



**LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION**

Cabinet

Tuesday, 16 February 2010

The following report, to be considered under Agenda item 3 items of Urgent Business authorised by the Leader, is enclosed as follows:

Agenda Item Number	Page	Title	Reason for Late Report
3	1 - 11	Referral from Overview and Scrutiny Committee.	Referral resulting from an Overview and Scrutiny 'call-in' meeting held on 8 <sup>th</sup> February.

The following report was received too late to be included on the main agenda for this meeting and was marked 'to follow'. It is now enclosed, as follows:

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
14	12 - 50	BUDGET & POLICY FRAMEWORK 2010/2011	Report not available at the time of agenda publication.	Head of Financial Services.

<b>CABINET</b>
----------------

## Referral from Overview and Scrutiny Committee 16<sup>th</sup> February 2010

### Report of Head of Democratic Services

PURPOSE OF REPORT				
To request Cabinet to consider a recommendation from the Overview and Scrutiny Committee in relation to the Call-in on Community Swimming Pools.				
<b>Key Decision</b>		<b>Non-Key Decision</b>		<b>Referral from Overview &amp; Scrutiny</b> <span style="float: right;"><b>X</b></span>
<b>Date Included in Forward Plan</b>				
<b>This report is public</b>				

#### RECOMMENDATIONS OF OVERVIEW AND SCRUTINY COMMITTEE

- (1) That the Overview and Scrutiny Committee recommend that Cabinet should not give notice to terminate the contract until a suitable agreement is obtained from Lancashire County Council to take over community swimming. If no agreement can be reached within 12 months then Cabinet should review the funding. Parish and Town Councils should be involved in the talks.

#### 1.0 Introduction

- 1.1 The Chief Executive agreed to a request by Councillors Roe, Bray, Histed, Rogerson and Johnson to Call-in the decision made by Cabinet at its meeting on 19<sup>th</sup> January 2010 in relation to Community Swimming Pools. (Cabinet Minute 118 refers).

#### 2.0 Proposal Details

- 2.1 At the Call-in held on 8<sup>th</sup> February 2010, the Overview and Scrutiny Committee made the following recommendation to Cabinet:

That the Overview and Scrutiny Committee recommend that Cabinet should not give notice to terminate the contract until a suitable agreement is obtained from Lancashire County Council to take over community swimming. If no agreement can be reached within 12 months then Cabinet should review the funding. Parish and Town Councils should be involved in the talks.

#### 3.0 Officer Comments in relation to the proposal

- 3.1 In the event that Cabinet endorses the recommendation from Overview and Scrutiny Committee, the financial impact is that Lancaster City Council cannot achieve the savings of £147,700 with effect from 1<sup>st</sup> April 2011 and beyond, as set out in option A of the original Cabinet report of the 19<sup>th</sup> January 2010 which is attached as an appendix to this report, along with the Cabinet minute. The Officer preferred option remains the same.
- 3.2 It should be noted that not giving notice to terminate the agreement as recommended by Overview and Scrutiny Committee, effectively postpones the financial impact of the original Cabinet Resolution because the agreement requires a *“full twelve months notice to terminate”*.

**RELATIONSHIP TO POLICY FRAMEWORK**

As per original report to Cabinet.

**CONCLUSION OF IMPACT ASSESSMENT**

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

As per report to Cabinet.

**FINANCIAL IMPLICATIONS**

The Financial Implications are as set out in Paragraph 3.1 above, i.e., that in the event that Cabinet endorses the recommendation from Overview and Scrutiny Committee, the financial impact is that Lancaster City Council cannot achieve the savings of £147,700 with effect from 1<sup>st</sup> April 2011 and beyond, as set out in option A of the original Cabinet report of the 19<sup>th</sup> January 2010.

**SECTION 151 OFFICER'S COMMENTS**

The Section Officer would advise that this item be considered in context of the Council's financial prospects, included in the budget report elsewhere on the agenda.

**LEGAL IMPLICATIONS**

As per original report to Cabinet.

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

Reports to Cabinet 19.1.2010.

**Contact Officer:** Liz Bateson

**Telephone:** 01524 582047

**E-mail:** ebateson@lancaster.gov.uk

**Ref:**

<b>CABINET</b>
----------------

## Community Swimming Pools

19 January 2010

### Report of Corporate Director (Regeneration)

PURPOSE OF REPORT				
To consider savings options in respect of the 3 Community Swimming Pools in Carnforth, Heysham and Hornby.				
Key Decision	<b>X</b>	Non-Key Decision		Referral from Cabinet Member
Date Included in Forward Plan	January 2010			
This report is public				

#### RECOMMENDATIONS OF COUNCILLOR JUNE ASHWORTH

- 1) That the City Council issues the necessary 12 month notice to terminate the partnership agreement with the County Council, from 1<sup>st</sup> April 2010.
- 2) That community swimming is redirected to the pools identified in 3.3 of this report.
- 3) That the school and club swimming be handed back along with the facilities to Lancashire County Council.

#### 1.0 Introduction

- 1.1 As part of the Draft 2010/11 budget process, Officers have been asked to prepare a report on savings options in respect of the 3 Community Swimming Pools in Carnforth, Heysham and Hornby.

#### 2.0 Proposal details

- 2.1 The 2010/11 draft revenue budgets for the three Community Swimming Pools in Carnforth, Heysham, and Hornby are summarised below:-

Carnforth	£66,600 (net revenue subsidy)	}	
		}	
Heysham	£37,100 (net revenue subsidy)	}	Total £133,500
		}	
Hornby	£29,800 (net revenue subsidy)	}	

2.2 The three Community Swimming Pools have since 2001 been the subject of a Partnership Agreement between Lancashire County Council and Lancaster City Council. The establishment of the Community Swimming Pools Partnership Agreement, came about as a result of Lancashire County Council's notice to withdraw from operating the three community swimming pools, following the delegation of swimming budgets directly to schools i.e., at the time the three community swimming were threatened with closure. Following from the Partnership Agreement, Lancashire County Council undertake the "landlord" function as the owners of the premises, and Lancaster City Council manage and operate swimming services for both community and school swimming (directly to the schools, as a "devolved" activity). Predominantly, the latter relates to all the primary schools within the Lancaster District who are required to provide swimming as part of Key Stage 1 and Key Stage 2 of the National Curriculum for Physical Education. A small number of Secondary Schools within the Lancaster district also access the three Community Swimming Pools.

2.3 It is a condition of the Partnership Agreement between Lancashire County Council and Lancaster City Council that either party gives a full twelve months notice of intent to terminate the above Agreement. In the event of terminating the Agreement between Lancashire County Council and Lancaster City Council in respect of one, or more, or all of the Community Swimming Pools there would be HR implications (i.e., redundancy/redeployment) to Lancaster City Council.

**3.0 General**

3.1 Throughput at the City Council's sports facilities is in excess of ½ million people per year. When measured against Association of Public Service Excellence (APSE) bench-marking (formerly Best Value) data, Lancaster City Council's sports facilities and services were consistently ranked in the "top quartile", taking into account efficiency, excellence and value for money. As part of a Department of Culture, Media and Sport (DCMS)/Sport England "Active People" 2009/10 survey, using National Key Performance Indicators (NKPI), Lancaster City Council emerged as the only district in Lancashire and one of only three districts in the North West to show improvements in sports participation (Lancaster was recorded as having achieved "significant" increases in participation, coaching and sports development). Swimming contributes to both the City Council's corporate objectives and the Lancaster District Local Strategic Partnership's priorities.

	Annual public throughput (08/09)	Annual schools swimming throughput (08/09)	Total annual public & schools swimming throughput (08/09)
Carnforth Pool	31,115	18,124	49,237
Heysham Pool	45,801	26,496	72,297
Hornby Pool	30,291	14,310	44,601

3.2 The provision of community swimming pools is a discretionary function for District Councils.

3.3 As part of the current options appraisal in respect of the three Community Swimming Pools, Cultural Services has undertaken a review of pools provision within the District. The following is a summary of that review:-

- Salt Ayre Sports Centre (Public access. Able to accommodate some, but not all school/and or public use associated with the 3 community swimming pools)

- Capernwray Hall (Public access)
- JJB Fitness (Members Club)
- Lancaster Royal Grammar School – poor condition, very limited use
- Lancaster University - Public and private use, but no spare capacity
- Pine Lake Resort (Private)
- Sandpiper Health Club (Members Club)
- Spirit Health Club (Members Club)
- Total Fitness (Members Club)
- VVV Health Club (Members Club)
- Whoop Hall County Club (Members Club)
- Ripley St Thomas School - may be able to accommodate some school/and or public use
- Holgate Leisure Park (Primarily private, but with some public access)
- Mansergh Caravan Park (Private)
- Bleasdale Special School - Fully used with no spare capacity
- South Lakes Leisure Park (Private)
- Ocean Edge Leisure Park (Private)

Of the above, 12 are members or private pools (with some only operating “seasonally”). In addition the majority are not of the required size or layout for school swimming classes. Of the other 5 identified, who offer casual swimming, only Salt Ayre Sports Centre and Ripley St Thomas School may be able to accommodate some of schools swimming programme. However, Salt Ayre Sports Centre and Ripley St Thomas School alone could not accommodate anywhere near the total current level of usage in any one of the three community pools.

