of Lancaster and District for three years at £1,500 per annum with no inflation.
- (12) That the Council offers a new three year SLA to Thumbprint at £4,000 per annum with no inflation via a joint SLA with One Voice if possible.
- (13) That officers report back on options to improve the administering, monitoring, reporting, and allocating of SLAs and grant monies to non-housing voluntary organisations to ensure that the Council receives value for money. The scope of the report should also include:-

 - (a) how links can be made with the relevant Head of Service, where appropriate, to enable closer working and monitoring of services and the commissioning of relevant services
 - (b) opportunities for future SLAs to be explored with existing and alternative service providers, where possible, in order to secure improved services and value for money
 - (c) whether a Cabinet Member should be appointed with responsibility for each Service Level Agreement.
- (14) That the Head of Democratic Services be authorised to negotiate and sign Service Level Agreements in accordance with (1) to (12) above in consultation with the relevant Cabinet Member.
- (15) That the Budget and Performance Panel recommends that SLAs do not include elements of free parking and further that Cabinet consider ending the system of free parking permits to outside bodies.

- (16) **That a report be brought back before the Budget and Performance Panel regarding all free and subsidised parking permits authorised by the City Council.**

1.0 Introduction and background

- 1.1 The Budget & Performance Panel considered the recommendations of a Sub-Panel appointed for the purpose of monitoring the performance of non-housing voluntary organisations which whom a Service level Agreement is in place and reviewed the funding of those organisations whose SLA is due to expire on 31st March 2008. Two new applications for funding have also been included in the process.
- 1.2 When considering the applications in the main report the Budget and Performance Panel were presented with some additional information regarding concessionary parking allocations made in respect of some of the grant applicants and other outside bodies. The Panel made additional resolutions in light of the new information which are reflected in Recommendation (15) and (16) above.
- 1.3 The table below illustrates the projected 2008/09 value of the free parking permits subject to being authorised by Cabinet, of which both CABs, Relate and the Samaritans are subject to SLA grant applications:-

Organisation	Permits	Price	Total
Citizens Advice - Lancaster	4	770.00	3080.00
Citizens Advice – Morecambe	1	475.00	475.00
Relate – Lancaster	2	770.00	1540.00
Samaritans	1	770.00	770.00
Age Concern - Lancaster	3	770.00	2310.00
WRVS - Morecambe	1	475.00	475.00
Totals	12		8650.00

The permits issued to these bodies in the past have been concessionary only, and they have no legal entitlement to free parking.

- 1.4 There are only two other arrangements in place for assisted parking that are based on longstanding legal agreements linked to land and property issues.

In these two cases where the parking permits are part of a land transaction, the Council cannot unilaterally remove these permits without negotiating appropriate compensation with the other parties involved.

The City Council does receive free parking requests from time to time and these are refused as the only free parking approved by the Council is for Christmas and the recently approved Remembrance Sunday arrangement.

2.0 Proposal details

- 2.1 A copy of the Sub-Panel's report, from which these recommendations were agreed, was distributed for Cabinet's information.

3.0 Options and Options Analysis (including risk assessment)

3.1 In considering the recommendations of the Budget & Performance Panel, options open to Cabinet are as set out in paragraph 3 of the report included in the main Agenda.

4.0 Details of Consultation

As set out in paragraph 5 of the original report.

RELATIONSHIP TO POLICY FRAMEWORK

The work of voluntary organisations funded by the Council supports many of the objectives set out in the Corporate Plan.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

There are no direct implications.

FINANCIAL IMPLICATIONS

Funding for grants to voluntary organisations is allocated to specific organisations with SLAs for any funding over £1,000. The total amount of funding allocated to the above voluntary organisations with SLAs amounted to £227,900 for 2007/08.

Indicative budgets for future years are currently £232,100 in 2008/09, £236,400 in 2009/10 and £240,700 for 2010/11. The allocations recommended by the Sub-Panel as set out in the attached report would result in an increase of £3,500 in 2008/09, a reduction of £400 in 2009/10 and a reduction of £4,400 in 2010/11 and would need to be built in to the 2008/09 budget process if supported.

The report identifies that additional financial assistance totalling £8,650 in respect of free car parking for some of these voluntary organisations is also included in the draft budget.

SECTION 151 OFFICER'S COMMENTS

The s151 officer would highlight that the provisional implications have been built into the Budget Report (Appendix F) elsewhere on the agenda although a small adjustment would be required in 2009/10. The recommendations should be considered in context of the Budget Report.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no comments to add other than the contents of all new or amended SLA's should be agreed by Legal before implementation.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Existing Service Level Agreements with and monitoring information provided by organisations listed in the report.

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CABINET

**Budget & Policy Framework Update –
General Fund Capital Programme
22 January 2008**

**Report of Corporate Director (Finance & Performance) and
Head of Financial Services**

PURPOSE OF REPORT			
To provide the latest information on the General Fund capital position for both current and future years, to allow Cabinet to make progress in developing its capital investment proposals and the supporting Investment Strategy.			
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>
		Referral	<input checked="" type="checkbox"/>
Date Included in Forward Plan	January 2008		
This report is public (with the exception of Appendix A. This is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972.)			

1. RECOMMENDATIONS OF OFFICERS:

- 1 That the draft Capital Investment Strategy be updated to reflect the changes in financing assumptions as outlined in sections 1.1 to 1.5 of the report.
- 2 That Cabinet notes the delegated actions of the Head of Financial Services with regard to the funding of vehicle acquisitions as outlined in section 1.4 (iii).
- 3 That Cabinet notes the latest position regarding the General Fund Capital Programme and funding assumptions from 2007/08 onwards, together with the work ongoing, and takes action to ensure that a fully balanced Programme is presented for Cabinet's consideration at the February meeting, for subsequent referral on to Council.
- 4 That the draft Treasury Strategy for 2008/09 and associated Prudential Indicators be updated in line with the above recommendations.

Introduction

As part of the Corporate Plan and Budget Strategy for 2008/09, the Capital Programme is being reviewed further to ensure that it is still affordable and that both existing schemes and new investment proposals tie in with Cabinet's proposed priorities and the overall Capital Investment Strategy. This report provides an update on the General Fund Capital Programme position for both current and future years. It should be noted, however, that further work is continuing, and that capital issues should be considered alongside revenue budget proposals – the two aspects are interlinked and each can have significant bearing on the other.

Proposal Details

1 RESOURCES TO SUPPORT CAPITAL INVESTMENT

The various sources and availability of capital funding have been reviewed and are outlined as follows.

1.1 Revenue Financing Of Capital Schemes

Further to the approval of the original programme back in February 2007, no general provision for revenue funding of capital is assumed, but several specific revenue funding contributions are included for various schemes (or proposals), as shown below.

Direct Revenue Financing of Schemes:

£261K towards Customer Services Centres (from access to services reserve)

£300K towards IT Desktop equipment (from renewals reserve)

£224K towards the Storey Institute project (from capital support reserve)

£139K for Denny Beck Bridge Improvements

£105K towards Christmas lights Replacement (from renewals reserve)

£48K towards Cemetery Improvements

£46K towards Poulton Property Acquisitions on Green Street

£44K towards Salt Ayre Schemes (£30K of which is from renewals reserve)

£40K towards Morecambe Shop Front Improvements

£14K minor contributions for IT Software Schemes

£50K towards Energy Efficiency Schemes (from assumed revenue savings)

This latter is on the assumption that the scheme is Invest to Save, i.e. that savings in energy costs will accrue and be used to recover the costs of the initial investment. In total the contributions amount to £1.271M over the period to 2012/13, including the current year.

1.2 Capital Receipts Position

Since last Budget Council there has been little change to the capital receipts position, except for items included elsewhere on this agenda and recently there has been specific consideration of the issues and risks attached. The latest draft capital receipts schedule is attached at **Appendix A** and this assumes that the proposed sales included elsewhere on the agenda will be approved. It is highlighted that this appendix is exempt by virtue of paragraph 3 of Schedule 12a of the Local Government Act 1972. Further consideration of the estimated amounts and timing of these capital receipts is currently underway, in view of planning and associated issues.

In total, for the period from the current year onwards capital receipts totalling £10.6M are anticipated. After allowing for the effects of slippage from 2006/07, this represents an increase of around £1M when compared with the assumptions made during the last budget.

Under the current approved Capital Investment Strategy such forecast additional capital receipts are not to be used to support new spending or commitments. Instead, their application 'will be considered in context of meeting the overall target'. In updating the draft programme, therefore, these extra resources have been set side on the assumption that this principle will be retained in the updated Investment Strategy. A similar principle was adopted for any sales associated with the Nightingale Hall site following Cabinet's decisions in October although as yet, no estimated sale price has been assumed for that particular site. These assumptions help to mitigate the financial risks facing the Council.

1.3 Supported Borrowing To Support Capital Investment

Following the relatively recent move by Government to award capital grants rather than borrowing allocations for private sector housing and flood defence schemes, it is expected that there will be continue to be no supported borrowing need in future for General Fund (and this is also the case still for Council Housing).

1.4 Unsupported (or Prudential) Borrowing To Support Capital Investment

Back in February Council resolved that unsupported borrowing to finance capital investment should be based on £1M in total, over the period to 2012. This has been used as the starting point in going forward to 2013 but there are other issues to highlight, some of which may need further consideration:

- i. Further to Council's approval of the Storey Creative Industries Centre, unsupported borrowing of £200K has been included to help finance the scheme.
- ii. Two proposed schemes at Salt Ayre (namely Poolside Seating and the Climbing Wall) have been included on the basis that unsupported borrowing of £105K could fund the proposals with no net impact on the revenue budget, as the borrowing costs could be met from additional income. This is in line with the current Investment Strategy principles but only as long as the business case is robust, and this has still to be confirmed. This principle may also apply to other capital investment proposals such as the Platform. It must be accepted, however, that if the proposals are ultimately included in the capital programme on this basis, but then they cannot reasonably be expected to be self financing, then they would not go ahead.
- iii. In October an options appraisal on over £1.5M of asset acquisitions was undertaken in conjunction with the Council's advisors. Further to this, the Head of Financial Services authorised £762K of those assets to be financed through unsupported borrowing rather than leasing, in line with previously agreed procedures. The underlying reason for borrowing rather than leasing was that the tenders were unlikely to meet the accounting requirements attached to operating lease arrangements, but the costs of borrowing were comparative to leasing in any event. The revenue consequences of this can be met from existing budget provisions, although a transfer between leasing and debt repayment budget headings is required and this has been incorporated into the draft revenue budget. Cabinet is asked to note these actions.
- iv. Members may recall that £0.5M borrowing leeway was originally approved in February, and of this £200K has since been allocated to the Storey project as referred to above. For now, and given the current position on capital receipts, it is assumed that the remaining amount will be set aside to assist with the capital receipts position, should the need arise. The Head of Financial Services (as s151 officer) would advise against providing any future borrowing leeway under the existing framework at this time.
- v. With regard to access to services' accommodation developments, no provision has been made as yet, as this is dependent upon the outcome of the homeworking/hotdesking pilot project. If the Council is to take forward the rationalisation of its municipal buildings within the next five years, however, it is expected that some unsupported borrowing would be needed to facilitate the developments. At present though, no such provision can be reasonably quantified.

Given these points, at this stage it is proposed to provide for a total of £2.067M of unsupported borrowing to finance the specific items quantified above. Members may be aware that some years ago, one of the principles adopted by the Council was that capital schemes would only progress when resources were actually available. From the earlier

section on capital receipts, it is clear that significant risks exist in this regard and ultimately, to manage the position in future years, the Council may well have to face either deferring essential works or seeking other sources of funding – but prudential borrowing may well be the only feasible option if insufficient, appropriate property sales can be achieved. To ensure that such borrowing met the requirements of the Prudential Code, i.e. that it is prudent, affordable and sustainable, the Council would need to secure additional revenue savings in order to meet the borrowing costs, over and above any other savings targets that may be in place in order to achieve desired Council Tax levels. For these reasons it is felt prudent to minimise any other unsupported borrowing needs as much as possible, given the pressures on affordability.

1.5 Grants, Contributions and other Scheme Specific funding

In services reviewing capital schemes and bids, they have also been requested to review the level of external funding available. Such funding is usually scheme specific in nature, with the bulk of it relating to various grants and contributions, and as such its availability may not have any direct bearing on the net funding position of the overall programme. There is one exception to this, however, in that 50% of the Council's expected Performance Reward Grant will take the form of a capital grant but will be available to support capital investment generally. An amount of £62K has been provided for in 2007/08.

Regarding General Fund Housing, Officers are still awaiting confirmation of Government funding allocations and therefore it is expected that these will be incorporated into the February report. As such, there has been no significant review of this element of the programme.

As in previous years, Cabinet is asked to have regard to external funding generally when considering potential areas for capital investment. There are some key points to note:

- Whilst external funding might present an opportunity, this is only the case if the relevant scheme contributes to the Council's priorities and it does not leave the authority with ongoing commitments that it would rather not support, given all other spending pressures.
- Project managing the delivery of externally funded schemes can be very resource intensive, particularly for large complex schemes. The Council needs to ensure it has the skills and resources to do this and there are costs attached, even if they are catered for within existing budgets.
- Some schemes may be only externally funded in part, with match funding requirements from the Council.
- Any overspending on grant funded schemes, or failure to meet grant criteria, may result in a call on Council resources.

At present the draft programme has identified estimated grants and contributions of around £48M, representing almost 80% of total forecast funds. This helps to highlight the extent of reliance on (and success in attracting) external funding. Recent experiences in connection with the Storey project and Luneside East also highlight some of the financial consequences if schemes either do not progress as planned, or if such plans prove over optimistic. Cabinet is asked to bear this in mind in formulating its proposals for Council.

2 REVIEW OF CURRENT YEAR'S CAPITAL PROGRAMME

- 2.1 Relevant Officers have continued to clear the progression of capital schemes during the year, in accordance with delegated authority under Financial Regulations. For new schemes, this is done only when project management arrangements are deemed acceptable and funding is available. There are still schemes ongoing that started before the Council's new project management arrangements were implemented, however, and these will be reviewed once the new Capital Programme has been approved. A summary position statement is included at **Appendix B**. It can be seen that only 5 projects have not yet been cleared by the Group and work is currently underway to address these as appropriate.
- 2.2 More information has also been received from Service Managers on various scheme amendments, although a further exercise is currently underway to assess any further likely slippage into next year. A fully summary of amendments will be included in the February report but for now, most of the changes identified so far re relatively minor, with one exception, as follows:
- For Luneside, an overspending of £251K is now forecast, and supporting information on the scheme is included at **Appendix C**. Extra external funding had been gained in the past to cover previously reported overspendings, but no such further funding is anticipated. Therefore Cabinet will need to allow for the overspending in its overall capital programming proposals.

3 REVIEW OF CAPITAL SCHEME PROPOSALS 2008/09 ONWARDS

- 3.1 The existing programme from 2008/09 onwards has been rolled forward for one year into 2012/13 and this has also been reviewed by Service Managers. As a result of this exercise existing schemes have either been retained or amended, and other new scheme proposals have been put forward.
- 3.2 Relevant Officers have subsequently assessed the resulting bids in accordance with the criteria as set out in the Capital Investment Strategy and against Cabinet's proposed Corporate Priorities, and the outcome of this piece of work has been fed into Star Chamber initially. For now though, some important points are highlighted, both of which may impact on the revenue budget and well as the capital programme:
- A review of IT capital related projects is underway, and this may influence the amounts and timing of schemes.
 - Several potential developments at Williamson Park have been indicated, but full information on the proposals has not yet been received and it is unclear whether it will be available in sufficient time to be considered in this budget round.
 - Items elsewhere on this agenda include capital proposals and these have been included within the draft programme for now, subject to Cabinet's deliberations.
 - Some of the costings of the capital proposals are provisional and may be updated. Furthermore, there is some further work required on assessing whether certain bids should be treated as revenue or capital; this relates to the revenue growth bids also.
 - The draft capital programme attached has implications for the revenue budget. Some are already provided for whilst others are clearly not, but again more information and work is needed to clarify the position. For now though, any indicative revenue implications that are not already budgeted for have been included in the Revenue Budget report elsewhere on the agenda.

4 SUMMARY POSITION FOR FUTURE YEARS:

- 4.1 Whilst it is acknowledged that further work is still required or underway, the latest capital position is as follows. More detailed statements are included at **Appendix D**. Both the gross capital programme (**D(1)**: including external funding) and the net programme (**D(2)**: showing only the City Council funding requirement) are included for information.

	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Housing (Private sector - not council owned)	5,789	3,897	1,018	1,067	1,120	TBC	12,891
Other Services	17,453	23,085	4,244	2,169	1,506	799	49,256
Total Draft Programme	23,242	26,982	5,262	3,236	2,626	799	62,147
Estimated Specific External Funding	18,216	23,504	3,594	1,637	1,200	0	48,151
Estimated Available Council Funding	5,991	6,907	113	457	519	100	14,087
Less Extra Forecast Receipts Set Aside		-1,007					-1,007
Cumulative Surplus (+) / Shortfall (-)	+965	+3,387	+1,832	+690	-217	-916	-916

- 4.2 It can be seen from the above that the cumulative shortfall is currently estimated at £916K, assuming that the extra potential capital receipts would be set aside as mentioned earlier.
- 4.3 As in previous years, it is recommended that Cabinet takes forward the review of capital bids and funding assumptions, so that proposals for balancing the programme can be brought back to the February meeting for subsequent referral on to Council.

5 DETAILS OF CONSULTATION

The development of capital investment proposals falls under the consultation exercise as outlined in the budget and policy framework timetable.

6 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

Funding Assumptions and Achieving a Balanced Capital Programme

The broad options for achieving a balanced programme are set out below and are very much dependent on Members' views on spending priorities. As such, a full options appraisal and risk assessment cannot be completed until budget proposals are known in more detail. That said, the basic options include:

- removing schemes from the draft programme, taking account of service needs and priorities;
- reducing proposed net expenditure on schemes, where possible;
- generating additional capital resources (e.g. receipts, direct revenue financing or borrowing), within affordable limits.
- deferring projects into later years – although this would not help with the overall five-year programme unless schemes were deferred until after 2012/13.

As referred to in earlier reports, setting a balanced capital programme is an iterative process, essentially balancing service delivery impact and aspirations against what the Council can (and is prepared to) afford.

In deciding the way forward, Cabinet is asked also to take into account the relevant basic principles of the Prudential Code, which are:

- *that the capital investment plans of local authorities are affordable, prudent and sustainable, and*
- *that local strategic planning, asset management planning and proper options appraisal are supported.*

Noting the Actions of the Head of Financial Services regarding Vehicle Acquisitions

The only alternative option would be to defer noting the actions, pending receiving further information.

7 OFFICER PREFERRED OPTION AND COMMENTS

The Officer preferred options are as set out in the recommendations of the report.

8 CONCLUSION

This report provides information and outline options for Cabinet to consider in formulating its proposals for a balanced Capital Programme to 2012/13 in line with the Prudential Code. It is clear that the investment needed in Council owned buildings and facilities represents a major call on resources, and that opportunities may exist for generating significant capital receipts, but further work is needed to ensure that the final proposals to Council are prudent, affordable and financially sustainable.

RELATIONSHIP TO POLICY FRAMEWORK The proposals seek to ensure that capital investment decisions are in support of the Policy Framework and are affordable, in context of the Council's medium term financial planning.	
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.	
DEPUTY SECTION 151 OFFICER'S COMMENTS The s151 officer has prepared this report, as part of her responsibilities with regard to providing advice to Members on capital programming requirements under the Prudential Code. Her specific comments are included in the body of the report and the Deputy s151 Officer has nothing further to add.	
LEGAL IMPLICATIONS Legal Services have been consulted and have no comments to add.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS Prudential Code for Capital Investment in	Contact Officer: Nadine Muschamp Telephone: 01524 582117

Local Authorities Draft Capital Investment Strategy	E-mail: nmuschamp@lancaster.gov.uk
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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

GENERAL FUND CAPITAL PROGRAMME 2007/08 PROJECTS
Basis For Consideration by Cabinet 22 January 2008
Analysed by Corporate Plan Priorities

<i>Deliver Value for Money, Customer Focused Serv</i>	Authorisation Given To Proceed (Asset Management Working Group)	Target Start Date	Target Completion Date	Actual Completion Date
Morecambe Skatepark-Retention Only	Yes (b/f from 2005/06)	-	Sep-04	Sep-04
Happy Mount Park Water Feature-Retention Only	Yes (b/f from 2005/06)	-	Jun-06	Jun-06
Salt Ayre Bar & Catering Works	Yes - AMWG 18 July 07	Aug-07	Dec-07	Dec-07
Salt Ayre Athletics Track Resurfacing Works	Yes (b/f from 2006/07)	-	Dec-07	Dec-07
Morecambe Toilet Improvements	Yes - AMWG 18 July 07	Oct-07	Mar-08	
Heysham Toilet Improvements	No	TBC	TBC	
Customer Service Centre - Accommodation	Yes - AMWG 24 May 07	Jul-07	Mar-08	
<i>Make our District a Cleaner and Healthier Place</i>	Authorisation Given To Proceed	Target Start Date	Target Completion Date	Actual Completion Date
Parks and Open Spaces Imps.(Regents Park - 2006/07 element only))	Yes (b/f from 2006/07)	Mar-07	Apr-07	Aug-07
Lancaster Cemetery Wall	Yes (b/f from 2006/07)	Jan-07	Sep-07	Sep-07
3 Stream Waste Ph 4	Yes (b/f from 2006/07)	-	Nov-07	Nov-07
Williamson Park CCTV	Yes - AMWG 19 Sept 07	Sep-07	Mar-08	
Middleton Wood - Ph.1 / Access Improvements	Yes (b/f from 2005/06)	-	Mar-08	
District Playground Improvements	Yes - AMWG 21 Nov 07	Nov-07	Mar-08	
Cemetery Paths Improvements	Yes - AMWG 22 Aug 07	Nov-07	Mar-08	
Sunderland Point Flood Resilience Measures	Yes - Cabinet 9 Oct 07	-	Mar-08	
Car Park Improvement Programme	Yes - AMWG 19 Nov 07	Mar-08	Apr-08	
Cycling England	Yes (b/f from 2005/06)	-	Oct-08	
River and Sea Defences - DEFRA	Yes (b/f from 2005/06)	-	Mar-09	
Carnforth CCTV	No	TBC	TBC	
Poulton Pedestrian Route Improvements	No	TBC	TBC	
<i>Lead the Regeneration of our District</i>	Authorisation Given To Proceed	Target Start Date	Target Completion Date	Actual Completion Date
Lancaster SRB Community Facilities	Yes (b/f from 2005/06)	-	Mar-07	Oct-07
Support Match Funded Schemes	Yes (b/f from 2005/06)	-	Jul-07	Jul-07
Christmas Lights Renewals	Yes - AMWG 20 Jun 07	Jul-07	Sep-07	Sep-07
Mcmbe Townscape Heritage Scheme	Yes (b/f from 2005/06)	-	Mar-08	
Economic Development Zone - Cycling & Walking Network	Yes (b/f from 2005/06)	-	Mar-08	
Fisherman's Square Improvements	Yes - AMWG 18 July 07	Aug-07	May-08	
Economic Development Zone - 4/5 Dalton Sq.	Yes (b/f from 2005/06)	-	Jun-08	
Economic Development Zone - Port of Heysham	Yes (b/f from 2005/06)	-	Jun-08	
Carnforth Market Town Initiative	Yes (b/f from 2005/06)	-	Sep-08	
Storey Institute Centre for Creative Industries	Yes - AMWG 18 July 07	Sep-07	Oct-08	
Luneside East 'Urban Village' Lancaster	Yes (b/f from 2005/06)	-	Dec-08	
<i>Support Sustainable Communities</i>	Authorisation Given To Proceed	Target Start Date	Target Completion Date	Actual Completion Date
Adactus Housing Agreement (Bespoke Housing Solutions)	Yes (b/f from 2006/07)	-	Mar-08	
Poulton Townscape Heritage Initiative	Yes (b/f from 2005/06)	-	Mar-08	
Disabled Facilities Grants	Yes (b/f from 2005/06)	-	Mar-08	
District Wide Home Repair Assistance	Yes (b/f from 2005/06)	-	Mar-08	
Mellishaw Park Improvements	Yes (b/f from 2005/06)	-	Jul-08	
Poulton Renewal (Regional Housing Board Funding)	Yes (b/f from 2006/07)	-	Mar-09	
West End Masterplan	Yes (b/f from 2005/06)	-	Mar-09	
Building Safer Stronger Communities	Yes (b/f from 2006/07)	-	Mar-08	
<i>Continue to Improve the Council</i>	Authorisation Given To Proceed	Target Start Date	Target Completion Date	Actual Completion Date
Powersolve Ledger Replacement	Yes - AMWG 19 Sept 07	Jan-07	Nov-07	Dec-07
Computer Room Air Con & Fire Detection Systems	Yes - AMWG 22 Aug 07	Sep-07	Dec-07	
Salt Ayre Cycle Track	Yes - AMWG 18 July 07	Jul-07	Mar-08	
Salt Ayre Building Works	Yes - AMWG 22 Aug 07	Dec-07	Mar-08	
Application System Renewal & Upgrade	Yes (b/f from 2005/06)	-	Mar-08	
Revenues EDMS & Workflows	Yes - AMWG 20 Jun 07	Mar-07	Mar-08	
Protect Replacement (Anite/Task)	Yes (b/f from 2005/06)	-	Mar-08	
Council Owned Property Works (excl. Housing)	Yes (b/f from 2006/07)	-	Mar-08	
Salt Ayre Computerised Booking System	Yes (b/f from 2005/06)	-	Mar-08	
White Lund Depot Improvements	Yes (b/f from 2006/07)	-	Mar-08	
Municipal Buildings Works	Yes - AMWG 24 May 07 (Conditional)	Jan-08	Mar-13	
ICON Chip and PIN Update	Yes - AMWG 19 Sept 07	Sep-07	Mar-08	
IT Infrastructure	Yes (b/f from 2005/06)	-	Rolling Prog	
Desktop Equipment	Yes (b/f from 2005/06)	-	Rolling Prog	
Energy Efficiency Schemes	No	TBC	TBC	
Ashton Hall Organ Restoration	No	TBC	TBC	

Notes:

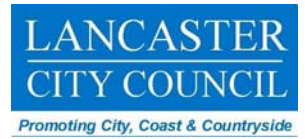
Municipal Buildings Works are conditional on sufficient funding (i.e. capital receipts being in place).

The schemes highlighted in bold are those cleared to progress by AMWG under "LAMP" - Lancaster's Approach to Managing Projects.

PROJECT DOCUMENTATION

EXCEPTION REPORT

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Luneside East Regeneration Project

Version: v0.02

Date: 15 January 2007

Author: Senior Planner

Project Executive: Corporate Director (Regeneration)

Project Manager: Senior Planner

Project/Programme Board: Asset Management Working Group

1. Background

General

The Council's Building Agreement (BA) of 2 November 2005 with Developer CTP Ltd/ Development Securities plc provides for a land transfer to this Developer after a successful full land assembly. Thereafter, the Developer is responsible for project delivery and takes all risks then ensuing. The Council secured ownership of most of the site after a successful Compulsory Purchase Order (CPO). A vital land deal with Network Rail which was necessarily outside of the CPO has, however, been subject to significant delays on the part of Network Rail. This finally completed on 11 November 2007.

Subject to registering land title, the Council will notify the Developer that it is ready to effect the land transfer (via a 999 year Licence). From this point (under the BA), the Developer has three months to secure its funding. To achieve this, the Developer must first contract with a housing partner to deliver the housing element.

The Council's Legal Service's Manager is pressing the Land Registry for issue of certificates to evidence the Council's land title. Council's The Project Manager is working closely with the Developer to try and facilitate the land transfer as soon as possible

Revised Budget

The project budget and forecasting has been revised to take into account several profiling issues. These changes include:-

Project Management by LCC

The project budget provides for project management to the end of 2008/09. The Council's project management role comes to an end with transfer of the site to the Developer but the Council will have continuing obligations to discharge under its Joint Funding Agreement with the NWDA / English Partnerships (16 Sept 2004) and under the BA with the Developer. These obligations relate to monitoring Developer performance to the Building Agreement in turn to assure the Council's compliance to the Funding Agreement.

This monitoring role will be substantial and will extend over a number of years. Administrative support is required for this. The budget increases relate only to the costs of providing this for the period beyond 2008-09.

Development Facilitation

This heading was previously identified incorrectly as a capital cost to the end of 2008/09. The revised budget now shows this correctly as a revenue cost. The budget relates to the procurement and retention of external professional services needed as part of work in developer monitoring including specialist services to scrutinise the developer account. It is clear that these services will be required over for a number of years and the budget increases relate to providing for this beyond 2008-09

Technical Fees – Estates

The Council has a responsibility to the Developer to maintain the site in a reasonable condition pending the site transfer. This is because buildings and materials at the site have a value and where possible are to be incorporated into the final development. The project budget provided for site management but is inadequate. This is because with the delay in the land transfer the Council is holding the site for longer than anticipated and also, is incurring ongoing costs at a level higher than anticipated. These higher ongoing costs relate principally to the costs of providing 24 hour manned site security, necessary to deter thefts and inappropriate activities.