3.4 A related issue to identifying existing and/or alternative “water space”, in particular for schools swimming, is the actual size and geography of the district. Although the districts boasts a highly successful community and schools swimming service, the distances involved means that the cost and time it takes to travel to any of the alternative community pools is prohibitive to the primary schools within the District in meeting Key Stage 1 and Key Stage 2 of the National Curriculum for Physical Education. Notwithstanding the conditions within the Partnership Agreement between Lancashire County Council and Lancaster City Council i.e., requiring either party to give twelve months notice to terminate the Agreement, the only practicable option for Lancaster City Council to evaluate would be the impact of a closure of Heysham Swimming Pool and “decanting” community and/or school swimming from Heysham Swimming Pool to Salt Ayre Sports Centre. In terms of the 2010/11 draft revenue budget the above would offer an annual and on-going saving of £37,100 (However, there would be one-off HR related issues i.e., redundancy costs, for Lancaster City Council to evaluate and resolve).

3.5 The provision of curricular based swimming is not a statutory District Council function, but a matter for the Local Education Authority and schools to determine.

#### **4.0 Details of Consultation**

4.1 This report was prepared following a request to officers, as part of the 2010/11 budget process, to prepare a report on savings options in respect of the 3 Community Swimming Pools in Carnforth, Heysham and Hornby

#### **5.0 Options and Options Analysis (including risk assessment)**

**5.1 Option A** - As to-date, no significant progress, in terms of cost savings, has been made from attempting a renegotiation of the Partnership Agreement between Lancashire County Council and Lancaster City Council, Cabinet is asked whether it wishes to give consideration to issuing twelve months notice from 1<sup>st</sup> April 2010, of Lancaster City Council termination of the Partnership Agreement (i.e., to be implemented after 31<sup>st</sup> March 2011) i.e., to refer the operation of the 3 Community Swimming Pools, back to Lancashire County Council.

No cost savings have been assumed so far for 2010/11. However, on the basis of Lancaster City Council referring the operation of the 3 Community Swimming Pools, back to Lancashire County Council, there would with effect from 1<sup>st</sup> April 2011 be potential annual savings to Lancaster City Council of:-

Carnforth	£68,900	}	
or/and		}	
Heysham	£44,900	}	Total £147,700
or/and		}	
Hornby	£33,900	}	

There will also be HR implications (costs as yet undetermined)

**5.2 Option B** - Investigate whether an alternative operator can be found for the Community Swimming Pools at Carnforth, Heysham and Hornby.

As part of the 2009/10 budget deliberations, this option was pursued, but the outcome was that the alternative (private) sector operator was seeking an operating/management fee (not much less than the current revenue expenditure), and a guarantee that community and schools usage would remain at current levels, for the duration of any operating agreement. As neither the City Council nor County Council could offer such guarantees, discussions regarding alternative (private) sector management to operate one or more of the three community swimming pools terminated.

**5.3 Option C** - To retain the Partnership Agreement with Lancashire County Council, for the operation of the 3 Community Swimming Pools at Carnforth, Heysham and Hornby, but to review and reduce the swimming programme.

Typically, usage at public swimming pools is a mixture of:- casual swimming, club swimming (including private/commercial lettings), swimming lessons, and schools swimming programme. Based on the above, the % usage and cost profile at the three community swimming pools (based on 08/09 throughput), are:-

	casual usage %	club usage %	lessons usage %	schools usage %
<b>Carnforth</b>	29%	28%	12%	31%
<b>Heysham</b>	49.5%	25%	8.5%	17%
<b>Hornby</b>	42%	26%	14%	18%

	casual net cost/(surplus)	club net cost/(surplus)	lessons net cost/(surplus)	schools net cost/(surplus)	Total Net Draft Budget 2010/11
	£	£	£	£	£
<b>Carnforth</b>	68,600	(4,600)	(5,600)	8,200	<b>66,600</b>

<b>Heysham</b>	52,700	(8,800)	(2,600)	(4,200)	<b>37,100</b>
<b>Hornby</b>	28,800	(2,000)	(2,200)	5,200	<b>29,800</b>
<b>Total</b>	<b>150,100</b>	<b>(15,400)</b>	<b>(10,400)</b>	<b>9,200</b>	<b>133,500</b>

Estimated net costs, based only on an extrapolation of % usage, shows that for the majority of swimming programmes, the least efficient and least economic provision is casual swimming. The reason for the above is that for club swimming (including private/commercial lettings), swimming lessons, and schools swimming programme, pool operators can offset expenditure against known income, but that is more difficult for casual swimming, where the fixed cost and related operational costs (in particular lifeguard/staffing costs) remain whatever the actual throughput. An option would be for Lancaster City Council only to provide casual swimming as part of the programme in Salt Ayre Sports Centre (i.e. casual swimming, club swimming - including private/commercial lettings, swimming lessons, and schools swimming programme), and to operate only club swimming (including private/commercial lettings), swimming lessons, and schools swimming programme, in the three community swimming pools. The review of pools provision within the District (highlighted in Paragraph 3.3) gives an indication of where there is capacity for casual swimming, although this is limited as the majority are either private/member only facilities as opposed to being open to the general public.

In theory, based on the table above, the estimated draft 2010/11 annual revenue 'saving' to Lancaster City Council in not providing casual swimming, but still offering club swimming (including private/commercial lettings), swimming lessons, and schools swimming programme, at the three community swimming could be up to £150,100, but in reality any savings would be significantly less (if at all), for the reasons highlighted above. If this option was to be pursued, there would need to be greater consideration of the implications before a final decision could be taken.

This option also retains the provision of club swimming (including private/commercial lettings), swimming lessons, and schools swimming programme at the three community swimming pools.

- 5.3 Option D** - To retain the current level of swimming provision within the district, including Carnforth, Heysham and Hornby via the existing Partnership Agreement with Lancashire County Council.

There would be no financial savings to the City Council.

## **6.0 Officer Preferred Option (and comments)**

- 6.1 The City Council's position is that, providing school swimming facilities are not a statutory requirement nor are they within discretionary priorities, the above report identifies that, with regards community swimming, there are alternatives available. In light of this, officers recommend that the partnership with Lancashire County Council is terminated and the pools are handed back to the County Council, i.e. option A.

## **7.0 Conclusion**

- 7.1 The report raises significant issues in terms of determining Value -Vs- Cost in maintaining publically accessible sports and leisure facilities within the District.



**RELATIONSHIP TO POLICY FRAMEWORK**

The three Community Swimming Pools at Carnforth, Heysham and Hornby are an integral part of the Cultural Services "offer" within the District and impact in terms of facilities provided for residents and visitors.

**CONCLUSION OF IMPACT ASSESSMENT**

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

The report raises issues in respect of community safety, sustainability and rural proofing.

**FINANCIAL IMPLICATIONS**

The figures quoted within the report are draft figures that have yet to be agreed as part of the 2010/11 budget process. In addition costs may increase if the current increased casuals and overtime costs continue into future years, approximately £33,000. For now both the draft revenue budget and the options below do not include this cost element whilst Officers within Cultural Services review pool staffing structures to determine why costs are increasing.

**Option A**

No cost savings have been assumed so far for 2010/11. However, on the basis of Lancaster City Council giving 12 months notice from 1<sup>st</sup> April 2010, there would with effect from 1<sup>st</sup> April 2011 be potential annual savings to Lancaster City Council of:-

Carnforth	£68,900	}	
or/and		}	
Heysham	£44,900	}	Total £147,700
or/and		}	
Hornby	£33,900	}	

However, there will also be one-off HR implications (costs not yet determined) to take into consideration which will reduce full year savings achievable in year 1 of implementation. These are not expected to fundamentally change the overall savings position, however.

**Option B**

Lancaster City Council has previously exposed the three community swimming pools at Carnforth, Heysham and Hornby to market testing, but found to exercise to be unviable.