Site transfer to the developer was previously programmed for the end of 2006-07 this is now scheduled for the end of the current quarter so the project budget is updated to reflect for the extended period of time for which the Council is responsible for the site. This period is however subject to continuing uncertainty.

Compensation settlements arising from land & building acquisitions

Notwithstanding the fact that the Council now owns the whole site there are quite a number of compensation settlements still to be agreed under the CPO Compensation Code. The revised land and building estimates provided by the Council's agents Keppie Massie earlier this year have now been built into the capital project budget along with profiling from Keppie Massie for the same. At this time Keppie Massie have said that while most compensation settlements should be completed by the end of 2008/09 it is possible that some may take significantly longer. The Statute of Limitations gives six years for the making of claims from the dates of the General Vesting Declarations (05/10/07 and 10/11/07 respectively).

2. Issue

1. That there is no further funding available from external bodies to cover for the cost increases identified above
2. That the timing of the required land transfer is uncertain, and therefore, the programme for the delivery of the redevelopment continues to be subject to significant uncertainty.
3. That there is risk of further cost increases. These may arise from:
 - Increased site management costs due to the land transfer being delayed even further and perhaps significantly further if, at worst case, the Developer fails to secure its funding and the Council.
 - Compensation settlements still outstanding outturning higher than estimated if any claims substantially over Council estimates are justified and / or upheld at lands Tribunal.
 - Failure to achieve scheme outputs to programme resulting in funding being clawed back from the Council

3. Consequences

Slippage in project delivery has consequences for the Council's regeneration strategy and ambitions, and for the reputation of the Council.

Any project costs in excess of the available external funding for the project will fall upon the Council to fund.

4. Available Options

There are no options available that might mitigate the increased costs incurred to date.

As regards risks of future cost increases, the Council has no ability to influence the outturn of compensation claims provided that these are properly justified by third parties. This said, should any such party progress what the Council considers to be an excess claim via the Lands Tribunal then the Council should robustly contest this.

Risk of funding clawback will be mitigated by a land transfer as soon as possible. Further, officers are also liaising with funders to explain the continuing delays and thereby minimise prospects of any funding clawback.

5. Recommendation

That the additional costs (£251K) be incorporated into the Capital Programme update.

CABINET

**Budget and Policy Framework Update –
General Fund Revenue Budget
22 January 2008**

**Report of Corporate Director (Finance & Performance) and
Head of Financial Services**

PURPOSE OF REPORT			
To provide information on the latest budget position for current and future years, to allow Cabinet to make recommendations to Council on Council Tax levels for 2008/09.			
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>
		Referral	<input checked="" type="checkbox"/>
Date Included in Forward Plan	January 2008		
This report is public.			

RECOMMENDATIONS OF OFFICERS:

1. That the 2007/08 Revised Budget of £22.034M be referred on to Council for approval, with the net underspend of £275K being transferred into Balances.
2. That Cabinet notes the position regarding the Local Government Finance Settlement and capping.
3. That Cabinet recommends to Council that the minimum level of General Fund Balances be retained at £1M from 01 April 2008.
4. That Cabinet approves the reassessment of other earmarked reserves and provisions as set out in Appendix E.
5. That Cabinet notes the proposals regarding the declaration of Special Expenses.
6. That Cabinet notes the position regarding Pension Employer Contribution Rates for future years.
7. That Cabinet notes the Council Tax Base of 43,150 Band D properties for 2008/09.

8. That subject to all the above, Cabinet notes the resulting draft 2008/09 General Fund Revenue Budget of £23.274M, and the indicative spending projections of £24.706M for 2009/10 and £26.242M for 2010/11.
9. That Cabinet considers the draft budget information and proposals as set out in the report and appendices, and:
 - makes any further amendments as appropriate, and refers the updated information on for Council’s initial consideration,
 - makes recommendations to Council regarding the level of increase in Council Tax for 2008/09.

Introduction

Over the last few months Members have approved various proposals associated with developing the 2008/09 Budget and Policy Framework. This report, together with the separate items on the General Fund Capital Programme and on the Housing Revenue Account found elsewhere on the agenda, provides a financial update in support of the process. In particular this report seeks Cabinet’s recommendations regarding Council Tax levels for 2008/09 for referral on to Council.

Proposal Details

1 GENERAL FUND REVENUE BUDGET – CURRENT YEAR

- 1.1 At Council on 28 February Members approved the current year’s budget at £22.580M, of which £22.309M related to the City Council and £271K related to parish precepts. Since then, various adjustments have been approved and a high level review of the Council’s Medium Term Financial Strategy (MTFS) has also been completed.
- 1.2 In addition a more in-depth analysis of all current year budgets has now been undertaken in conjunction with Service Managers. This has resulted in a revised (City Council) budget of £22.034M, representing a projected underspend of £275K or 1.2%, but which includes some fairly large specific variances as highlighted in the table overleaf. A more detailed analysis is set out at **Appendix A**.

	2007/08 Favourable(-) / Adverse (+) £000
Original Budget as approved on 28 February 2007	22,309
CC(D)S operational net savings (on recycling etc)	-510
Treasury Management	-145
Other services' staffing costs	-364
Reassessment of income due under Local Authority	-100
Business Growth Incentive (LABGI) Scheme	
Storey Institute Feasibility Costs	+94
Compensation Costs (Ombudsman / Planning)	+133
Concessionary Travel Costs	+133
Luneside East Management Costs	+135
Review of other Provisions and Reserves – see later section	+300
Other net budget changes	+49
Updated Revised Budget Position	22,034
Underspend Transferred to Balances	-275

- 1.3 In setting the current year's budget, it was anticipated that year-end balances would be in the region of £1.7M. Should the Revised Budget be approved as set out above, it is proposed that the net underspending of £275K be transferred into Balances, resulting in year-end balances increasing to around £2.1M. A statement on the balances position is set out at **Appendix B**.
- 1.4 In producing budget information for the Council as a whole there are always some fairly significant assumptions made with a degree of risk attached to those assumptions – this is inherent throughout the process. Certain issues are worthy of specific note, however:
- In February of this year authorities are due to receive the final allocation of Business Rate income due under the current Local Authority Business Growth Incentive Scheme (LABGI). Current estimates assume that £87K will be received then, making this year's total allocation £250K. In recent days, however, the Government has announced a review of this and therefore financial risks associated with this assumption have increased.
 - With the roll out of three-stream waste collection nearing completion, and other operational changes being made within CC(D)S, the service has made significant savings of around £510K in this year, and savings are forecast to continue in future years.
 - The Luneside East site has not yet been transferred to the developer and management costs are continuing to accrue. The revised budget assumes costs of £135K, on the basis the transfer will occur by April 2008. Further liabilities will arise, however, if this is not achieved, or if estimated compensation claims are higher than estimated – the impact of this could be substantial.
 - Significant underspendings in other staffing costs are forecast, whereas some aspects of income are substantially less than originally estimated. These include St. Leonard's House, City Lab, and Trade Refuse. Regarding the latter two items, risks attached to these were specifically highlighted in setting the original budget.

- 1.5 In terms of comparing the draft Revised Budget with the financial monitoring information that has been prepared during the year, either for Performance Review Team (PRT) reports or as part of the MTFs review, many of the variances have already been reported on or were specifically highlighted as risk areas in developing the original budget back in February. As such, it is felt that the financial monitoring process continues to provide a reasonably sound indicator of the Council's financial position at a given point in time. The information provided at Appendix A provides an analysis of variances based on when they were first reported, and this gives an indication of the effectiveness of the financial reporting arrangements. There is always scope for improvement, however, and it is felt that the current performance management arrangements should help achieve this, together with robust challenge.

2 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 2.1 Since the last Cabinet meeting there have been no changes to the provisional Settlement; the amount of Government support expected for next year is still £15.523M.
- 2.2 There have been further announcements regarding Area Based Grant (ABG), however. This 'new' grant is understood to be an amalgamation of several specific grant funding streams, which were previously allocated through the Local Area Agreement (LAA). It is awarded as a general grant, however, and therefore has no specific financial conditions attached – although its use is still clearly linked to achieving the LAA's agreed targets. The amounts of grant to be received are as follows:

Year	'Cohesion' Component	'Safer Stronger' Component	Total Grant Amount
	£'000	£'000	£'000
2008/09	26	413	439
2009/10	49	258	307
2010/11	75	0	75

- 2.3 Initial work has been undertaken to compare these allocations with the appropriate specific grant funding assumptions already included within the draft budget, and to understand how exactly the funding changes link with the LAA. As a result, two specific issues have come to light:
- i. There appears to be an error within the award, in that the Council's final year allocation for Poulton Neighbourhood Management of £264K has been included in the County Council's allocation. The County Council's officers and Government officials have been made aware of this, with a request being made by the City Council to the Government that they correct the position. In the event that this does not happen, County Council officers are recommending that they passport the funding back to the City Council.
 - ii. Funding for Community Safety has been included within the County Council's grant allocation, rather than being given directly to districts. The County Council was due to consider the overall funding changes associated with the LAA and its implications for allocating funding; further information is awaited. It should be noted, however, that the funding is not ring-fenced to Community Safety, or even indeed the LAA.

- 2.4 Government has indicated that whilst further specific grants may be incorporated into ABG, the above indicative allocations will alter only in exceptional circumstances. Until further information has been received, however, for now it is assumed that the transfer to ABG will be budget neutral.
- 2.5 Consultation on the Settlement ended on 08 January. As yet it has not been possible to gain confirmation of when the final Settlement will be announced, but early indications are that it may well be late January / early February. If any further information is available this will be reported into the meeting.
- 2.6 With regard to capping, in making his statement to the House of Commons the Minister for Local Government stated that “keeping council tax under control remains a priority for the Government. We expect the average council tax increase in England to be substantially below 5%. We will not hesitate to use our capping powers to protect council tax payers from excessive increases. No decisions have been taken on capping principles for 2008/09. It would, however, be unwise for any authority to assume that capping principles set in previous years will be repeated. We intend to take decisions on principles after authorities have set their budgets, but we are prepared to announce the principles in advance if the circumstances suggest this is necessary.”
- 2.7 Cabinet is asked to take these comments into account when considering proposed Council Tax increases for next year.

3 DRAFT REVENUE BUDGET POSITION 2008/09

- 3.1 The first draft of the 2008/09 budget has now been completed, and a schedule of the various inflation and other factors is set out at **Appendix C** for information. It is stressed though that Financial Services are still checking the validity of some key assumptions and would wish Cabinet to note that the draft budgets could change further, perhaps significantly in some areas.
- 3.2 Currently the draft budget for 2008/09 stands at £23.274M, as shown in **Appendix D**. This represents a net reduction of £151K when compared to the recent MTFs review, excluding any Star Chamber proposals. If no further changes were made, the current draft budget would translate into around a 5.4% Council Tax increase for next year.
- 3.3 Details of the main year on year variances are currently being analysed; the table below provides a high level summary:

	2008/09 £'000	2009/10 £'000	2010/11 £'000
Original Budget Projections, Council 28 Feb.	23,713	25,028	n/a
Updated Budget Projections, MTFs review Sept.	23,425	25,091	
Net increases (+) / decrease (-) in service costs	+151	-197	
Reassessment of provisions and reserves	-254	-156	n/a
Increase in assumed contribution from Balances	-48	-32	
Total Changes	-151	-385	
Current Draft Budget	23,274	24,706	26,242

- 3.4 In considering the latest position Cabinet is asked to note the following key points :
- i. The draft budget is based on a total contribution of £756K from Revenue Balances. This assumes that the existing policy on the phased use of surplus balances (in the ratio 3:2:1) is retained, and it also assumes that the forecast underspending in this year will be transferred into balances, rather than it be used for any other purpose.
 - ii. The draft position takes account of the review of various reserves as set out at section 4 of this report.
 - iii. A report is currently being prepared on concessionary travel. Government has provisionally announced that the City Council will receive a grant of £487K to meet the extra costs in 2008/09, with similar amounts in future years. The budget assumes that this grant will meet these costs and this is felt reasonable, given the work done county-wide on estimating the impact of the new scheme. (See also comments under section 4, on earmarked reserves.)
 - iv. It is assumed that in the main, other grant awards such as Planning Delivery Grant and any additional amounts to be fed through the Local Area Agreement would be budget neutral, and used to support either existing commitments or new spending needs.
 - v. In broad terms the treasury management estimates take account of the existing five-year capital programme and projected use of reserves and balances. In recent days, the Council's treasury advisors have issued interest rate forecasts that are significantly worse than those on which the draft budgets are based. The forecasts, and risks attached, will be analysed in more detail and any changes to the draft budget will be incorporated into the February Cabinet report. Furthermore, Cabinet's final budget proposals could have a significant impact of the Council's cash flow, and the timing of the use of balances is not yet fixed. Such issues mean that accurately forecasting cash flow is difficult, and there is the need to keep this area under review.
 - vi. The Council has continued to generate large staffing savings. Some of these have been incorporated into other savings measures (e.g. the Revenues restructure), but the scope for increasing the annual budgeted turnover saving of around £200K will be assessed, linked to the planned implementation of Fairpay. At present, this is planned to be effective from 01 April 2008, and the draft budget assumes no net impact on the Council's pay bill. (See also comments under section 4, on earmarked reserves).
 - vii. More information on insurance prospects and audit fees for 2008/09 should be available soon, and if possible these will be incorporated into the February Cabinet report.
 - viii. The draft budgets also assume that the current arrangements for allocating and distributing the Council's share of second homes council tax income through the Local Strategic Partnership (LSP) will continue, on the basis that other authorities also continue with the arrangements. This will be reviewed in light of any further information becoming available.
 - ix. With regard to pension costs, the budget forecasts assume that employer contribution rates to the Pension Fund will increase by 1% per year, thereby increasing from the current rate of 16.1% to 19.1% for 2010/11. The broad

outcome of the recent triennial actuarial review is now known, however. For the City Council, the standard rate arising from the review is 19.3%, but larger employers (including the City Council) have the option of remaining at their current rates for the three year period, based on their risk tolerances. They also have the option of phasing in all or some of the increase to reach the standard rate. Given this, and the Council's current financial position, for now it is assumed that the budgeted increases (i.e. 1% per year) will be implemented, and this will mean that by the end of the 3-year period the Council will be very close (within 0.2%) of its standard rate. Should any changes be appropriate, these would be included in the February report to Cabinet. For information, a 1% increase in employer pension contributions amounts to around £200K.

- x. Regarding Customer Services, current staffing costs have all been built into the draft budget and it is assumed that any further one-off costs arising in connection with the customer services roll-out will be met by the Customer First Reserve (see later). Estimated costs associated with the homeworking/hotdesking pilot are reflected in the growth proposals, covered later in this report. No provision (in either the revenue budget or the capital programme) has been made as yet for the wider accommodation scheme, as this will be dependent upon the outcome of the pilot project.
- xi. As in previous years, the draft budget provides for no general contingency and it is assumed that Cabinet do not wish to alter this position.

3.5 Finally it is highlighted that the draft budget referred to above excludes any Star Chamber or other budget proposals. These are covered in section 5 below. Furthermore, items elsewhere on the agenda include options that could also impact upon the budget.

4 RESERVES AND BALANCES

4.1 Under current legislation the Section 151 Officer is required to give more explicit advice to Council on the minimum level of reserves and balances. This advice should take account of:

- the context of the Authority's MTFs, not just short-term considerations;
- the strategic, operational and financial risks facing the authority.
- the effectiveness of financial management arrangements and internal financial and other controls. Assurance on these can be taken from the respective formal Statements that the Council is required to produce, as well as the recent Use of Resources assessment.
- specific risks and assumptions underlying production of the General Fund budget figures.

4.2 After reviewing both the General Fund and Housing Revenue Account in comparative terms and considering the issues and assumptions outlined above, the Head of Financial Services (as Section 151 Officer) advises that the level of General Fund balances be retained at £1M to support the next three years' budget forecasts, as part of the overall MTFs. This represents over 4% of the net budget but to recognise that setting the minimum level of reserves is based on judgement, rather than it being an exact science, she would advise also that some degree of tolerance of up to $\pm 5\%$ would still be acceptable in managing balances for the three year period. This ties in with the current principle of there being flexibility available to Cabinet through the

MTFS, and it will be considered in more detail in the February report, with appropriate recommendations on to Council.

4.3 The main reasons why an authority should maintain an unallocated Balance are to provide:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing, and
- a contingency to cushion the impact of significant unexpected events or emergencies.

Whilst in recent years the Council has demonstrated that it can contain its spending well within budget, the progression of customer services, accommodation developments, job evaluation (Fairpay), and key planned asset sales continue to present major challenges (and therefore risks) to the authority. In addition, issues such as concessionary travel and decriminalisation of parking enforcement still remain uncertain. Furthermore major capital projects such as Luneside East and Storey Institute may add (and have added) real pressure in managing the Council's cashflow or its overall funding position. In basic terms, whilst the first point (on keeping spending well within budget) would lead to the view that minimum balances could perhaps reduce, the latter points support the retention of balances at current levels.

4.4 Retaining balances at £1M would mean that £1.168M (estimated, as at 31 March 2008) is available to support revenue spending and this has been accounted for in the latest budget projections, in line with the currently approved phased use of balances. As mentioned earlier the latest balances statement is attached at Appendix B for information.

4.5 A reassessment of other key reserves and provisions has been completed, with the outcome of that review reflected in the statement attached at **Appendix E**. The Head of Financial Services advises that the resulting level of reserves is adequate for the period covered, but will need to be reviewed regularly as set out. In addition, she would draw attention to the following areas and also ask Members to note that some further minor amendments may be necessary for other smaller reserves. These will be reported in February as appropriate.

Access to Services Reserve / Customer First

In the draft budget the contributions from this reserve reflect budgeted one-off spending commitments, with very little funding left available. It is therefore proposed to wind up this general reserve by 2010/11, and create a new 'Customer First' reserve of £50K for one-off costs associated with the approved roll out and integration of Customer Services. For future years, there may need to be consideration of specific growth, however.

Job Evaluation / Fairpay

Whilst work is progressing on the Fairpay project, pay modelling has not yet commenced and therefore the financial consequences or likely outcomes are unknown. It is known, however, that:

- The planned effective date for any new pay and grading structure is currently 01 April, and therefore during next year financial obligations would arise, if this date is retained.
- It is not possible to establish a new pay and grading structure that would agree exactly with the current pay bill.
- A number of equal pay claims have been received, albeit that the number is relatively small.

- Other Councils have experienced fairly significant increases in their pay bill, and incurred significant interim costs. Some have also taken considerable time to agree and implement a new structure, and experienced high levels of appeals.
 - Given the above, there are considerable financial risks attached to the project, in terms of timing and impact. The Head of Financial Services (as s151 Officer) considers this to be the greatest financial risk facing the Council.
 - Also, costs continue to be incurred on resourcing the Fairpay project.
- Given these points, it is proposed to increase the level on the reserve by a little over £200K (around 1% of the pay bill), to help mitigate the risks. This will continue to be reviewed over the spring / summer, when more information should be available.

Renewals Reserves

This reserve was created as part of the 2007/08 budget and demand has been very high – the bulk of resources have already been used or earmarked for items such as Christmas lights replacement and desktop equipment. In view of this, a further contribution of £150K has been provided for as it is known that there are other needs that have not yet been addressed.

Concessionary Transport

As mentioned earlier, the draft budgets assume that the implementation of the new scheme will be budget neutral, but the Council also holds an earmarked reserve to help manage any extra costs associated with the scheme and the recharging of costs. County-wide proposals are currently being developed to establish arrangements for pooling of budgets, however, and this would help manage the financial risks facing the Council – though it could also restrict any opportunities for savings. Given this, it is felt appropriate to reduce the available balance on this reserve to around £150K (around ¾% of next year’s budget).

City Contract (Direct) Services

The service’s financial planning and budgeting arrangements are now fully incorporated into the corporate arrangements and as such a specific reserve is no longer required – any surpluses or deficits are borne by the respective Fund (such as General Fund).

- 4.6 Cabinet is also asked to note that full information on all reserves and provisions will be included in the Head of Financial Services report to budget Council, as well as her views on the robustness of the budget process generally.
- 4.7 Cabinet is recommended to approve the associated recommendations on reserves and balances as set out. Should Members choose not to accept the advice on the level of balances, then this should be recorded formally in the minutes of the meeting. The net impact on the budget (excluding balances) is summarised below:

	2007/08 £'000
RESERVE	
‘Customer First’	+50
City Council (Direct) Services	-50
Concessionary Travel	-73
Job Evaluation (Fairpay)	+223
Renewals	+150
TOTAL	+300

5 STAR CHAMBER & OTHER POTENTIAL BUDGET PROPOSALS

- 5.1 During the year the Star Chamber exercise has identified many potential areas to generate savings through a combination of efficiency measures, income generation or service reductions, together with several areas of potential growth. Initiatives have arisen also through the work of Overview and Scrutiny as an example. Whilst some items have already been formally approved, others are subject to consideration as part of the budget process and these are set out at **Appendix F**. It should be noted that as yet, many items have not yet been fully quantified and may be subject to further reports and more detailed consideration. They all focus on the potential for cashable savings, however.
- 5.2 There are also a number of other areas with potential budgetary implications that Members should be aware of. These include:
- additional revenue implications of proposed capital schemes, which have been incorporated into the Star Chamber proposals as far as possible, and
 - a number of other potential future budget issues that have been noted at the bottom of the appendix.

6 2008/09 COUNCIL TAX PROJECTIONS AND SAVINGS REQUIREMENTS

- 6.1 In order to assist Cabinet in developing further their options with regard to Council Tax, the following table has been prepared. The savings requirements are shown both before and after the savings and growth proposals contained in Appendix F. Clearly should Cabinet choose not to support all proposals, or should further changes come forward, this would affect the figures.

	2008/09 REVENUE BUDGET	2008/09 COUNCIL TAX		SAVINGS REQUIRED	
		Band D	Increase	Before App. F Proposals	After App. F Proposals
	£000	£	% / £	£000	£000
2007/08 Council Tax		£170.36			
2008/09 Original Projection (MTFS)	23,713	£196.58	15.4%		
2008/09 Revised Projection (MTFS)	23,425	£189.90	11.5%		
2008/09 Current Projection	23,274	£179.63	5.4% or		
			£9.27		
Other Options based on a Tax increase of:					
1%	22,947	£172.06	£1.70	327	628
2%	23,021	£173.77	£3.41	253	554
3%	23,095	£175.47	£5.11	179	480
4%	23,168	£177.17	£6.81	106	407
4.5%	23,205	£178.03	£7.67	69	370
4.7%	23,220	£178.37	£8.01	54	355
4.9%	23,234	£178.71	£8.35	40	341

- 6.2 The Council Tax figures shown in the table relate to the average Band D property charge across the district, excluding parish precepts. This is generally rate that the Secretary of State will examine when considering capping. In percentage increase terms, it tends to be very slightly more than that payable in the non-parished areas of the district (Lancaster, Morecambe and Heysham).
- 6.3 The table shows a range of Council Tax increases from 0% to just less than 5% together with associated estimated savings required. In summary each 1% increase in Council Tax generates about an additional £74K approximately.
- 6.4 It should also be noted that as yet, only a provisional estimate of Collection Fund Balances has been made. These were due to be assessed as at 15 January and if possible, the outcome will be fed into the meeting.
- 6.5 The only other issues that may impact on the overall position are the outcome of the final Settlement and any radical changes in the level of parish precepts received – the deadline for the return of these is the end of January.
- 6.6 In total, if all the potential quantified savings and growth shown in the schedule at **Appendix F** are ultimately approved, this would increase next year's budget by a net £301K to £23.575M. In Council Tax terms, this would result in an increase of 9.5% or an average Band D tax of around £186.60 across the district.
- 6.7 Cabinet is asked to consider the level of Council Tax increase for 2008/09 it wishes to recommend to Council for approval in February, bearing in mind the comments on capping as set out earlier.

7 COUNCIL TAX BASE

- 7.1 Work on the Tax Base has now been completed and parishes and precepting authorities have been notified accordingly, with information included on the Council's website. The total tax base for next year stands at 43,150 Band D properties, which represents a year on year increase of 200 (or 0.5%). This is the same as was estimated in the latest MTFs projections.

8 SPECIAL EXPENSES

- 8.1 Back in December 2006 Council resolved that in the short term the current arrangements for special expenses be retained as an interim measure. This was on the basis that revised financial arrangements between the City Council and the Parish Councils be developed, taking account of best practice and the outcomes of the rural neighbourhood management project and the Council's bid for unitary status. Given the current position, it is envisaged that new arrangements will be developed for 2009/10 at the earliest, and this would fit with the proposals for establishing new parishes within the district.
- 8.2 Currently the objective of declaring special expenses is to ensure that Council Tax bills throughout the district are broadly equal, after taking account of parish precepts but assuming that parishes increased their budget requirements each year only in line with inflation. This objective recognises that parish councils may provide similar services to the City Council albeit that inevitably, there will be some variations throughout the district.

- 8.3 On this basis, a resolution that the sum of £451,000 is to be treated as special expenses for the non-parished area will be included in the formal Council Tax resolution for approval at Council on 27 February.
- 8.4 As in previous years the sum relates to part of the budget for maintaining parks and open spaces in the urban area, this being a function carried out by some Parish Councils in parished areas. It should be noted that £451,000 is the amount needed to achieve broadly equal Council Tax rates – it is not a statement on the budget position for grounds maintenance as a whole or for the non-parished areas.
- 8.5 The charge at Band D properties for special expenses will be £15.76 and is calculated as follows:

Special Expenses	£451,000
Divided by tax base for Non-parished area	28,625.65
To give a Band D Council Tax Rate of:	£15.76

9 BUDGET PROSPECTS FOR FUTURE YEARS

- 9.1 As part of the Council's financial planning, indicative revenue spending and Council Tax forecasts for 2009/10 and 2010/11 have continued to be updated and are summarised at **Appendix G**.
- 9.2 This also shows the provisional Council Tax implications for the future, after allowing for all recommendations included in this report. The Tax implications will continue to fluctuate depending on the nature of other budget proposals, i.e. whether they are one-off items or recurring. They do help to highlight, however, that whilst it should be relatively easy to keep next year's tax increase to below the capping threshold, there is still considerable pressure in subsequent years. This follows a similar pattern to previous budget exercises, however.
- 9.3 In view of the above and the comments made earlier regarding capping, at present it has been assumed that the current maximum 4.0% target increase for Council Tax in 2009/10 will be retained for future years. Cabinet will be asked to consider this in more detail at the February Cabinet meeting, together with future use of surplus balances.

9 Details of Consultation

The development of revenue budget proposals falls under the consultation exercise as outlined in the budget and policy framework timetable.

10 Options and Options Analysis (including risk assessment)

Options are dependent very much on Members' views on spending priorities balanced against Council Tax levels. As such, a full options analysis could only be undertaken once any alternative proposals are known and it should be noted that Officers may require more time in order to do this. Outline options are highlighted overleaf, however.

- With regard to the Revised Budget and resulting underspending, Cabinet could consider other proposals that may influence the Revised Budget for the year, or it could consider leaving the underspent resources in General Fund Balances.
- In terms of surplus balances generally, it could consider retaining balances at a higher level than the minimum or a different phased use of balances.
- Regarding Council Tax increases, various options are set out at section 6 of the report. In considering these, Members should have regard to the impact on service delivery, the need to make savings or provide for growth, the impact on future years and the likelihood of capping.
- With regard to special expenses and other items for noting, no options are presented.

With regard to options to produce a budget in line with preferred Council Tax levels, any proposals put forward by Cabinet should be considered alongside the development of Cabinet priorities, and emphasis should be very much on achieving recurring reductions to the revenue budget, and avoiding any “unidentified” savings targets that undermine the robustness of the budget and financial planning arrangements generally.

Under the Constitution, Cabinet is required to put forward budget proposals for Council’s consideration, in time for them to be referred back as appropriate. This is why recommendations are required to feed into the Council meeting on 06 February, prior to the actual Budget Council.

11 Officer Preferred Option and Comments

The Officer Preferred options are as reflected in the report’s recommendations.

12 Conclusion

The report outlines the progress that has been made against the current MTFs, and sets out options in order for Cabinet to make recommendations to Council on 06 February regarding the level of Council Tax for 2008/09.

RELATIONSHIP TO POLICY FRAMEWORK

The budget should represent, in financial terms, what the Council is seeking to achieve through its policy framework priorities and objectives.

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.