**Option C**

If adopted with effect from 2010/11, it is possible that for the 3 community pools in Carnforth, Heysham and Hornby, there is potential for some financial saving, however the figure quoted under section 5.3 should be treated with extreme caution as it has not yet been possible for Financial Services to fully review the costings associated with this option and there is a significant element of fixed expenditure such as rates and energy costs that would remain. As such, this option may not represent value for money, in terms of asset management. Indeed, it could be the case that this option could cost more., unless there was a review of pricing policy – though this in itself could create further difficulties.

As in Option B, there may also be one-off HR implications (costs not yet determined) to take into consideration. Alternatively, due to a current duty manager vacancy at Heysham Pool it should be possible to avoid a redundancy situation if a pool management restructure is implemented instead to take account of the reduced service.

Should Cabinet determine that this is their preferred option regarding the future operation of the three community pools, a more detailed report (to include all operational, financial and legal matters) will need to be brought back to Members before any final decision, or before making any associated budget assumptions as part of the budget process.

**Option D**

No cost savings would accrue.

**SECTION 151 OFFICER'S COMMENTS**

Members are advised to consider any proposals in context of their proposed priorities, relevant existing or emerging policy, and the Council's financial prospects. In particular, this is to ensure that value for money is considered, as well as affordability.

**LEGAL IMPLICATIONS**

Any review or termination of the Partnership Agreement between Lancashire County Council and Lancaster City Council in respect of the three Community Swimming Pools in Carnforth, Heysham and Hornby would require support and advice from Legal Services.

Legal Services has considered both the Agreement and Lease documents. Both documents are silent as when the pools should be open, but clearly the intent of these documents is to pass all management/operational responsibilities to Lancaster City Council.

The Agreement defines the 3 grounds upon which the Agreement can be determined:-

1) On the occurrence of a material breach of any provision of the Agreement.

If it was resolved to stop managing and operating the pools. This would be a material breach.

2) The Agreement shall automatically terminate upon termination of the lease (for whatever reason)

The City Council could surrender the lease. This can be done expressly by deed, both parties entering into a deed of surrender and agreeing all liabilities placed upon the City Council cease from the date of surrender. Or implicit by handing back the keys to Lancashire County Council and the County accepting them and the surrender being effected by operation of law. It is not known whether the County Council would agree to either course of action.

3. By giving not less than 12 months notice to terminate as referred to in the body of the report.

If it was resolved to close the pools the legal implications are that the County Council, potentially could be liable for a further 12 months rent for the period from 16<sup>th</sup> May 2010 until 15<sup>th</sup> May 2011.

Other issues:-

The H.R. issues referred to in the report.

Potential claims for compensation arising from any contractual commitments made with users of the pools.

Any outstanding claims or disputes directly arising from the City Council's management/operation of the pools.

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

N/A

**Contact Officer:** David Owen  
**Telephone:** 01524 582820  
**E-mail:** downen@lancaster.gov.uk  
**Ref:** WDO/wdo/s/cp/190110

**RESOLUTION FROM CABINET MEETING HELD ON 19 JANUARY 2010**

**MINUTE 118 COMMUNITY SWIMMING POOLS:-**

***Resolved:***

***(5 Members (Councillors Ashworth, Blamire, Bryning, Kerr and Langhorn) voted in favour, 2 Members (Councillors Mace and Thomas) voted against and 2 Members (Councillors Barry and Fletcher) abstained)***

- 1) That the City Council issues the necessary 12 month notice to terminate the partnership agreement with the County Council, from 1 April 2010.
- 2) That community swimming is redirected to the pools identified in paragraph 3.3 of the report.
- 3) That the school and club swimming be handed back along with the facilities to Lancashire County Council.

**Officers responsible for effecting the decision:**

Corporate Director (Regeneration)  
Head of Cultural Services

**Reasons for making the decision:**

The decision has been made in light of the fact there are alternatives available for community swimming.

**CABINET**

**Budget and Policy Framework 2010/11  
16 February 2010**

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

<b>PURPOSE OF REPORT</b>			
To inform Cabinet of the latest position following Council's consideration of the Budget and Policy Framework at its meeting held on 03 February, and to make recommendations back to Council in order to complete the budget setting process for 2010/11.			
<b>Key Decision</b>	<input type="checkbox"/>	<b>Non-Key Decision</b>	<input type="checkbox"/>
		<b>Referral</b>	<input checked="" type="checkbox"/>
<b>Date Included in Forward Plan</b>	February 2010		
<b>This report is public.</b>			

**RECOMMENDATIONS OF OFFICERS:**

- 1) That Cabinet considers the information and feedback from consultees and other sources regarding its draft corporate priorities and makes any amendments as appropriate.
- 2) That the 2009/10 Revised Budget of £24.046M be referred on to Council for approval, with the net overspending of £47K being met from Balances.
- 3) That Cabinet approves the policy on provisions and reserves as included at Appendix B, as updated for Cabinet's final budget proposals.
- 4) That Cabinet notes the position regarding estimated Collection Fund surpluses.
- 5) That Council be recommended to approve the General Fund Revenue Budget at £24.740M for 2010/11, excluding parish precepts.
- 6) That Cabinet considers the budget proposals summarised at Appendix E and makes recommendations regarding a balanced revenue budget for 2010/11, for referral on to Council for approval.
- 7) That Cabinet determines its proposed Council Tax targets for 2011/12 and 2012/13.

- 8) That Cabinet considers the draft Capital Investment Priorities for 2010/11 onwards, included at Appendix G (section 3) and makes any amendments as appropriate.
- 9) That subject to recommendation (8) above, Cabinet makes recommendations regarding the Capital Programme as set out at Appendix H and that this be referred on to Council for approval.
- 10) That the associated Prudential Indicators at Appendix I be updated accordingly and be referred on to Council for approval.
- 11) That the Medium Term Financial Strategy, covering both revenue and capital investment, be updated in line with Cabinet's budget proposals and be referred on to Council for approval.

## 1 INTRODUCTION

- 1.1 Cabinet's initial proposals regarding the Budget and Policy Framework were considered by Council on 03 February and the relevant resolutions of that meeting were as follows (minute 89 refers):
  - *That Council notes the draft budget information and proposals to date, as set out in the report.*
  - *That a City Council Tax increase of 3.75% be approved for 2010/11.*
  - *That the minimum level of General Fund Balances be retained at £1M from 01 April 2010.*
- 1.2 This report builds on those resolutions and on other updated financial information, in order that recommendations can be made back to Budget Council on 03 March to finalise the Capital Programme, the Revenue Budget and Council Tax for 2010/11.
- 1.3 Members will be aware that the budget setting process for the Housing Revenue Account was completed at the February Council meeting, subject to there being no major changes arising from the final housing subsidy determinations. These have now been received and there are no significant issues arising. Nationally the headline figures remain unchanged. For the City Council, there are some penny rounding differences regarding rent levels for subsidy purposes but given their size, no changes are proposed.

## 2 STRATEGIC AND CORPORATE PLANNING

- 2.1 Throughout this year's budget process, Cabinet have been consistently clear that spending proposals for allocating resources should be driven by policy and in particular, the Council's corporate priorities.
- 2.2 Set out below are Cabinet's four revised draft corporate priorities for the 3 year period beginning 2010/11, which were agreed at the November meeting. These were included in the recent public consultation exercise and have been developed and informed from a variety of sources that include the recent Comprehensive Area Assessment, Place Survey data, performance management information for the current year, and other feedback from service users and partners.

- Economic Regeneration – supporting our local economy
- Tackling Climate Change
- Meeting Our Statutory Responsibilities (as a minimum)
- Working In Partnership

More information about each of these priorities is included in **Appendix A**.

- 2.3 It is pleasing to note that 86% of the responses from the public consultation exercise either supported strongly, or partially, these four priorities. However it is also clear that many felt that the priorities would be improved and would provide a greater understanding of what each involved, from further consideration of the wording in each.
- 2.4 Cabinet has already received a summary as well as more detailed information on the consultation results and this should be considered when finalising proposals for full Council.
- 2.5 In addition, at the recent public meeting of the Budget and Performance Panel the Leader made a presentation on the draft Cabinet corporate priorities and related budget proposals. The Panel's recommendation to Cabinet arising from the presentation is set out below (minute 35 refers) :-

*(1) That the Leader of the Council be thanked for his presentation.*

*(2) That the following recommendation be made to the Leader of the Council:*

*That the Panel welcomes the improvements that have been achieved this year in the corporate planning and budget setting process. However, this could be further improved if the Cabinet clearly expressed its rationale in the process for evaluating service standards in the drive to achieve savings, and also in the way that options for savings and efficiencies were prioritised to reflect the needs of the public and to take account of sustainability considerations.*

- 2.6 Cabinet is requested to consider the above points and make any recommendations regarding priorities as appropriate. Furthermore, the information and any amendments should then inform Cabinet's consideration of its final budget proposals to Council – in particular, savings and growth proposals, and any redirection of resources. This may be for 2010/11 or later years. Similarly Cabinet have previously received details of the key strategic and financial risks facing the Council, as included within the extract of the draft Medium Term Financial Strategy attached (see also later sections). Cabinet should have regard to these, and raise any other perceived key risks or opportunities that may influence the Council in achieving its objectives.
- 2.7 Cabinet is now at a crucial point in determining its corporate priorities and budget proposals and Members should be mindful of all the information that is available to them when finalising their proposals for full Council. Budget proposals will be considered at the March Council meeting; the Corporate Plan will be considered at a subsequent Council meeting. Whilst this allows changes to the Plan to fit with any further budget amendments arising, the Budget will already have been set by the time Council considers the Corporate Plan and therefore there will be little flexibility in budgetary terms. This is inevitable, but must be borne in mind.