DEPUTY SECTION 151 OFFICER'S COMMENTS

The section 151 Officer has prepared this report, and her comments and advice are reflected accordingly. Her explicit legislative requirements in terms of reporting on the robustness of the estimates and budget process, and updates on these matters, will be covered in future reports to Cabinet and Council.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no comments to add.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

LG Provisional Finance Settlement
2008/09
Medium Term Financial Strategy

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GENERAL FUND REVENUE BUDGET VARIANCE ANALYSIS

For Consideration by Cabinet 22 January 2008

2007/08 BUDGET REQUIREMENT	£000	£000	£000	£000	£000
					22,309
	Qtr 1	Qtr 2	Budget	Total	
	Corporate	Corporate	Review		
	Monitoring /	Monitoring			
	MTFS Review				
Salaries (excluding main CC(D)S savings)	(200)	(50)	(114)	(364)	
Investment Interest	(50)	+30		(20)	
Interest Payable	(50)	(50)	(25)	(125)	
Public Conveniences (NNDR)	(7)	+3		(4)	
Public Conveniences : Clock Tower / Arndale		+10		+10	
Street Cleansing (Employee Costs)	(10)	(10)	(50)	(70)	
Waste Collection	(35)	(171)	(173)	(379)	
Trade Refuse		+145	(30)	+115	
Highways		(15)	(89)	(104)	
Grounds Maintenance			(78)	(78)	
Off Street Car Parks (Fee income)	+38	(48)	+21	+11	
City Lab (Rental income)	+17	+7	+21	+45	
St.Leonard's House (Rental income)	+27	+23	+22	+72	
Salt Ayre (Electricity & Gas)	+23		+30	+53	
Development Control Application Fees	(95)	+55	(1)	(41)	
Luneside East (Site Management Costs)	+100	+83	(48)	+135	
Pension Costs (Net)		+17		+17	
Licences : Betting & Gaming Income		(26)	+12	(14)	
Performance Reward Grant		+19		+19	
Mobile Phones		+29	+3	+32	
Audit Fees		+22	(2)	+20	
Bank Charges		(8)		(8)	
LABGI		(100)		(100)	
Bed & Breakfast		(10)		(10)	
DPE : On-Street Parking	(40)	+5	(13)	(48)	
Church Street Market (Income)		(15)	+7	(8)	
Lancaster Market (Income)		+20	(21)	(1)	
Mail Room (Postages)		+12	+21	+33	
Storey Feasibility / Implementation		+47	+47	+94	
Lancaster TIC (Rent)		(7)	+1	(6)	
Planning Approvals (Compensation)		+96	(18)	+78	
Poulton Homezones (Compensation)		+42	+13	+55	
Benefits			(62)	(62)	
Contract Staffing / Consultancy (see salary savings)			+69	+69	
"Bubbles" site rental income			(46)	(46)	
TERN Repair & Maintenance			(20)	(20)	
Concessionary Travel	+100		+33	+133	
Additional insurance savings			(67)	(67)	
Revenue Services Restructure			+39	+39	
Review of Reserves (per report)			+300	+300	
Other minor net changes	+4	+42	(76)	(30)	
	(178)	197	(294)	(275)	(275)
2007/08 REVISED ESTIMATE					22,034

Favourable Variances, i.e. increases in income, reductions in costs : amounts are shown in brackets.
Adverse variances, i.e. reductions in income, increases in costs: amounts are shown as +.

Appendix B

GENERAL FUND BALANCES SUMMARY

For Consideration by Cabinet 22 January 2008

	Per 2007/08 Budget Process	Per this MTFS Review Summer 07	Per Draft Estimates January 08	Sub Total
	£	£	£	£
Balance as at 31st March 2006	2,061,103	2,061,103	2,061,103	
Budgeted contribution from Revenue Budget 2006/07 Underspend (following Outturn)	572,800	572,800 381,001	572,800 381,001	953,801
Balance as at 31st March 2007	2,633,903	3,014,904	3,014,904	
Budgeted Contribution to Revenue Budget	(885,400)	(885,400)	(885,400)	(847,100)
Spending of Carry Forward Approvals (Cabinet 24 July 07)		(235,300)	(235,300)	
Additional contribution per MTFS review (Summer 07)		178,000	178,000	
Additional contribution per Draft Budget			95,600	
Balance as at 31st March 2008	1,748,503	2,072,204	2,167,804	
Budgeted Contribution to Revenue Budget	(545,300)	(545,300)	(545,300)	(755,800)
Additional contribution per MTFS review (Summer 07)		(162,000)	(162,000)	
Additional contribution per Draft Budget			(48,500)	
Balance as at 31st March 2009	1,203,203	1,364,904	1,412,004	
Budgeted Contribution to Revenue Budget	(203,200)	(203,200)	(203,200)	(343,500)
Additional contribution per MTFS review (Summer 07)		(108,000)	(108,000)	
Additional contribution per Draft Budget			(32,300)	
Balance as at 31st March 2010	1,000,003	1,053,704	1,068,504	
Budgeted Contribution to Revenue Budget		0	0	(68,500)
Additional contribution per MTFS review (Summer 07)		(53,700)	(53,700)	
Additional contribution per Draft Budget			(14,800)	
Balance as at 31st March 2011	1,000,003	1,000,004	1,000,004	

PREPARATION OF 3 YEAR REVENUE BUDGET – 2008-2011

The preparation of the 2008/09 base budget has been prepared in line with Financial Regulations. In particular, this includes:

- (a) Inclusion of all Council commitments to date;
- (b) Exclusion of fixed term or one-off items of expenditure or income that “fall out” in each year;
- (c) Re-pricing of each year’s base budget outturn basis using the following factors:

Salary and Wage Awards

	2008/09	2009/10	2010/11
All staff (Including Chief Officers & Craft Workers etc)	2.5%	2.5%	2.5%

National Insurance

Based on bandings effective from 1 April 2008, in range 0% to 12.8%. (The Salaries average NI rate = 7.33% & Wages average NI rate = 7.66%)

Superannuation

For 2008/09 the rate payable is 17.1%. For 2009/10 and 2010/11 the rates are 18.1% and 19.1%.

Other Price Factors

The basis used for general price inflation is the Consumer Price Index (CPI).

Where the authority is tied into differential contractual price increases, the contractual rates will be used. The table below covers all other scenarios. It should be noted that at this stage, for some cost areas there is still little or inconsistent information available regarding future price movements. The position will continue to be monitored and if changes are necessary, these will be reported during the budget process.

	2007/08 Budget	2008/09 Estimate	2009/10 to 2010/11
	%	%	%
Gas	37.0	5.0	5.0
Electricity	20.0	5.0	5.0
Building Repairs	2.0	2.3	2.3
Landfill Tax	14.00	33.33	25.0
Fuel Oil & Related Products	3.5	4.0	4.0
Petrol / Diesel	3.5	4.0	4.0
Water	3.0	5.0	5.0
Insurance premiums	0.0	0.0	5.0
Business Rates (average increase shown; individual property estimates will take account of any RV reassessments and transitional arrangements)	3.5	3.9	3.9
General Supplies & Services	2.0	2.0	2.0

Housing Rents and Council Tax Related Items

Council tax related budgetary items (including benefits) are based on a 5% maximum increase per year. Housing rent related budgetary items are also based on a 5% increase per year.

Other Employee Expenses

Employee expenses and allowances will be increased in line with CPI or any previously nationally agreed increase if relevant.

Fees and Charges

Fees and charges increases are grouped into three main categories for the purposes of budgeting for pricing increases, these being Prescribed & Regulated, General, and Cost Recovery. It is the intention to provide greater analysis and information on these during the budget exercise. Furthermore updated guidance on income generation for discretionary services has just been received; again, this may lead to further proposals arising during the process.

Prescribed / Regulated Fees & Charges:

This covers fees and charges that are either set by central government or an external agency, or are similarly regulated – as such, the City Council has little or no discretion with regard to actual fee levels and charges. Examples of these include **licensing** application fees and **planning** fees. The base budgets will be based on known set fee levels, or on expected levels across the three year period.

Fees & Charges linked to Cost Recovery:

These fees and charges will be budgeted for on the basis that the related activity will achieve any pre-determined financial objective for the year, e.g. breaking even by way of recovering the running costs of the service. Examples of these are **Building Regulation fees** (this is also a statutory requirement) and various **Service Charges**.

General

The general inflationary increase applicable to fees and charges will be based on a proportion ($\frac{1}{4}$) of the Consumer Price Index (CPI) and a proportion ($\frac{3}{4}$) of the salary and wage indices (reflecting that the authority's main costs are staff related). Given the percentages involved, this has been rounded to 2.5%.

General Fund Revenue Budget Summary

For Consideration by Cabinet 22 January 08

	2007/08 Estimate £	2007/08 Revised £	2008/09 Estimate £	2009/10 Forecast £	2010/11 Forecast £
Chief Executive					
Management Team	0	4,100	12,800	31,800	51,400
Legal & Human Resources	(5,800)	4,800	85,300	137,000	177,100
Democratic Services	2,295,100	2,318,400	2,195,100	2,278,700	2,272,000
Sub-Total	2,289,300	2,327,300	2,293,200	2,447,500	2,500,500
Central Services					
Corporate Strategy	59,000	106,100	215,000	186,000	203,500
Financial Services	110,100	134,500	163,200	(45,900)	(70,900)
Other Central Services	23,400	23,400	26,400	26,400	26,400
Revenues Services	1,911,500	1,788,000	1,875,100	1,986,300	2,117,100
Information & Customer Services	121,100	432,800	436,500	449,700	502,000
Sub-Total	2,225,100	2,484,800	2,716,200	2,602,500	2,778,100
Community Services					
Council Housing Services	190,100	192,600	190,100	190,100	190,100
Health & Strategic Housing	2,999,300	3,331,200	3,389,800	3,426,800	3,496,900
City Council (Direct) Services	6,394,600	5,791,700	6,436,600	6,785,800	7,183,300
Sub-Total	9,584,000	9,315,500	10,016,500	10,402,700	10,870,300
Regeneration					
Economic Development & Tourism	1,697,800	2,113,200	1,919,900	1,923,800	1,956,700
Property Services	474,700	634,400	851,500	1,031,700	1,208,000
Cultural Services	3,912,500	3,756,100	3,939,700	4,052,000	4,155,200
Planning Services	2,432,700	2,131,200	2,365,800	2,460,700	2,589,800
Other Regeneration	238,300	(122,200)	(180,900)	(182,400)	(169,700)
Sub-Total	8,756,000	8,512,700	8,896,000	9,285,800	9,740,000
Corporate Accounts					
Corporate Accounts	923,500	1,395,600	806,600	660,800	779,000
Appropriations	(583,500)	(879,800)	(698,500)	(349,900)	(357,700)
General Fund Balances (<i>see Appendix B</i>) :					
Per MTFs Summer 2007	(885,400)	(942,700)	(707,300)	(311,200)	(53,700)
Assumed Additional 2007/08 Underspend	0	95,600	(48,500)	(32,300)	(14,800)
Sub-Total	(545,400)	(331,300)	(647,700)	(32,600)	352,800
Total Budget Requirement	22,309,000	22,309,000	23,274,200	24,705,900	26,241,700
Parish Councils - Precepts	270,800	270,800	270,800	270,800	270,800
Total Net Expenditure	22,579,800	22,579,800	23,545,000	24,976,700	26,512,500

GENERAL FUND RESERVES AND PROVISIONS : For Consideration by Cabinet 22 January 08

EARMARKED RESERVES	GENERAL FUND RESERVES 2007/08			GENERAL FUND RESERVES 2008/09			GENERAL FUND RESERVES 2009/10			GENERAL FUND RESERVES 2010/11			
	BALANCE AT 31/03/07 £	CONTRIBUTIONS FROM RESERVE £	CONTRIBUTIONS TO RESERVE £	BALANCE AT 31/03/08 £	CONTRIBUTIONS FROM RESERVE £	CONTRIBUTIONS TO RESERVE £	BALANCE AT 31/03/09 £	CONTRIBUTIONS FROM RESERVE £	CONTRIBUTIONS TO RESERVE £	BALANCE AT 31/03/10 £	CONTRIBUTIONS FROM RESERVE £	CONTRIBUTIONS TO RESERVE £	BALANCE AT 31/03/11 £
CAPITAL	47,677			47,677			47,677			47,677			47,677
Marsh Capital	460,000	(173,000)		287,000	(177,000)		110,000			110,000			110,000
Capital Support (Storey Institute)	507,677	(173,000)	0	334,677	(177,000)	0	157,677	0	0	157,677	0	0	157,677
REVENUE													
Priv. Hsg. - Rental Deposit Guarantee	2,000			2,000			2,000			2,000			2,000
Building Regulations	142,435	(111,700)		30,735	(27,600)		3,135			3,335	300		3,635
City Council (Direct) Services	100,553	(100,553)	0	0	0	0	0	0	0	0	0	0	0
Risk Management	31,222	(39,000)	20,000	12,222	(20,000)	20,000	12,222	(20,000)	20,000	12,222	(20,000)	20,000	12,222
Emergency Planning	47,134	(339,700)		47,134	(71,100)		47,134	(39,300)		47,134	(40,617)		47,134
Access to Services	490,717	(59,600)		151,017	(12,400)		79,917			705,847			705,847
Job Evaluation	554,847	(59,600)		718,247	(12,400)		705,847			705,847			705,847
Allotment Improvements	4,914	(2,200)	3,200	5,914		3,200	9,114		3,200	12,314		3,200	15,514
HMP Water Feature	4,000	(4,000)	4,000	8,000		4,000	12,000		4,000	16,000		4,000	20,000
HMO Registration Fees	20,785			20,785			20,785			20,785			20,785
Insurance	353,000			353,000			353,000			353,000			353,000
Project Implementation	50,000	(26,000)		24,000	(24,000)		0			150,000			150,000
Concessionary Travel	290,000	(73,000)		217,000	(67,000)		150,000			150,000			150,000
Smokefree Legislation	6,898	(63,200)	63,200	6,898			6,898			6,898			6,898
Business Continuity	100,000			100,000			100,000			100,000			100,000
Every Child Matters (Incl. Heysham Mossgate)	0		50,000	50,000		50,000	50,000		50,000	100,000		25,000	100,000
Homelessness (Incl. Supporting People)	0		50,000	50,000		25,000	75,000		25,000	100,000		25,000	125,000
Customer First	0		50,000	50,000		25,000	50,000		25,000	50,000		25,000	50,000
Storey Institute	0		0	0		25,000	25,000		25,000	50,000		25,000	50,000
MAINTENANCE / RENEWALS													
Open Spaces Computed Sum	312,472	(52,000)	15,600	276,072	(52,000)		224,072	(52,000)		172,072	(52,000)		120,072
Other Computed Sums	183,000	(64,800)		118,200	(37,600)		80,600	(38,000)		42,600			42,600
Graves Maintenance	22,201			22,201			22,201			22,201			22,201
Car Parks - Plant & Equipment	11,007	(20,000)	22,000	13,007	(15,000)	22,000	20,007	(10,000)	22,000	32,007	(10,000)	22,000	44,007
Cultural Services / Property - Vehicles	18,337		3,000	21,337		3,000	24,337		3,000	27,337		3,000	30,337
AONB - Vehicles	20,600		8,000	32,000		8,000	20,600		8,000	20,600		8,000	20,600
SMART Card Replacement	24,000		250,000	32,000		8,000	40,000		8,000	48,000		8,000	56,000
Renewals (General)	100,000	(97,000)		253,000	(203,000)	100,000	150,000	(81,000)	100,000	169,000	(50,000)	100,000	219,000
Salt Ayre Sports Centre	0			0			118,000			118,000			118,000
UNALLOCATED BALANCES													
General Fund Revenue Reserve	2,890,122	(1,048,753)	712,000	2,553,369	(529,700)	378,200	2,401,869	(240,300)	260,400	2,421,969	(172,317)	185,200	2,434,852
	3,014,905	(847,100)		2,167,805	(755,800)		1,412,005	(343,500)		1,068,505	(68,500)		1,000,005
	3,014,905	(847,100)	0	2,167,805	(755,800)	0	1,412,005	(343,500)	0	1,068,505	(68,500)	0	1,000,005
TOTAL EARMARKED RESERVES	6,412,704	(2,068,853)	712,000	5,055,851	(1,462,500)	378,200	3,971,551	(583,800)	260,400	3,648,151	(240,817)	185,200	3,592,534
PROVISIONS													
Bad Debts	803,662	(260,400)	220,400	763,662	(220,400)	220,400	763,662	(220,400)	220,400	763,662	(220,400)	220,400	763,662
Insurance	249,742	(250,000)	250,000	249,742	(250,000)	250,000	249,742	(250,000)	250,000	249,742	(250,000)	250,000	249,742
Stock Write Offs	40,456		0	40,456		0	40,456		0	40,456		0	40,456
Derelict Land Grant (DLG) Clawback	56,932	(56,932)	0	0		0	0		0	0		0	0
Vehicles Plant & Machinery	41,400			41,400			41,400			41,400			41,400
TOTAL PROVISIONS	1,192,192	(567,332)	470,400	1,095,260	(470,400)	470,400	1,095,260	(470,400)	470,400	1,095,260	(470,400)	470,400	1,095,260