### **3 GENERAL FUND BUDGET: CURRENT YEAR UPDATE**

- 3.1 At the last meeting Cabinet considered the position regarding the current year but given the uncertainties surrounding Icelandic investments, no firm recommendations were made regarding the revised budget.
- 3.2 As mentioned earlier, however, a capitalisation directive has now been received from Government and this provides a way forward in managing the estimated additional potential losses associated with not gaining priority creditor status for Glitnir. Landsbanki assumptions could change in future, but they will be formally reviewed again at outturn.
- 3.3 As such, the revised budget for 2009/10 remains at £24.046M and it is proposed that the net overspending of £47K be met from surplus balances. Cabinet is recommended to refer this on to Council for approval. Whilst corporate financial monitoring information indicates a comparatively small net underspending against the proposed revised budget, there are still various budgetary uncertainties that may impact on outturn. Importantly though, there is no further net overspending forecast at this point.

### **4 PROVISIONS AND RESERVES**

- 4.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and balances. This advice should take account of:
- the context of the Authority's Medium Term Financial Strategy (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;
  - specific risks and assumptions underlying production of the General Fund budget figures.
- 4.2 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.
- 4.3 After reviewing the General Fund 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 corresponds with advice given at Council in February and the resulting Council resolution.
- 4.4 The draft budget is also in line with this position. After using the £47K surplus in the current year, balances would fall to £1M by March 2010 and they are forecast to remain at that level for the foreseeable future. Whilst there have been changes in the various risks facing the Council, the national economy, job evaluation, concessionary travel, recovery prospects for Icelandic investments and key planned



asset sales continue to present major challenges (and therefore risks) to the authority. Some of these issues have resulted in a net overspending in the current year. Furthermore major capital projects such as Luneside East and Chatsworth Gardens may add (and have added) real pressure in managing the Council's cashflow or its overall funding position. There is clearly considerable pressure on revenue balances, in that the Council's exposure to financial risk has increased significantly in recent times. That said, the Council holds other reserves for specific purposes, has access to facilities such as capitalisation directives and in the past it has managed to keep spending well within budget. These give some other comfort in considering how the Council would deal with unexpected pressures arising. Therefore the s151 Officer would advise maintaining unallocated balances at £1M, but on the basis that other provisions and reserves remain broadly at current levels, unless a specific service policy change indicates otherwise. This advice may be reviewed again in light of Cabinet's final budget proposals.

- 4.5 For other earmarked reserves and provisions, at the last meeting Cabinet approved a number of changes and these are reflected in the draft policy attached at **Appendix B**. 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 and this is provided for accordingly.
- 4.6 Cabinet is now requested to approve the policy attached for referral on to Council, subject to any changes arising in finalising its budget proposals.

## 5 COLLECTION FUND POSITION

- 5.1 Legislation requires that an estimate of any surplus or deficit on the Collection Fund is made each year, and that any such balance is distributed to precepting authorities and taken into account in setting Council Tax. The Collection Fund is the account into which all Council Tax income is paid, and from which precept payments to the County, Police and the City Council are made.
- 5.2 The review of the Fund's financial position as at January 2010 indicates that overall the Fund has a comparatively small surplus for distribution, after allowing for a reassessment of the bad debts provision. This indicates good practice, both in terms of collection rates and in terms of financial forecasting. The County, Fire and Police Authorities have been informed accordingly and details of the review are attached at **Appendix C**. The City Council's share of the surplus is £19K and this has been incorporated into the budget position.

## 6 2010/11 GENERAL FUND REVENUE BUDGET

- 6.1 Following confirmation of Government support and the Collection Fund position, and in order to fit with the 3.75% Council Tax increase approved by Council, the General Fund Revenue Budget must be set at £24.740M for 2010/11, excluding parish precepts, and Cabinet is requested to refer this on to Council for approval.
- 6.2 In support of the above, additional work has been undertaken regarding the budget position and updated revenue proposals have been prepared as set out at **Appendices D and E**. In summary, sufficient net savings have now been identified to give a revenue budget that fits broadly with a 3.75% increase in Council Tax. This is on the assumption that all the savings and growth proposals as set out will be

approved by Cabinet, for referral on to Council. The Appendix also assumes that the small amount of resources available would fall into revenue balances.

6.3 There are a few other points to note with regard to the draft position:

- Some further base budget changes have been made, mainly in relation to staffing costs and also the value of various savings items have been updated, e.g. regarding procurement activity and toilets.
- The schedule takes account of various recommendations for items elsewhere on the agenda. The proposal regarding Community Pools is still included pending Cabinet's reconsideration, although this does not have any bearing until after 2010/11.
- The draft budget provides for £92K of revenue financing in connection with the growth item for a vehicle tracking system. All other revenue financing for capital comes from various reserves (referred to later in this report).
- This is the last opportunity for Cabinet collectively to identify and consider any other savings, growth, or other redirecting of resources proposals in accordance with proposed priorities and in response to consultation etc. Members will see from Appendix E that existing savings have been analysed provisionally in line with the Savings and Efficiency Programme, with growth analysed over the main priority areas. Cabinet is requested to consider this analysis and indicate any changes needed.
- Cabinet will be aware that the district's share of any Performance Reward Grant resulting from the achievement of Local Area Agreement (LAA) targets will be channelled through its Local Strategic Partnership. The budget assumes a cost-neutral position on this. A Cabinet report is scheduled for the March meeting and this will seek approval for the arrangements for allocating this funding.
- At the last Council meeting it was resolved that further policy work be undertaken regarding the provision of flowerbeds and play areas. It is assumed that the ongoing outcome of these will be budget neutral. For play areas there will be some one-off costs arising in meeting health and safety standards, either through de-commissioning or through upgrading facilities. Rather than consider specific growth, it is proposed that any additional costs would be met from either the Renewals Reserve or the Risk Management Reserve. There are also capital provisions for playground improvements included within the current draft programme, and if approved these would be considered in developing and implementing future policy.

6.4 Cabinet is now requested to consider the schedule of budget proposals as set out in the appendices, together with other items included on this agenda, and make recommendations to Council to tie in with a Revenue Budget of £24.740M, representing a 3.1% year on year increase in net spending. This will result in a 3.75% increase in the basic City Council Tax Rate for the district. The actual basic Band D City Council tax payable (excluding parish precepts) will be £192.25, representing a cash increase of £6.94. The year on year % increases referred to are the figures that the Secretary of State is expected to review when considering capping.

## 7 BUDGET PROSPECTS FOR FUTURE YEARS (BEYOND 2010/11)

7.1 Indicative revenue spending and Council Tax forecasts for 2011/12 and 2012/13 have been reported and updated on an ongoing basis during the budget process. The latest projections are included at Appendices D and E and are summarised below:

	Revenue Budget Projections (allowing for savings & growth)			Council Tax Projections	
	Net Budget	Annual Increase	Assumed Contribution from Balances	Average Band D Tax Rate	Annual Increase (YOY)
	£000	%	£000		%
2011/12	25,324	2.4	--	£217.22	13.0
2012/13	25,678	1.4	--	£236.07	8.7

7.2 As in previous years, some limited work has been done in analysing the drivers behind future years' budget increases. For 2011/12, the higher Council Tax forecast is influenced by:

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

7.3 In addition, the current projections for 2011/12 and 2012/13 assume a 3% year on year cash reduction in Government support and unfortunately this has offset many of the savings approved earlier during the budget.

7.4 It is also recognised that the Council is still facing other key challenges and issues and these should be resolved or clarified during the next year or so. These include:

- Fairpay / further review of the pay and grading structure
- any changes to prospects for recovery of Icelandic investments
- Luneside East, Chatsworth Gardens & other potential regeneration plans
- capital financing and government support prospects
- any future plans for Access to Services (accommodation)
- pension costs (from 2011/12 onwards)
- wider organisational review of Council services.