SUMMARY OF STAR CHAMBER POTENTIAL BUDGET PROPOSALS TO DATE
For Consideration by Cabinet 22 January 2008

			2008/09 £'000	2009/10 £'000	2010/11 £'000
SAVINGS PROPOSALS:					
CHIEF EXECUTIVE					
Democratic Services	Introduce Charging for Parish Council By-elections	<i>Based on one by-election per year</i>	(1.0)	(1.0)	(1.0)
FINANCE & PERFORMANCE					
Corporate Strategy	Review of Communications Function (note: net of LSP request for additional publicity)	<i>Options reported to Star Chamber</i>	?	?	?
REGENERATION					
Cultural Services	Salt Ayre - Bank Holiday Closing	<i>To be considered further</i>	(5.0)	(5.0)	(5.0)
	Closure of the Dome (note that growth items may also arise)	<i>Report to January Cabinet</i>	?	?	?
Econ Dev & Tourism	Business Development Grants (if new scheme is not implemented)	<i>Staffing imps. to be considered</i>	(21.8)	(22.2)	(22.6)
Property Services	Concessionary Travel - withdrawal of peak time concessions	<i>Subject to 'pooling' considerations</i>	(20.0)	(20.0)	(20.0)
	Energy Reduction (Invest to Save) - linked to Climate Change Strategy	<i>See growth below also</i>	(3.0)	(3.0)	(3.0)
	Lancaster Market Review	<i>Report to January Cabinet</i>	?	?	?
	Postages - procurement of service	<i>Operational Saving - Estimate</i>	(19.0)	(20.0)	(20.0)
COMMUNITY SERVICES					
Health & Strategic Hsg	Withdrawal of Emergency Call Out System	<i>Options reported to Star Chamber</i>	(9.3)	(9.5)	(9.7)
TOTAL SAVINGS			(79.1)	(80.7)	(81.3)
GROWTH PROPOSALS:					
CHIEF EXECUTIVE					
Democratic Services	Electoral Registration Act	<i>Figures to be confirmed</i>	+39.0	+40.0	+41.0
	Grants / SLA Review by Budget and Performance Panel	<i>Subject to final recommendations</i>	+3.5	(0.4)	(4.4)
	Twinning (re Slave Trade Triangle)	<i>Options reported to Star Chamber</i>	?	?	?
Legal & HR	Homeworking Pilot Project (one-off costs only at this stage)	<i>Estimate - some may be capital</i>	+85.0	-	-
FINANCE & PERFORMANCE					
Corporate Strategy	Children & Young People - Full time manager	} <i>Report to January Cabinet</i> } <i>Consider use of reserve -</i> } <i>£50K pa from 2008/09 onwards</i> } <i>Transfer from Cultural Services?</i>	+13.0	+13.3	+13.6
	Children & Young People - Contingency		?	?	?
	Young Advisor's Scheme		+4.0	+6.0	+6.0
	Children & Young People - Section Running Costs		+4.0	+4.1	+4.2
	Climate Change Strategy Implementation		-	+20.0	+20.0
Financial Services	Community Safety staffing capacity (Between £12-20K)	<i>Based on maximum cost</i>	+20.0	+20.5	+21.0
	Payment Card Industry Data Security Standards	<i>Operational issue - Indicative figure</i>	+20.0	-	-
REGENERATION					
Econ Dev & Tourism	Regeneration Staffing (2010/11 amounts to be reviewed / set next year)	<i>Per Cabinet Dec 2007</i>	+34.5	+19.0	TBC
	NW Coastal Trail Development Officer - max. contribution via NWRA	<i>Options reported to Star Chamber</i>	+2.0	-	-
COMMUNITY SERVICES					
City Contract (Direct) Services	Waste & Cleansing Enforcement (£26K per post, max cost shown)	<i>Options reported to Star Chamber</i>	+78.0	+80.0	+82.0
Health & Strategic Hsg	Dog Control Orders	<i>Now spread over two years</i>	+6.0	+6.0	-
	Stray Dogs	<i>Options reported to Star Chamber</i>	+7.0	+7.0	+7.0
	Headstone Programme (various cemeteries, other than Lancaster)	<i>Operational Issue - one-off</i>	-	+55.0	-
	Cemeteries Administration - new post	<i>Options reported to Star Chamber</i>	+24.9	+23.6	+24.2
	(Other cemeteries proposal between EH & CCDS to be budget neutral)	<i>Operational Issue</i>	-	-	-
	Sanctuary Scheme	<i>Options reported - consider use of reserve</i>	+20.0	+21.0	+22.0
	KIMO Subscription (re Pollution in Morecambe Bay)	<i>Options reported to Star Chamber</i>	+0.8	+1.7	+1.7
REVENUE IMPLICATIONS OF CAPITAL PROGRAMME					
Cultural Services	Play England / Big Lottery Projects	<i>Cabinet 24 July 2007</i>	+16.2	+16.9	+17.6
Econ Dev & Tourism	Lancaster TIC relocation to Storey Institute	<i>Additional growth over 2006/07</i>	-	+2.8	+2.8
	Upgrade of IT link to Tourism Offices, at The Platform	<i>Awaiting confirmation of requirement</i>	+2.5	+2.6	+2.7
TOTAL GROWTH			380.4	339.1	261.4
NET GROWTH TOTAL			301.3	258.4	180.1
CURRENT DRAFT BASE BUDGET PROJECTIONS			23,274	24,706	26,242
POTENTIAL REVENUE BUDGET (INCLUDING ROUNDED NET GROWTH)			23,575	24,964	26,422
TARGET REVENUE BUDGET FOR ASSUMED MTFS COUNCIL TAX INCREASES (4.5% in 2008/9, 4.0% assumed in 2009/10 and 2010/11)			23,205	24,019	24,762
FUTURE YEARS' POTENTIAL SAVINGS REQUIREMENTS (IF ALL SAVINGS & GROWTH ARE SUPPORTED)			(370)	(945)	(1,660)

Other issues:

Community Transport - likely to be reviewed during 2008/09, but not for this budget round (due at Cabinet January 2008)

Potential Saving in Direct Revenue Financing of Storey CIC project, if County Council funding retaining wall works.

Electronic Document Management System - report back following implementation (Jan / Feb 2008)

Carparking permits to be reviewed again during 2008/09, wef August.

IS Print, design & distribution - budget transfers to be resolved.

Homelessness Medical Fees - changes unlikely to generate savings, but can be monitored during next year.

Environmental Health & outcome of Rogers' report - no information as yet, but no impact expected in 2008/09.

Accommodation Review - an issue for 2009/10 budget, following hotdesking / homeworking pilot.

Shellfish Beds - issue now resolved, with no further cost implications.

Potential savings from review of Civic Support - issue for 2009/10 budget.

Review of Corporate marketing - issue for 2009/10 budget.

Ryelands House, possible change to lease during 2008/09, but expected to be budget neutral.

Festivals and Events efficiency savings - issue for 2009/10 budget.

Middleton Wood M'tce - being reviewed with relevant services.

Neighbourhood Management District Wide Roll Out - issue for 2009/10 budget. Similar for Poulton / West End continuation.

Also Neighbourhood Management Additional Licensing - will be considered for 2009/10 onwards.

Customer First Policy (2009/10 onwards) - issue for 2009/10 budget.

Review of CCTV function - issue for 2009/10 budget.

Community Pools - report back required (again issue for 2009/10 budget).

Upgrade of Licensing System (Lalpac), staff training, Empty Property Officer and Grounds M'tce - growth assumed not to be taken forward.

**Future Years' Budgets, Provisional Settlement and associated Council Tax Rates
For Consideration by Cabinet 22 January 2008**

	2007/08 Original £000	2008/09 Estimate £000	2009/10 Projection £000	2010/11 Projection £000
Original Revenue Budget Projection	22,309	23,713	25,028	0
Projection per MTFS Review Sept 2007 (excl. Star Chamber Proposals)	22,309	23,425	25,091	0
Base Budget Amendments :				
Changes resulting from Budget review to January 2008	-96	-103	-353	+26,257
Additional Contributions to (+) / From (-) Balances	+96	-48	-32	-15
Latest Revenue Budget Projection	22,309	23,274	24,706	26,242
Provisional Government Support	14,932	15,523	15,993	16,376
Collection Fund Deficit / (-) Surplus	-60	+0	+0	+0
Amount met by Council Tax	7,317	7,751	8,713	9,866

Original Tax Base Estimates	42,950	43,150	43,350	43,550
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COUNCIL TAX IMPLICATIONS :

Band D Average Council Tax (across district)	£170.36	£179.63	£200.99	£226.54
Percentage Increase Year on Year	4.0%	5.4%	11.9%	12.7%
As Compared with:				
Original Projections for average Council Tax		£196.58 15.4%	£218.98 11.4%	
MTFS Original Targets		£177.99 4.5%	£185.11 4.0%	

Assumed Target Year on Year Average Council Tax Increase	In % terms	4.5%	4.0%	4.0%
	In £ terms (Band D)	£7.67	£7.12	£7.41
Target Average City Council Tax Rate across the District		£178.03	£185.15	£192.55
Budget assumptions to achieve these targets:		£'000	£'000	£'000
Current Revenue Budget Projection (from above table)		23,274	24,706	26,242
Net Growth (+) / Savings (-) Requirement		-69	-687	-1,480
Target Revenue Budget Requirement		23,205	24,019	24,762

The above net savings requirements would need to be increased to cover any growth proposals.

NOTES :

- The tax base for 2008/09 has now been finalised (no change from estimate).
- The Council Tax figures in the shaded boxes relate to the average City Council Tax payable across the district. This is the rate that the Secretary of State considers when deciding whether to use his capping powers.
- The variance analysis is still being reviewed and therefore figures are subject to change.
- To achieve a Council Tax increase of 4.5%, savings of £69,000 will be required, assuming no further growth is required (ie the savings target would need to increase to provide for this).
- Currently it is estimated that 1% change in Council Tax represents circa. £74K.
- The assumptions on the use of surplus balances are in line with current MTFS phasing.
- No Star Chamber savings proposals have been included in the above projections.
- For exemplification purposes only, a 4% Council Tax target is shown for 2009/10 and 2010/11.

CABINET

**Budget & Policy Framework Update –
Housing Revenue Account Budget and Capital Programme
22 January 2008**

**Report of Corporate Director (Community Services) and
Head of Financial Services**

PURPOSE OF REPORT			
This report updates the Housing Revenue Account (HRA) revised budget position for the current year and sets out the recommended budget for 2008/09 and future years. It also sets out the updated Capital Programme for 2007/08 and a proposed programme to 2012/13.			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date Included in Forward Plan	January 2008		
This report is public.			

RECOMMENDATIONS OF COUNCILLORS GILBERT AND KERR:

1. That the Housing Revenue Account Revised Budget for 2007/08, as set out at Appendix A, be recommended to Budget Council for approval, with the net savings being used to help finance future years' capital investment.
2. That the revenue growth bids set out at Appendix B be supported.
3. That the Housing Revenue Account Budget for 2008/09 as set out at Appendix A be recommended to Budget Council for approval.
4. That Cabinet recommends to Council that the minimum level of HRA unallocated balances be retained at £350,000 from 01 April 2008, and that the Statement on Reserves and Balances be noted and referred to Budget Council for information.
5. That average council housing rents for the year commencing 01 April 2008 be set at £56.86, representing an increase of 5%.
6. That future year budget projections continue to assume a 5% year on year increase in average rents.

7. That the Capital Programme as set out at Appendix E be referred on to Budget Council for approval.
8. That the revenue budgets and capital programme be referred to the District Wide Tenants Forum on 06 February 2008, and that any issues arising are fed into Cabinet, prior to Budget Council.

Introduction

The Council is required under statutory provisions to maintain a separate ring-fenced account for all transactions relating to the provision of local authority housing, known as the Housing Revenue Account (HRA). This account includes all transactions relating to the maintenance and management of the Council's housing stock.

It is therefore necessary to prepare separate revenue and capital budgets for the HRA each year, and to set the level of housing rents in sufficient time for the statutory notice of rent variations to be issued to tenants by 01 March. In order to meet this deadline, it is recommended that Cabinet set the rent increase for 2008/09 at this meeting, and recommend a balanced budget and fully financed Capital Programme to Council for agreement on 27 February 2008.

1 2007/08 REVISED BUDGET

- 1.1 A review of the current HRA budget has been undertaken, resulting in an additional net saving of £186k when compared with the original budget. A summary statement is set out at **Appendix A** and the main variations are shown below:

SUMMARY OF MAIN VARIANCES ON HRA	£'000
FAVOURABLE VARIANCES:	
Commercial rents	-44
Charges for Services and Facilities	-144
Rent, rates, taxes and other charges	-59
Interest Payable and Similar Charges	-29
Net decrease in Transfers to Earmarked Reserves	-102
ADVERSE VARIANCES:	
Repairs and Maintenance	+56
Supervision and Management	+42
Housing Subsidy – payments to Central Government	+33
Provision for Bad Debts	+57
Other Minor Variances	+4
Net Saving on HRA	-186
Increased contribution to Direct Revenue Financing	+186
Change in Balance on HRA	0

- 1.2 Taking account of the recommended Revised Budget outlined above, HRA Balances would be as follows. It can be seen that in general terms, the balances position is as originally forecast. This is because surplus resources have been transferred to help fund future years' capital investment, linked to the 30-year Business Plan.

	2007/08 Original Budget £'000	2007/08 Revised Budget £'000
Balance brought forward from 2006/07	350	759
Transfer to/(from) Balances	-	(409)
Forecast Balances as at 31 March 2008	350	350

- 1.3 Cabinet is recommended to refer the HRA Revised Budget for 2007/08 to Council for approval.

2 2008/09 BASE BUDGET AND FUTURE YEARS' PROJECTIONS

- 2.1 The draft budget has now been prepared for 2008/09 with projections for 2009/10 and 2010/11. The budgets are set out in line with Accounting Requirements. Specific aspects of the budget proposals are outlined in more detail below.

2.2 Housing Subsidy

- 2.2.1 Housing Subsidy is calculated from a number of components. Authorities receive an allowance per property based on notional expenditure on management, maintenance, and major repairs. Added to these allowances is the actual expenditure on debt charges to give a notional total expenditure amount. From this is taken the notional rent income per property and actual interest receivable, to give a notional HRA surplus or deficit.

- 2.2.2 For those authorities with a notional deficit, subsidy is payable from Central Government to cover that deficit. Conversely authorities with a notional surplus are required to make payments to Government and this is known as a 'negative subsidy' position – the City Council is in such a situation.

- 2.2.3 The HRA Subsidy Draft Determinations were published on 23 November 2007. The general formula for calculating the amount of subsidy payable for 2008/09 is essentially unchanged, with the exception that Rental Constraint Allowance has been removed. Also the Determination is for one year only, and a new Determination will be issued for 2009/10, hence future years estimates have been based on the assumption that the formula will remain unchanged. A breakdown of the key areas is as follows:

- **Management and Maintenance (M&M) Allowances:** These are key expenditure assumptions within the HRA subsidy system. There have been no changes to the formulae used for M&M allowances and the Council's combined allowances have increased by 2.68%.

- **Guideline Rents:** The rent income figure within housing subsidy is calculated based on a 'guideline' rent; this notional rent is calculated by Government based on a number of assumptions. For 2008/09, the guideline rent provides for an annual increase of 5.67%.
- **Rental Constraint Allowance (RCA):** The Rental Constraint Allowance has been removed and contrary to the assumption as last reported, the Government has not made any level of alternative allowance.
- **Major Repairs Allowance (MRA):** This represents the estimated long-term average amount of capital spending required to maintain the housing stock in its current condition. For the Council, MRA has increased by 1.34% per property for 2007/08. However the overall total allowance has increased by just 0.42%, this is due to the disposal of HRA dwellings under the Right to Buy scheme. The overall increase is down by more than 1% on last year.
- **Negative Subsidy Payable to Government:** The combination of the above, together with the other elements in the Subsidy calculation, produces an overall rise of £541k in the estimated amount payable for 2008/09, when compared with the revised budget for current year (and excluding previous year adjustments). Though the expectation for the Council was a rapid increase in subsidy payable, this increase is still £218K higher than previously reported figures for 2008/09. This is mainly attributable to the following:
 - Much lower than anticipated MRA Allowance (£36k adverse impact on the Council)
 - No alternative allowance made for the removal of rental constraint allowance (£71K adverse impact)
 - Estimate for the Charges for Capital were based on a higher CRI, than is currently estimated. (Though this is offset by a corresponding reduction in actual interest charges, elsewhere in the HRA, it has an adverse impact on the subsidy payable of £75K).

2.2.4 The following table summarises the current projections of Subsidy for Lancaster to 2010/11:

	2007/08 Original Budget £'000	2007/08 Revised Budget £'000	2008/09 Budget £'000	2009/10 Projection £'000	2010/11 Projection £'000
Management Allowance	1,895	1,895	1,990	2,049	2,110
Maintenance Allowance	3,753	3,753	3,809	3,937	4,075
Major Repairs Allowance	2,268	2,268	2,278	2,332	2,390
Admissible Allowance	0	0	0	0	0
Charges for Capital	1,828	1,777	1,779	1,794	1,794
	9,744	9,693	9,856	10,112	10,369
<i>LESS:</i> Guideline Rent	-10,692	-10,692	-11,194	-11,742	-12,329
<i>ADD:</i> Rental Constraints Allowance	166	203	0	0	0
Interest on Receipts	-4	-4	-3	-5	-5
Subsidy Adjustment Prior Year		-20			
Negative Subsidy Payable to Govt.	-786	-820	-1,341	-1,635	-1,965

2.3 Council Rent Levels

2.3.1 Central Government sets a 'Limit Rent' for each authority as part of the Subsidy Determinations. If a Council sets its rent above this level it will be penalised by way of Rent Rebate Subsidy Limitation. The recommended increase in average rent for 2008/09 is 5%, which is marginally below the maximum increase permissible within the Limit Rent, which is 5.5%. The reasons for recommending the lower level of increase are that:

- This is consistent with the medium-term assumptions previously made
- It is sufficient to maintain the financial viability of the Account and its contribution to the 30 year Business Plan
- Only a small amount of income (£55K) is foregone while keeping the rise to a more affordable level for tenants.

2.4 Rent Collection Periods

2.4.1 The council will be collecting rents over the standard 48 weeks with 4 rent free weeks.

2.5 Star Chamber

2.5.1 A number of budget proposals have been put forward, details of which are set out in **Appendix B**. The Growth proposals in total amount to £75K in 2008/09 and £19K recurring in future years. Should Cabinet not wish to support some or all of the requests, then it would be proposed to adjust accordingly the provision for Direct Revenue Financing (DRF) of Capital Expenditure, which is already included in the draft budget.

2.5.2 A proposal for recurring savings of around £55k in respect of reduction in management capacity was presented to Star Chamber on 12 September 2007. It was proposed by Star Chamber that further review of the options were to be

produced and considered, hence for the purpose of this report, these savings have not been included.

2.6 Reserves and Balances

- 2.6.1 The Section 151 Officer is required to undertake a formal review of general reserve levels. In assessing the adequacy of such balances, the Head of Financial Services takes account of the strategic, operational and financial risks facing the authority. Progress continues to be made in managing such risks, in line with the Council's recently updated Strategy. In addition the Officer needs to take account of the effectiveness of internal financial and other controls; assurance on these can be taken from the respective formal Statements and external assessments. Consideration has also been given to the specific risks and assumptions underlying the HRA as set out in **Appendix C**.
- 2.6.2 After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises retaining the minimum level of HRA balances at £350K to support the budget forecasts, as part of the overall medium term financial planning for the HRA. Should Members choose not to accept this advice, then this should be recorded formally in the minutes of the meeting. It is also highlighted that unless there is a significant increase or decrease in financial risk, the current recommendation to retain HRA balances at a minimum of £350K will stand for future years. One aspect that may impact on this in future, however, is the Government's recent announcement to review the HRA subsidy system, to 'examine the case for change'. This is due to make its final report in Spring 2009, but it will also be asked to provide earlier advice in 2008 to inform Government decisions regarding council rents and subsidy determinations from 2009/10 onwards. Progress on the review will be monitored if possible, during next year.
- 2.6.3 In effect, setting the minimum level of balances at £350K would mean that any surplus balances would be available to support capital investment and the 30-year Business Plan. Such use is reflected in the HRA budget proposals as set out in Appendix A. It can be seen from this that HRA balances are maintained at just the minimum level in future years. This is because all other available resources have been applied to funding the capital programme via Direct Revenue Financing (DRF) , thereby allowing Major Repairs Reserve monies to be built up to support the 30-year Business Plan.
- 2.6.4 Cabinet may recall that in order to fund the Business Plan, it was originally forecast that resources of approximately £11.4M would need to be set aside by 2013. Under the current budget proposals, it is forecast that balances of £9.8M will be set aside by the end of 2012/13, leaving a gap of £1.6M. This is still an improvement of £1.9M on the last reported position of £3.5M.
- 2.6.5 A draft statement on all reserves is attached at **Appendix D**. These are viewed as adequate for the period covered, but will need to be reviewed regularly as shown. Cabinet is asked to note this information, with the Statement being referred on to Council in support of its HRA budget and housing rent proposals.

2.7 Overall Position

If rents were to be set in line with the recommended increase and the other various budget issues were approved as set out above, the overall position regarding the HRA budget would be as set out at **Appendix A**. This shows that for 2008/09, the

Account can make a contribution of £1.78M towards the funding of capital expenditure, while meeting all forecast revenue expenditure and retaining a balance of £350K. This contribution will reduce slightly in future years, to £1.65M by 2010/11.

In essence the above proposals mean that a substantial proportion of revenue funding would be used to support capital spending, with surplus resources being held in the Major Repairs Reserve. If in future, however, there was a need to switch available resources between revenue and capital, this could be facilitated.

3 REVISED CAPITAL PROGRAMME 2007/08

- 3.1 The Council Housing Capital Programme was set at £3.527M by Council on 20 February 2007. This programme has since been updated by Cabinet for the addition of £157K of slippage on 24 July 2007.
- 3.2 Total savings of £142K have been identified, i.e. £80K on Kitchen/Bathroom Refurbishments against a budget of £1.035M, and £62K on Environmental Improvements against a budget of £397K. These procurement savings are a direct result of receiving lower than estimated tenders. The revised Capital Programme, which now totals £3.542M, is attached at **Appendix E** for Members' approval.

4 CAPITAL PROGRAMME 2008/09 TO 2012/13

- 4.1 Council Housing Services have a statutory duty to ensure that all of the Council Housing stock meets the Decent Homes Standard by 2010. The stock currently meets the Standard; this was confirmed by a Stock Condition Survey undertaken in 2001. However another survey is currently underway and this is using new methodology, which incorporates the new Housing Health and Safety Rating System for determining the Standard. The results of this survey are expected to be concluded by February 2008. Ideally, the Council needs to maintain its stock to at least Decent Homes Standard leading up to 2010, and therefore it will need to respond to any issues identified by the current Stock Condition Survey, should they arise.
- 4.2 In addition, the Council has agreed its own standard, for improvement works, i.e. the Lancaster Standard, and this exceeds the Decent Homes Standard (as determined under the old methodology). This Lancaster Standard has been agreed with the District Wide Tenants Forum.
- 4.3 The Council has a long-term investment programme, which identifies resources needed to maintain a viable 30-year Business Plan, taking account of such Housing Standards. The present business plan has been signed off by the Government Office as being fit for purpose.
- 4.4 One of the outcomes from the Stock Options Appraisal was that future years' programmes should be set in line with the HRA Business Plan wherever possible. The recommended Capital Programme is set out at **Appendix E**. Whilst this has been extended into 2012/13, other than the changes in connection with direct revenue financing changes outlined earlier, there are no other major changes proposed to balance the 5-year Programme. The programmes will enable the housing stock to continue to meet both the Decent Homes Standard (under the old methodology) and the Lancaster Standard, using the information from the 2001

survey. However these programmes may need to be revised in future, once the results of the current Stock Condition Survey are known.

- 4.5 Also as mentioned earlier, the Business Plan shows that surplus resources of approaching £9.8M are forecast to be set aside over the next five years or so in order to fund later years, and it is still necessary to do further work in understanding how such financial projections contained in the HRA Business Plan link with the projected revenue and capital budgets. Though the work has commenced, it is intended that it will be finalised and concluded during 2008/09. It will also need to have regard to information arising from the Subsidy Review mentioned earlier, however, and this may impact on timescales.

Details of Consultation

It is intended that the draft Revenue Budget and Capital Programme will be presented to a meeting of the District Wide Tenants' Forum to be held on 06 February 2008. It is intended that any views expressed by the Forum will be fed into the February Cabinet meeting, and then included in the report to Council on 27 February 2008.

Options and Options Analysis (including risk assessment)

With regard to the Revised Budget Cabinet could consider other proposals that may influence the Revised Budget for the year and the call on revenue balances.

The options available in respect of the 2008/09 rent increase are to:

- i) Set the average housing rent at 5% as proposed in paragraph 2.3.1;
- ii) Set the rent at a lower level: this would reduce the income available to the Housing Revenue Account;
- iii) Set the rent increase at a higher level, up to 5.5%, i.e. within the Limit Rent
- iv) Set the rent increase at a level higher than 5.5%, i.e. above the Limit Rent. Although this would generate additional income, around 60% of that income would have to be paid over to the Government through Rent Rebate Subsidy Limitation.

The options available in respect of the minimum level of HRA balances are to set the level at £350,000 in line with the advice of the Section 151 Officer, or to adopt a different level.

The options available in respect of the revenue budgets for 2008/09 to 2010/11 are to recommend the budget as set out to Budget Council for approval, or to consider other proposals for incorporation.

The options available in respect of the Capital Programme are:

- i) To approve the programme in full, with the financing as set out;
- ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified.

Any risks attached to the above would depend very much on what supported measures Members proposed, and their impact on the council housing service. As such, a full options analysis could only be undertaken once any alternative proposals are known. It should be noted that Officers may require more time in order to do this.

Officer Preferred Option and Comments

The Officer Preferred options are to approve a 5% increase in average rents, and to approve the draft revenue and capital budgets as set out in the appendices. These are as reflected in the recommendations.