Coupled with the above, future prospects for the UK economy as a whole will have a major bearing as may Government's priorities, which will be formulated after the General Election.

7.5 Notwithstanding the progress that has been made during this budget exercise, based on current forecasts there is still a considerable way to go and many uncertainties to be resolved before the Council has what could be viewed as a financially sustainable

budget. The Council needs to maintain focus on the medium term, in order to make future budget exercises easier to manage and deliver.

7.6 Whilst generally at this time of year future years' budget projections tend to appear high, it is clear that new factors have influenced prospects significantly. Importantly, there is a consistent message regarding the bleak outlook for public finances and Members are advised not to assume that the Council's prospects will improve without some difficult decisions being needed.

7.7 It is in this context that Cabinet is asked to consider its targets for future years' Council Tax increases, for incorporation into the MTFS. To assist with this, Cabinet is asked to note the following:

- Should Members wish to retain the existing target of a 4% year on year Council Tax increase, the additional net savings requirements (over and above current proposals) would be:

2011/12:	£751K
2012/13:	£1,223K

No general headroom for future years' growth has been provided for. Instead, the savings requirements would need to be increased to cover any such needs.

- A number of actions to generate savings from 2011/12 onwards are included at the bottom of Appendix E. Other decisions, such as the termination of the Museums Partnership, will be reflected within the savings and efficiency programme for 2011/12 onwards.
- **Appendix F** sets out the estimated savings requirements for a variety of options for future Council Tax increases, as well as showing the potential impact should Government support levels vary.

7.8 The MTFS document will be updated to reflect all of Cabinet's budget proposals for consideration by Council. An extract is included at **Appendix G**. This takes account of the resolutions from November Cabinet; the MTFS now incorporates both revenue planning and capital investment for General Fund as the two are intrinsically linked. Whilst the full draft document has not been included within this report, it is available from the Head of Financial Services if required. The attached extract (section 4) also includes information regarding the key strategic and other financial risks informing the budget process and as mentioned earlier in this report, Cabinet is advised to consider these carefully in formulating budget and planning proposals.

7.9 Once approved the Strategy and associated projections will continue to be reviewed and updated regularly; in this way the Council can maintain an informed view about its financial outlook and the implications for corporate priorities and service delivery.

## 8 GENERAL FUND CAPITAL INVESTMENT

8.1 At earlier Cabinet meetings Members have approved a number of financing principles to be followed in determining the General Fund Capital Programme, together with draft investment priorities. The latest version of the priorities is included at **Appendix G (section 3)**.

- 8.2 Cabinet is requested to reconsider these in light of any developments in the draft corporate priorities and strategic risks facing the Council, and also in view of the feedback from the public consultation exercise.
- 8.3 The current draft programme for the five-year period to 2014/15 is set out at **Appendix H** for Cabinet's consideration. It is highlighted that the appendix includes two versions of the programme. The first sheet shows the Net Capital Programme that focuses on the City Council's own contributions to schemes, and the second sheet shows the full Gross Capital Programme, which sets out the total estimated cost of schemes including any amounts to be funded from external grants and contributions, etc.
- 8.4 The drafts include a number of adjustments made since the last Cabinet meeting. The main points to highlight are as follows:
- Unfortunately the funding bid to the North West Development Agency (NWDA) regarding the Townscape Heritage Initiative 'A view for Eric' has been unsuccessful. The outline scheme and its financing assumptions have therefore been removed from the draft programme. It is understood that alternative options are now being explored for consideration by Members in due course.
  - Whilst the Council has received its allocation of Regional Housing Pot (RHP) funding, it has still not yet received notification of the funding available for Disabled Facilities Grants. On the basis that the Council would wish to consider various options for allocating RHP monies, the draft programme does not now include any specific proposals. Cabinet will receive a separate report in due course on this matter, to determine the detailed allocations.
  - A more robust estimate has been received for the Dome's demolition costs, taking account of construction and design management (CDM) requirements and contingencies, etc. The budget now stands at £140K in total.
  - An additional £57K of funding is included to meet clawback liabilities.
  - IT Applications Renewals have been reduced by £100K. This relates to the budget provision for the NNDR system, which is covered through existing annual licensing arrangements.
  - As reported earlier a capitalisation directive has been received to help manage the impact of estimated losses from Icelandic investments and £2.047M is already included in the draft programme. This is on the basis that it would be financed through an increase in the Council's underlying need to borrow (or CFR: Capital Financing Requirement).
- 8.5 Overall, the current year's gross Revised Programme now stands at £11.433M, It is estimated that there will be no capital receipts balances unapplied as at 31 March 2010. Taking account of the capitalisation directive and slippage on other schemes, this year's programme also assumes a £1.842M increase in the underlying need to borrow, or CFR.
- 8.6 For the 5-year period from 2010/11 onwards, the draft gross programme amounts to £28.9M, with a cumulative shortfall in funding of £212K. Cabinet is now required to make formal recommendations to Council regarding the Capital Programme.

8.7 To support this a number of funding issues are highlighted:

- i. There have been no other major changes to the basic funding assumptions underpinning the draft programme and they are as follows, from 2010/11 onwards:
  - A £1.196M reduction in the underlying need to borrow (or CFR). This represents the existing policy position, which is to offset the previous year's £1.4M increase in borrowing need, but adjusted to reflect the remaining £200K balance associated with the capitalisation directive.
  - £9.558M of applied capital receipts over the period, with £1.8M required in 2010/11. None of this total has been received as yet. The risks attached have been well documented, in particular regarding land at South Lancaster.
  - £540K funding from revenue / reserves over the period. This represents:
    - £272K for Luneside (Capital Support Reserve)
    - £120K for Desktop Equipment (Renewals Reserve)
    - £ 31K for Cable Street Christmas Lights (Renewals Reserve)
    - £ 25K for IT Systems (Benefits Administration Reserve)
    - £ 92K for IT Systems (Revenue Growth – vehicle tracking system)
- ii. In terms of managing the financing risks, the existing strategy makes provision for allowing *essential* works to progress before programmed financing is in place. Furthermore it is proposed that this arrangement be used to provide funding for any liabilities arising from the outcome of the Lands Tribunal for Luneside – the Council would have to meet any obligations arising and therefore needs to have financing arrangements in place. Ultimately, if used, this flexibility is expected to result in increases in the underlying need to borrow or CFR.
- iii. With regard to revenue financing, for a number of years the Council has made contributions from various reserves to help fund capital, with Capital Support and Renewals being the most common. This gives some flexibility in that on occasion, there is a risk that some works or acquisitions initially assumed to constitute capital expenditure ultimately may not be accounted for as such. Whilst some additional measures have been made to help manage this scenario, the risk is increasing from both the scale of relevant expenditure and changes to accounting standards.
- iv. Whilst there is no legal requirement to have a programme balanced over the 5-year period it is considered best practice to do so – or at least have clear plans in place to manage the financing position over that time. Inevitably capital investment needs and funding opportunities will change, but it is important to consider and manage stakeholder expectations regarding investment too.

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

- i. For Luneside, the draft programme provides only for defending existing compensation claims and for settling such claims at previously budgeted levels, although some additional funds are still available within the Capital Support Reserve to help cover any additional liabilities arising. In the event that this proves insufficient, the Council would have no option other than to meet such liabilities from an increase in its borrowing assumptions and this is to be provided for within the Council's borrowing limits accordingly, for approval by Council. It is stressed that Officers have no authority to make use of such a borrowing provision; the decision-making arrangements would need to be considered by

Cabinet beforehand. (In finalising this report, information has just been received that indicates a favourable outcome to the preliminary issues considered by the Lands Tribunal is likely, but this is still subject to detailed consideration and any appeals. The determination of these issues will introduce some clarity in assessing the final settlement of the compensation claims submitted to the Lands Tribunal.)

It is also reiterated that the draft programme still does not include any budget provision for resolving future development of the site. Options around this are currently being assessed, centred around further external funding bids. On the other hand, the programme does assume any proceeds from any future transfer of the site. In addition, should the outcome of the Lands Tribunal prove favourable for the Council, the impact from recovery of costs would need determining.

- ii. The draft programme makes no provision for any new Access to Services developments, any Chatsworth Gardens scheme, nor does it have any general provision to facilitate other schemes, e.g. Square Routes. Other resources would need to be identified should there be any match funding requirements. This is a point for Cabinet to consider carefully in view of priorities and the draft programme as set out.
- iii. As in previous years, for several proposed schemes their funding positions and/or their business cases are not finalised and whilst they are included provisionally within the draft programme, this is only on the basis that positive outcomes will be forthcoming. This applies specifically to some Coastal Protection schemes and any developments associated with The Platform, as examples.
- iv. At the last Council meeting it was resolved that the Community Safety Partnership be asked to appraise the proposed provision of CCTV within Carnforth, with Cabinet considering the outcome in developing its Capital Programme. Given timescales, should this remain within the draft Programme, the outcome of that appraisal would be reported back to Cabinet in due course, prior to the scheme going ahead.