<p>RELATIONSHIP TO POLICY FRAMEWORK The budget represents, in financial terms, what the Council is seeking to achieve through its approved Housing Strategy in relation to council housing.</p>	
<p>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc)</p>	
<p>FINANCIAL IMPLICATIONS As set out in the report.</p>	
<p>DEPUTY SECTION 151 OFFICER'S COMMENTS The Section 151 Officer has been involved in the preparation of this report and her comments are reflected accordingly. Her explicit legislative requirements in terms of reporting on the robustness of estimates and other budget issues, will be covered in future reports to Council also.</p>	
<p>LEGAL IMPLICATIONS Legal Services have been consulted and have no further comments to add.</p>	
<p>MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments to add.</p>	
<p>BACKGROUND PAPERS HRA Subsidy Determinations</p>	<p>Contact Officer: Aisha Bapu Telephone: 01524 582117 E-mail: abapu@lancaster.gov.uk</p>

Appendix A

Housing Revenue Account Draft Budgets -Draft (04/01/08)
For Consideration by Cabinet 22 January 2008

		2007/08 Budget £	2007/08 Revised £	2008/09 Budget £	2009/10 Forecast £	2010/11 Forecast £
Income	Dwelling Rents (Gross)	-10,620,900	-10,612,500	-11,078,300	-11,569,700	-12,085,400
	Non-Dwelling Rents (Gross)	-152,100	-196,200	-185,300	-187,200	-189,200
	Charges for Services and Facilities	-1,440,200	-1,584,500	-1,614,100	-1,645,000	-1,676,600
	Contributions towards Expenditure	-7,700	-7,700	-7,700	-7,700	-7,700
Total Income		-12,220,900	-12,400,900	-12,885,400	-13,409,600	-13,958,900
Expenditure	Repairs and Maintenance	3,336,200	3,392,100	3,420,300	3,495,900	3,573,100
	Supervision and Management	3,072,200	3,113,800	3,075,800	3,119,900	3,218,700
	Rents, rates, taxes and other charges	168,700	109,900	118,700	128,300	138,900
	Negative Subsidy payable to Secretary of State	786,500	819,800	1,341,300	1,634,800	1,965,200
	Increased provision for Bad or Doubtful Debts	75,000	132,200	97,000	96,800	96,500
	Depreciation and Impairments of Fixed Assets	2,285,400	2,268,400	2,278,000	2,331,900	2,390,200
	Debt Management Costs	12,000	12,000	12,000	12,000	12,000
Total Expenditure		9,736,000	9,848,200	10,343,100	10,819,600	11,394,600
Net Cost of Services		-2,484,900	-2,552,700	-2,542,300	-2,590,000	-2,564,300
	Interest Payable and Similar Charges	879,900	850,900	846,300	846,300	846,300
	Pension Interest Costs and Expected Return on Assets	68,000	68,000	68,000	68,000	68,000
	Transfers directed by Secretary of State - Shared Amenities	-165,200	-165,200	-165,200	-165,200	-165,200
	Amortised Premiums and Discounts	159,200	159,200	159,200	159,200	159,200
	HRA Investment Income	-255,500	-258,400	-257,100	-256,100	-255,300
Net Operating Expenditure		-1,798,500	-1,898,200	-1,891,100	-1,937,800	-1,911,300
	HRA Contribution to /(from) Pension Reserve	-68,000	-68,000	-68,000	-68,000	-68,000
	Direct Revenue Financing of Capital Expenditure	1,558,100	1,743,700	1,779,600	1,700,300	1,654,800
	Transfer To/From Major Repairs Reserve	-16,600	-500	-500	-500	-500
	Transfers to/from Earmarked Reserves	325,000	223,000	180,000	306,000	325,000
TOTAL: Surplus (-) or Deficit for the Year		0	0	0	0	0
	BALANCE BROUGHT FORWARD	-759,000	-759,000	-350,000	-350,000	-350,000
	Appropriation From Reserve	0	409,000	0	0	0
BALANCE CARRIED FORWARD		-759,000	-350,000	-350,000	-350,000	-350,000

STAR CHAMBER SAVINGS AND GROWTH PROPOSALS

For Consideration by Cabinet 22 January 2008

	2008/09 £000	2009/10 £000	2010/11 £000
GROWTH PROPOSALS			
High Priority:			
Energy Performance Certificates			
From the 1st October 2008 Council Housing Services are required by EU Directive to produce an Energy Performance Certificate (EPC) for properties at each change of tenancy or sale. With an estimated 340 tenancy changes/sales per annum @ £100 per certificate, there is an annual budget requirement of £34000 (reduced for relets holding a certificate within the 10 year certificate life). Circa £300000 over a 10 year period.			
As an alternative to carrying out individual EPCs, a sample survey (estimated at 15%) with results cloned to similar properties would cost approximately £55000 in year 1 only, with certificates valid for 10 years. Subsequent years will need a continuation of the budget to accommodate re certifying where improvements are carried out to the energy efficiency of a property. With an estimated 100 properties per year, this means a year 2 – 10 budget of £10000. Circa £145000 over a 10 year period.	+55,000	+10,000	+10,000
Computer Aided Design			
As part of the consultations for the kitchen and bathroom refurbishment customers are presently provided with drawings and colour schemes for them to choose which style of kitchen they want. Often there is confusion because customers cannot always understand the drawings, which leads to variations having to be made. There is software now available which would provide these details in a more user friendly fashion with 3D visuals which will be better understood by customers reducing the need for variations. The software is a computer aided design system which would also be a more efficient way of producing the drawings. The initial cost of the system would be in the region of £10,000 with an annual maintenance and support charge of £750.	+10,000	+1,000	+1,000
The Association of Retained Landlords (ARCH) Membership			
The Association Of Retained Landlords (ARCH) was established in 2006 to act as a forum to support those authorities who, following Options Appraisal, have been able to retain their housing stock. Stock Transfer Landlords and ALMOs already have their own representative body, and ARCH is now able to lobby Government, share good practice and promote collaborative working amongst the 103 retained landlords (who are now in the minority).	+2,000	+2,000	+2,000
Medium Priority:			
Estate Steward Training			
Estate Stewards require training on an annual basis. There is no current budget to pay for this since the transfer of responsibility to RMS. The cost in 2007/8 is expected to be £3000 and an equivalent sum in 2008/9 and thereafter. This should become an established budget.	+3,000	+3,000	+3,000
Office Equipment Renewals			
The introduction of EDMS (electronic document management) has identified the need for dual screen us for those staff needing access to two systems at the same time. The renewals fund is sufficient to meet the capital cost of the screens. However, to meet the need of future replacements, a further annual contribution of £1000 is required.	+1,000	+1,000	+1,000
RMS Operating Account			
Operatives are now issued with PDAs (hand held devices) that assist their day to day activity. PDAs rely on various pieces of software that are added to or enhanced throughout the year. There is already existing in the housing management account a long established budget for similar purposes and it is anticipated to replicate this within RMS. It is estimated that £2000 pa is sufficient to meet the demand.	+2,000	+2,000	+2,000
Housing Management Account - R & M of Buildings			
The Cable Street lease includes the responsibility for the Service to maintain the internal building. The reception area is a high impact area reflecting on both the Service and Council as a whole. After 3.5 years the reception area is now in need of redecoration. Also in need of redecoration are the two kitchen areas. The cost will be circa £2000.	+2,000	+0	+0
TOTAL GROWTH	+75,000	+19,000	+19,000



2008/09 BUDGET
HOUSING REVENUE ACCOUNT – RISK & ASSUMPTIONS
FOR CONSIDERATION BY CABINET 22 JANUARY 2008



RISK AREA	NOTES/DETAILS
Reductions in stock from Right to Buy sales	<p>Assumptions of sales have been reduced from the peaks in activity in 2003/04. Any increase could impact on the revenue position as income would reduce but many costs are fixed.</p> <p>Longer-term – reduced rental streams will lead to deterioration in the HRA budgetary position unless measures can be taken to reduce costs within the HRA.</p>
Management of Void Properties	Rent losses through void properties have reduced and this has been built into the budgets. The reduction follows the introduction of improved void management arrangements within Council Housing Services.
Rent Arrears	Recent budgets have required increased contributions to the Bad Debts Provision. This requirement has now reduced due to reduced levels of arrears, and because the provision now stands at an appropriate level, but if arrears management deteriorates this would have an impact on future years' budgets.
Rental Income	The estimates have been set at 5%, just below the Government's Average Limit Rent of 5.5%. This is an increase below the level produced by the Formula Rent. As there is no form of compensation available now or in the future, for capping rent increases at 5%, it directly reduces the resources coming into the HRA.
Changes to HRA Subsidy System	Review currently underway, no details are currently available to quantify implications.
Projections of HRA Subsidy	Future years have assumed increases above previous years, this has been based on the Determination for 2008/09 and no guidance has been provided by the Government beyond this.
Meeting the Decent Homes Standard	Sufficient funds need to be set aside within the Major Repairs Reserve in order to ensure that the 30 Year HRA Capital Programme can continue to be financed.
Repair & Maintenance Services	RMS is a high turnover activity with charges set to recover costs. The budget is based on the recently approved pay structure, which was introduced as a result of difficulties in recruitment and retention in recent years. Changes in the level of the establishment, the efficiency of the workforce, or the amount of work available to RMS will impact on the ability of the unit to recover its costs and could lead to a surplus or deficit. The hourly charging rate is kept under review in order to ensure there is no significant under/over recovery of cost.

RESERVES AND PROVISIONS- For Consideration by Cabinet 22 January 2008

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Capital Reserves					
Major Repairs Reserve	Set up following the introduction of Resource Accounting in the HRA. Grant received from Government annually which must be credited to this reserve with the intention of funding major works to the Council's housing stock.	Can be applied to Capital improvements to HRA housing stock (specifically excluding demolition) and, additionally from 1 st April 2004, repayment of HRA debt and credit liabilities (including premia on early repayment of PWLB loans). The Council's thirty year HRA Business Plan has projected increasing levels of balances in early years to fund deficits in later years, and it is intended that these balances will be held in the Major Repairs Reserve.	Council Housing Services/ Financial Services	Budget & Outturn	Retain as budgeted.

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Revenue Reserves					
I T Replacement	Established to fund future major I T systems replacement.	To be applied to future replacements.	Council Housing Services/ Financial Services	Budget & Outturn	Retain as budgeted.

RESERVES AND PROVISIONS- For Consideration by Cabinet 22 January 2008

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Flats – Planned Maintenance Reserve	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in flats.	Council Housing Services/ Financial Services	Budget & Outturn	Retain as budgeted.
Lifeline Equipment Reserve	Used to fund purchases of Lifeline Equipment	Contributions made equivalent to proceeds from sales of Lifeline units. Periodic purchases of units funded from this reserve	Council Housing Services/ Financial Services	-	Retain pending consideration of necessity of operating this reserve.
Central Control Equipment Reserve	Established to smooth the costs of major renewal or replacement of Central Control Equipment and systems	Funded from Central Control subscriptions with additional appropriations in lieu of interest. Reserve is to be applied to renewal or replacement of major items of equipment and systems for Central Control system. Also used for chargeable enhancements throughout the life of the system.	Council Housing Services/ Financial Services	Budget & Outturn	Retain as budgeted.
Housing Office Improvements Reserve	Contributions made in previous years to fund major improvements to Housing offices	Contributions ceased in 2001/02. Use of £12K balance still to be determined.	Council Housing Services/ Financial Services	Budget & Outturn	Wind up following use of current balance.

RESERVES AND PROVISIONS- For Consideration by Cabinet 22 January 2008

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Office Equipment Reserve	Established to fund purchases of minor I T and other office equipment.	Used to fund ad-hoc purchases of major office furnishings resultant from health & safety legislation and risk assessments (desk, chairs, cabinets etc) and minor office equipment items e.g. pc upgrades	Council Housing Services/ Financial Services	Budget & Outturn	Retain as budgeted, allowing for £1,000 growth proposal at Appendix B.
Welfare Equipment Reserve	Established to fund purchases of equipment for Sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to purchases of equipment for common area services for Sheltered schemes.	Council Housing Services/ Financial Services	Budget & Outturn	Retain as budgeted.
Welfare – Planned Maintenance	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in Sheltered schemes.	Council Housing Services/ Financial Services	Budget & Outturn	Retain as budgeted.

RESERVES AND PROVISIONS- For Consideration by Cabinet 22 January 2008

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
Non-sheltered equipment	Established to fund purchases of equipment for non-sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to purchases of equipment for non-sheltered schemes.	Council Housing Services/ Financial Services	Budget & Outturn	Retain as budgeted.
Vehicle Replacement Reserve	Established to fund replacement of Estates Stewards vans	To be applied to replacement of current vehicles when necessary	Council Housing Services/ Financial Services	Budget & Outturn	Retain pending consideration of alternative funding options for vehicle acquisitions.
Provisions					
Bad Debts	This provision is used to write off all Housing Revenue Account bad debts that have been approved.	The provision is funded by an annual contribution based on assessment of the level of debt outstanding.	Financial Services / Debt Management Group	Budget & Outturn	Retain as currently budgeted.

RESERVES AND PROVISIONS- For Consideration by Cabinet 22 January 2008

	HRA General Balances £'000	Major Repairs Reserve £'000	Total Earmarked Reserves £'000	I T Replace ment £'000	Flats - Plan'd Mnt'nc £'000	Life- line Equip £'000	Central Control Equip £'000	Housing Office Imps £'000	Office Equip Reserve £'000	Welfar e Equip £'000	Welfar e Plan'd Mnt'nc £'000	Welfare Support Grant Mnt'nc £'000	Non- sheltered scheme equip £'000	Vehicle Replcmnt £'000
Balance 31st March 2007	759	3717	1598	134	577	75	102	12	35	187	218	80	143	35
Estimates 2007/08														
Contributions to Reserves		2268		57	120	36	10		12	29	68	17	21	12
Additional Contribution re Interest					36		4			11	13	5	9	
Appropriations to Revenue	-409	409		-40	-29	-20	-80	-12	-4	-22			-20	
Appropriations to Capital		-1096			-24						-69			
Projected Balance 31st March 2008	350	5298	1738	151	680	91	36	0	43	205	230	102	153	47
Estimates 2008/09														
Contributions to Reserves		2278		57	106	36	10		12	28	60	18	21	12
Additional Contribution re Interest					42		5			12	13		9	
Appropriations to Revenue					-20	-20				-30	-35		-20	
Appropriations to Capital		-1062			-20						-33			
Projected Balance 31st March 2009	350	6514	1998	208	788	107	48	0	55	215	235	120	163	59
Estimates 2009/10														
Contributions to Reserves		2331		57	123	36	10		12	29	62	19	21	12
Additional Contribution re Interest					47		3			12	14		9	
Appropriations to Revenue					-20	-20				-30	-25		-20	
Appropriations to Capital		-1220			-20						-25			
Projected Balance 31st March 2010	350	7625	2304	265	918	123	61	0	67	226	261	139	173	71
Estimates 2010/11														
Contributions to Reserves		2390		57	126	36	10		12	30	64	20	21	12
Additional Contribution re Interest					55		4			13	15		10	
Appropriations to Revenue					-20	-20				-30	-25		-20	
Appropriations to Capital		-1353			-20						-25			
Projected Balance 31st March 2011	350	8662	2629	322	1059	139	75	0	79	239	290	159	184	83

- Note that the Major Repairs Reserve incorporates support for the HRA Business Plan.
- Please note that further expenditure may be funded from the above reserves, but the timing is uncertain.