8.9 The Council's Prudential Indicators have been updated to reflect the draft capital position so far and these are attached at **Appendix I**. They will need to be updated to reflect Cabinet's final budget proposals, prior to being considered by Council.

8.10 The capital investment element of the MTFs has also been updated to reflect all of the above points and this too will need updating as appropriate, prior to it being presented to Budget Council for approval.

## 9 **DETAILS OF CONSULTATION**

This is outlined in section 2 of this report.

## 10 **OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)**

Cabinet is now requested to finalise its preferred revenue budget and capital programme proposals for referral on to Council, using the latest information as set out in this report.

### **Corporate Plan and Priorities**

Cabinet has the option of updating the proposed priorities to take account of the consultation and other information. In doing so, the impact and scope for any redirection of resources must be considered, particularly should any major changes be proposed.

### **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 for achieving savings include:

- removing schemes from the draft programme, taking account of service needs and priorities;
- reducing proposed net expenditure on schemes, where possible;
- generating or allocation additional capital resources (e.g. receipts, direct revenue financing, use of reserves 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 2014/15.

Should surplus resources be available, these could be used:

- to repay borrowing, or to reduce the call on the revenue budget;
- to fund new capital schemes;
- to make provision for other anticipated liabilities.

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. The programme attached represents the outcome of the work undertaken to date.

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.*

### **Revenue Budget**

As Council have now determined the City Council Tax Rate for 2010/11, there are no options to change the total net revenue budget for next year (recommended at £24.740M) but Cabinet now needs to put forward detailed budget proposals that add back to that amount. Detailed options would be dependent very much on Members' views on spending priorities and 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. The Head of Financial Services (as s151 Officer) would advise as strongly as possible that 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.

With regard to the use of any surplus balances (such as the £9K currently identified), Cabinet could put forward alternative arrangements for their use, bearing in mind that these are one-off resources.

**Future Years’ Council Tax Targets**

In terms of target Council Tax increases for future years and Government’s position on capping, it is felt that there is little scope for increasing targets much above the 3.75% approved for next year. Current and prospective Governments have made it very clear regarding their future expectations for low increases and this should be taken into account. In considering any lower target, Members should have regard to the impact on service delivery, the need (and capacity) to make savings or to provide for growth, and the impact on subsequent years – as well as the implications for tax payers.

**11 OFFICER PREFERRED OPTION AND COMMENTS**

The recommendations as set out are in line with Officer recommendations.

Recommendations put forward by Cabinet should fit with any external constraints and the budgetary framework already approved. The recommendations as set out meet these requirements; the detailed supporting budget proposals are then a matter for Members.

**12 CONCLUSION**

This report outlines the actions required to complete the budget setting process for 2010/11 and to set the financial planning framework for future years.

<b>RELATIONSHIP TO POLICY FRAMEWORK</b> The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.
<b>CONCLUSION OF IMPACT ASSESSMENT</b> (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.
<b>FINANCIAL IMPLICATIONS</b> As set out in the report.

## **SECTION 151 OFFICER'S COMMENTS**

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. Previous Cabinet and Council reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far. A summary of the s151 Officer's current advice regarding General Fund is provided below for information, but it should be noted that this is provisional until such time as Cabinet's full budget proposals have been finalised.

### **Reserves and Provisions**

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.
- Unallocated balances of £1M for General Fund are reasonable levels to safeguard the Council's overall financial position, given the other measures in place.

With regard to General Fund balances, £1M represents about 4% of the net Revenue Budget. The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific service policy change indicates otherwise, and also this advice may be reviewed again once Cabinet's final General Fund budget proposals are known.

### **Robustness of Estimates**

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

Other key areas of risk are highlighted in the body of the report.

### **Affordability of Spending Plans**

The s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration. This will be covered in the report to Budget Council, at which time Council will consider full proposals regarding the capital programme and financing for the five year period to 2014/15.

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

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

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

In considering and balancing these factors, the capital proposals to date are based on a net increase in prudential borrowing over the period from 2010/11 to 2014/15, which is due solely to the capitalisation directive to help manage currently estimated losses in Icelandic investments. As far as possible, measures have been taken to reduce other capital investment, in recognition of the pressures facing the Council. That said, it is acknowledged that some degree of unsupported borrowing may be unavoidable, to address Municipal Building Works as an example. It is acknowledged that if this is the case it will add further pressure to the revenue budget, at least in the short term, and further revenue savings would be required to ensure affordability. These issues have been built into the draft Prudential Indicators for approval by Council in March, but again these are subject to Cabinet's final budget proposals.

**LEGAL IMPLICATIONS**

**Legal Services have been consulted and have no observations to make on this report.**

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**  
**LG Finance Settlement**  
**Prudential Code**

**Contact Officer: Nadine Muschamp**  
**Telephone: 01524 582117**  
**E-mail: [nmuschamp@lancaster.gov.uk](mailto:nmuschamp@lancaster.gov.uk)**

**DRAFT CORPORATE PRIORITIES  
For Consideration by Cabinet 16 February 2010**

**1. ECONOMIC REGENERATION –SUPPORTING OUR ECONOMY**

**A) *Energy, coast and environmental technology***

- *Lancaster Science Park - creation of a new, regionally important science park to support and create businesses and jobs*
- *Nuclear Energy - working to ensure the creation of local jobs, supplies of local goods and services and network capacity from the proposed new nuclear power stations*
- *Renewable Energy - detailed plans for the development of renewable energy sources along the coast*
- *Employment sites - bringing brownfield and derelict land in the district back into use, particularly with improved access from the new M6 link road*

**B) *Heritage and cultural tourism for the district, including creative industries and employment***

- *Morecambe Area Action Plan - a comprehensive plan for investment in Morecambe, including the central promenade area and the retail centre*
- *Lancaster Square Routes - programme of improvement to Lancaster's public areas to improve the city's valuable heritage and create a more vibrant city centre*
- *Morecambe Townscape Heritage Initiative - improvements to retail premises*
- *Cultural Heritage Investment Strategy - development of a planned programme of activities to improve the offer of the district's heritage assets, including museums and the castle*
- *Luneside East - to support the development of an urban village in Lancaster to provide additional quality business space and housing*

**2. CLIMATE CHANGE**

*All local authorities can and should be taking action to combat climate change. The City Council is committed to implementing its own 5 year Climate Change Strategy focusing on energy savings and carbon emission reduction to generate efficiencies and environmental improvements.*

*Specific targets for the Council include:-*

- 10% Reduction Target agreed for 2010/11*
- 34% Reduction Target set for 2020*

*- 80% Reduction Target set for 2050*

*The City Council is also committed to working with its partners to help the delivery of community climate change actions through the Lancaster District Local Strategic Partnership and Lancashire Local Area Agreement.*

*By working in partnership with other agencies the city council believes it can significantly help to reduce CO2 emissions in our local area.*

### **3. STATUTORY SERVICES - MEETING OUR RESPONSIBILITIES**

In particular, Clean and Green services – achieving at least the minimum statutory standards for services such as planning, housing, environmental health, street cleaning, and refuse collection

*By law Lancaster City Council must provide certain statutory services. Others, which it can choose whether or not to provide, are discretionary services.*

*For some statutory services, the legal requirement may include a minimum standard of service which must be met. In others there is more flexibility.*

*In some statutory services, Lancaster City Council has chosen to use that flexibility in determining service standards.*

*If the council wishes to continue to use this flexibility, we must consider the justification for doing so:*

- a) Does it help to meet another proposed objective?*
- b) Is it a high priority for local citizens?*
- c) Is it a high priority within the Community Strategy?*

### **4. PARTNERSHIP WORKING & COMMUNITY LEADERSHIP**

Shaping the District and working with others to deliver the Sustainable Community Strategy and provide services currently contributing to the quality of life in the district that are not the District Council's main function or priority.

*Local partnerships are essential to deliver improvements in people's quality of life. By working within the partnerships already established within the district, and through the development of new ones, the Council can make a meaningful and telling contribution to delivering the priorities of the Lancaster District Local Strategic Partnership and the county wide Local Area Agreement*

*The council recognises its community leadership role can be enhanced and promoted through improved partnership working as a means to address local needs such as housing, health, children and young people, environment and crime and disorder.*



**LANCASTER CITY COUNCIL**  
*Promoting City, Coast & Countryside*

# Provisions and Reserves Policy

(Details of General Fund Items)

February 2010

---

# Provisions & Reserves Policy

## 1. Legislative/Regulatory Framework

- 1.1 The requirement for financial reserves is acknowledged in statute. Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement.
- 1.2 There is also a requirement reinforced by section 114 of the Local Government Finance Act 1988 which requires the chief financial officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. This would include situations where reserves have become seriously depleted and it is forecast that the authority will not have the resources to meet its expenditure in a particular financial year.
- 1.3 Furthermore, sections 26 and 27 of the Local Government Act 2003 set out the requirements regarding the determination of minimum levels of controlled reserves (i.e. currently unallocated balances), and actions required should they fall below such minimum levels.
- 1.4 A key element contained within the Use of Resources assessment criteria is Financial Standing; the authority must be able to demonstrate that "The Council monitors and maintains its level of reserves and balances within the range determined by its agreed policy".

## 2. Role of the Chief Financial Officer

- 2.1 Within the existing statutory and regulatory framework, it is the responsibility of the Chief Financial Officer (at Lancaster this is the Head of Financial Services) to advise local authorities about the level of reserves that they should hold and to ensure that there are clear protocols for their establishment and use.
- 2.2 For clarity, within the legislation the minimum level of any reserve is not quantified, and it is not considered appropriate or practical for the Chartered Institute of Public Finance and Accountancy (CIPFA), or other external agencies, to give prescriptive guidance on the minimum, or maximum, level of reserves required either as an absolute amount or a percentage of the budget.

## 3. Purpose of Reserves and Balances

- 3.1 Reserves and balances can be held for three main purposes:
    - A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of what is commonly referred to as 'general balances';
    - A contingency to cushion the impact of unexpected events or emergencies – this also forms part of 'general balances';
    - A means of building up funds, commonly referred to as earmarked reserves, to meet known or predicted liabilities.
  - 3.2 For each earmarked reserve held by a local authority there should be a clear protocol setting out:
    - The reason for/purpose of the reserve;
    - How and when the reserve can be used;
    - Procedures for the reserve's management and control; and
    - A process and timescale for review of the reserve to ensure continuing relevance and adequacy.
-

## 4. Principles to Assess Adequacy

- 4.1 Setting the level of reserves and balances is just one of several related decisions in the formulation of the medium term financial strategy and the budget for a particular year. Account should be taken of the key financial assumptions underpinning the budget alongside a consideration of the authority's financial management arrangements. In addition to the cash flow requirements of the authority the following factors should be considered:

### **Budget Assumptions**

- The treatment of inflation and interest rates
- Estimates of the level and timing of capital receipts
- The treatment of demand led pressures
- The treatment of planned efficiency savings/gains
- The financial risks inherent in any significant new funding partnerships, major outsourcing arrangements or major capital developments
- The availability of other funds to deal with major contingencies and the adequacy of provisions

### **Financial Standing and Management**

- The overall financial standing of the authority (level of borrowing, debt outstanding, council tax collection rates, etc.)
  - The authority's track record in budget and financial management including the robustness of the medium term financial plans
  - The authority's capacity to manage in-year budget pressures
  - The strength of the financial information and reporting arrangements
  - The authority's virement and end of year procedures in relation to budget under/over spends at authority and departmental level
  - The adequacy of the authority's insurance arrangements to cover major unforeseen risks.
- 4.2 The minimum level of general reserves which is considered appropriate for the Council is reviewed annually as part of the budget process and Medium Term Financial Strategy. At present, the minimum level of general reserves is set at £1 million for the General Fund and £350K for the Housing Revenue Account.
- 4.3 A review of the level of earmarked reserves is undertaken generally as part of the annual budget preparation and as part of the closure of accounts process.
- 4.4 The Council's external auditors recommend the use of a risk based approach when setting the level of reserves. As far as reasonably practical this approach is used, although for many reserves the balance is being held to meet a specific budgeted need, or alternatively future spending needs can be restricted to tie in with monies available. For others, whilst the risk of financial liabilities arising is acknowledged, it may be impossible to assess accurately (or quantify) the financial risks involved, and the balances of such reserves are determined initially based on informed judgement. Their future levels will be further reviewed as more information becomes available.

## 5. Reporting Framework

- 5.1 The level and utilisation of reserves will be determined formally by the Council, informed by the advice and judgement of the Head of Financial Services.
- 5.2 The Council's annual budget report includes a statement showing the estimated opening general fund balances for the year ahead, the addition to/withdrawal from balances, and the estimated end of year balance. A statement is also included commenting on the adequacy of general balances and provisions in respect of the forthcoming financial year and the authority's medium term financial strategy.
- 5.3 Similarly, a statement is also included, as part of the budget report, identifying earmarked reserves, the opening balances for the year, planned additions/withdrawals and the estimated closing balance.
-



**6 Provisions & Reserves Protocol : General Fund**

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
<b>CAPITAL RESERVES</b>				
Marsh Capital	The monies held in this reserve came from the proceeds of land sold at Willow Lane on the Marsh, as set out by the Lancaster Corporation Act 1900. The Act determines that the interest generated on this reserve be applied in perpetuity to the payment to the freemen of the City.	Investment interest generated on the reserve is used to make the annual payments to the freemen of the City.	Financial Services	Outturn
Capital Support	To support the financing of the capital programme.	Between 2009/10 to 2010/11, to help fund Capital Programme and in particular Luneside.	Financial Services	Budget & Outturn, & mid-year MTFS review.
<b>REVENUE RESERVES</b>				
Access to Services	To finance smaller scale accommodation works (one-off costs), on the basis that the wider plans will not be taken forward at present.	Contributions to the reserve to be approved by Cabinet. Use of the reserve to be determined by Access to Services Board, in conjunction with the Head of Financial Services. There are no funds available after 31 March 2010 – reserve to close.	Financial Services	Budget & Outturn
Allotment Improvements	To improve allotments across the district.	To be applied as determined by the Head of Community Engagement and in accordance with budget proposals.	Community Engagement / Financial Services	Budget & Outturn
Building Regulations	This is a statutory reserve to which the annual surplus or deficit on the Building Control Account is transferred. In addition, the reserve may be used to finance expenditure which will make the Building Control function more efficient.	The surplus or deficit on the Building Control Account is appropriated to/from the reserve at the end of each financial year. In addition, it may be used to finance specific one-off Building Control expenditure, with Head of Financial Services approval (to reflect statutory usage), or with Cabinet approval for recurring items.	Regeneration & Policy / Financial Services	Budget & Outturn

<b>Reserve</b>	<b>Purpose</b>	<b>How and When Used</b>	<b>Procedures for management and control</b>	<b>Timescale for review</b>
Business Continuity	To provide funding to ensure Business Continuity Plans can be effectively actioned as and when required (one-off costs).	Any contributions to reserve to be approved by Cabinet. Use of the reserve to be determined by Board, in conjunction with the Head of Financial Services.	Health & Strategic Housing / Financial Services	Budget & Outturn
City Lab	Surpluses on the operation of the building to be used to support any future losses / economic development in the district.	Contributions to and from the reserve to be approved by Cabinet.	Regeneration & Policy / Financial Services	Budget & Outturn
Community Cohesion Reserve	Currently unallocated.	There are no funds available after 31 March 2010 – reserve to close.	Community Engagement / Financial Services	Budget & Outturn
Revenue Support	To cover potential additional costs arising regarding Concessionary Travel, Fairpay (including ongoing costs), and building works that cannot fall as capital.	Annual contributions to be made into the reserve from 2009/10 onwards. Use of reserve to be agreed with Head of Financial Services and reported through quarterly financial monitoring.	Financial Services	Budget & Outturn, & Quarterly monitoring
Customer First	To cover one-off costs associated with the approved roll out and integration of Customer Services.	There are no funds available after 31 March 2010 – reserve to close.	Community Engagement / Financial Services	Budget & Outturn
Every Child Matters	To support Council input and any responsibilities in connection with Every Child Matters (one-off costs).	Reserve supporting Play Schemes in 2009/10 and Diversionary Activities in 2010/11. There are no funds available after 31 March 2011 – reserve to close.	Community Engagement / Financial Services	Budget & Outturn
HMO Registration Fees	This is a mandatory scheme which is required to be self funding over a five year period.	Surpluses generated at the start of the scheme will be set aside in this reserve to off-set any future losses.	Health & Strategic Housing / Financial Services	Budget & Outturn
Housing Benefits Administration	The reserve has been established to ensure additional grant monies received can be applied to the relevant year in which the expenditure is planned, subject to service outturn.	Contributions to& from reserve to be agreed with Head of Financial Services.	Revenue Services / Financial Services	Budget & Outturn

<b>Reserve</b>	<b>Purpose</b>	<b>How and When Used</b>	<b>Procedures for management and control</b>	<b>Timescale for review</b>
Job Evaluation	To support development and modelling of pay structures.	Contributions to the reserve to be approved by Cabinet. Use of the reserve to be agreed by both the Head of Legal & Human Resources and Head of Financial Services, linked to adoption of new Pay & Grading structure.	Legal & Human Resources / Financial Services	Budget & Outturn
Planning Delivery Grant (PDG)	To enable grant monies committed against approved spend to be rolled forward between financial years.	Where specific approved budgets have not been spent, which are funded from PDG, the balance of unapplied grant will be transferred into the reserve and applied in the following financial year. Any other use to be approved by Cabinet.	Regeneration & Policy / Financial Services.	Budget & Outturn
Private Housing Rental Deposits	The reserve has been established as a rental deposit guarantee for private landlords, against tenants who are financially unable to provide such a deposit.	The money is to be applied to fund any necessary repairs upon the vacation of a tenant for whom a guarantee has been provided. Contributions to the reserve are to be approved by Cabinet.	Health & Strategic Housing / Financial Services	Budget & Outturn
Project Implementation	To meet one-off costs of project implementation that cannot be directly charged to other funding sources: e.g. training, site visits and providing temporary cover for secondments.	To be applied when no other source of funding can be used to cover such costs. Use of the reserve to be agreed by Head of Financial Services.	Financial Services	Budget & Outturn
Restructuring Reserve	To fund the cost of redundancies and early retirements as a result of Service restructures.	Use linked to large service restructurings requires Personnel Cttee approval. Any further contributions to the reserve to be approved by Cabinet.	Legal & HR / Financial Services	Quarterly PRT, Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
Risk Management	The reserve was established to finance any Risk Management initiatives.	Expenditure relating to risk management is charged to revenue and financed by an appropriation from the reserve. Its application must be in line with the Risk Management Policy. Contributions to the reserve are to be approved by Cabinet.	Financial Services	Budget & Outturn
<b>MAINTENANCE / RENEWALS</b>				
Open Spaces – Commuted Sums	This reserve receives all sums paid to the Council from third parties for the maintenance of open spaces adopted by the City Council. An amount is then transferred from the revenue on an annual basis to cover the additional maintenance costs associated with the open space.	Lump sums are credited to the reserve, and an annual contribution is made from the reserve to cover the additional grounds maintenance costs. The value of commuted sums due is to be agreed with Financial Services prior to the development agreement being completed. Budgets to be updated by Financial Services in consultation with CC(D)S as sums received.	City Council (Direct) Services / Financial Services	Budget & Outturn
Other Commuted Sums	This reserve receives all sums paid to the Council from third parties other than for Grounds Maintenance, e.g. affordable housing.	Lump sums are credited to the reserve and appropriated either to revenue or capital dependent upon the nature of the agreement – subject also to approved policy for use (November 2009).	Regeneration & Policy / Financial Services	Budget & Outturn
Graves Maintenance	This reserve holds monies donated to the City Council by individuals, specifically for the maintenance of graves.	The capital sum must be maintained at the original level of contribution, with interest earned being appropriated to revenue to offset maintenance costs.	Health & Strategic Housing / Financial Services	Outturn
Renewals (Including IT, AONB Vehicle, Car Park Equipment, Courier Vehicle, Parks vehicles & Salt Ayre Sports Centre renewals)	Contributions are made into the fund to provide for renewal of major assets such as vehicles, plant and equipment.	Contributions are made into the reserve on an annual basis, and transferred to revenue as and when renewals are undertaken. Contributions to the reserve are to be approved by Cabinet. Use of the reserve to be agreed by Head of Financial Services.	Financial Services	Quarterly PRT, Budget & Outturn

Reserve	Purpose	How and When Used	Procedures for management and control	Timescale for review
<b>PROVISIONS</b>				
Bad & Doubtful Debts	This provision is used to write off all General Fund 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	Budget, Outturn & Quarterly PRT
Equal Pay	To meet the cost of settling equal pay claims	The provision was established in 2008/09, to meet any liabilities arising and is expected to close at the end of 2009/10.	Legal & Human Resources / Financial Services	Budget & Outturn
Insurance	The cost of insurance claims, premiums and brokerage are charged to the provision.	Contributions are made to the provision from individual services at a level sufficient to cover the anticipated claims experience and premiums.	Financial Services	Budget, Outturn and Quarterly PRT
Provision for Write-Off / Obsolete Stock	The provision provides for obsolete stock or stock that has reduced in value.	The stock is valued as part of the closure of accounts process and adjustments made as appropriate.	City Council (Direct) Services / Financial Services	Outturn
Derelict Land Grant	This provision covers the cost of anticipated grant clawback in respect of land sales, previously financed from grant.	The provision will be fully utilised in 2009/10.	Financial Services	Budget & Outturn
Vehicles, Plant & Machinery	This provision has been established to cover future years costs associated with vehicle renewals, when budgets may be insufficient due to the timing of replacements and procurement method applied.	Provision now closed.	N/A	N/A
Williamson Park	As the company is wholly controlled by the City Council, provision must be made for any losses arising.	Provision established during 2008/09 following review of operations. Contributions to / from the provision to be approved by Cabinet. Provision will be applied in dissolving company.	Financial Services	Budget & Outturn

## PROVISIONS AND RESERVES STATEMENT : For Consideration by Cabinet 16 February 2010

	31/03/09		Contributions to Provision		31/03/10	
	£		£	£	£	£
B&D Debts-General Fund	360,442				360,442	
Provision for Stock Write Off	24,708				24,708	
Derelict Land Clawback	56,932			-56,932	0	
Equal Pay Provision	100,000			-100,000	0	
Insurance Excess	288,750				288,750	
Vehicle Provision	94,998			-94,998	0	
Williamson Park	100,000				100,000	
<b>TOTAL</b>	<b>1,025,830</b>	<b>0</b>	<b>0</b>	<b>-251,930</b>	<b>773,900</b>	

	31/03/09		Contributions to Reserve		31/03/10		Contributions from Reserve		31/03/11		Contributions to Reserve		31/03/12		Contributions from Reserve		31/03/13		
	£		£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	
Access to Services	139,417			-139,417	0				0					0					0
Allotment Improvements	5,888		3,200	-2,000	7,088		3,200		10,288		3,200		13,488		3,200			16,688	
Building Regulation Account	5			-5	0				0				0					3,000	
Business Continuity	50,400			-14,000	36,400				36,400				36,400					36,400	
Business Development Scheme	460			-460	0				0				0					0	
Capital Support	1,230,974			-458,974	772,000			-272,000	500,000				500,000					500,000	
City Lab	43,597		49,200	-25,000	67,797		39,100		106,897		43,700		150,597		44,400			194,997	
Community Cohesion	26,000		100,000	-26,000	0				300,000		200,000		500,000		200,000			700,000	
Concessory Travel / Revenue Support	0			-50,000	0				0				0					0	
Customer First	50,000			-7,700	20,000			-20,000	0				0					0	
Every Child Matters	27,700				22,201				22,201				22,201					22,201	
Graves Maintenance	22,201				20,785				20,785				20,785					20,785	
HMO Registration Fees	20,785				25,000			-25,000	0				0					0	
Housing Benefit Administration	0		25,000						339,597				54,397		-285,200			5,397	
Job Evaluation	653,497			-42,700	610,797			-271,200	47,677				47,677					47,677	
Marsh Capital	47,677				249,212			-61,100	188,112				129,312		-58,800			89,112	
Open Spaces Commuted Sums	262,812		47,500	-61,100	249,212			-61,100	1,204,582				1,204,582					1,204,582	
Other Commuted Sums	534,682		712,900	-43,000	1,204,582				5,547				5,547					0	
Planning Delivery Grant	174,847			-106,000	68,847			-63,300	2,000				2,000					2,000	
Priv.Hsg-Rental Deposit Guarantee	2,000			-175,500	21,400				21,400				21,400					21,400	
Project Implementation	196,900			-150,900	172,241		119,000	-111,000	180,241		119,000		240,241		-59,000			300,241	
Renewals (all services)	268,641		54,500	-890,000	773,800				773,800				773,800					773,800	
Restructuring	943,100		720,700	-890,000	773,800		10,000		16,683		10,000		26,683					36,683	
Risk Management	40,983		1,723,000	-2,237,056	4,228,510		371,300	-823,600	3,776,210		375,900		3,743,563		-408,547			3,974,963	
<b>TOTAL</b>	<b>4,742,566</b>	<b>1,400,071</b>	<b>1,723,000</b>	<b>-2,237,056</b>	<b>4,228,510</b>	<b>1,000,000</b>	<b>371,300</b>	<b>-823,600</b>	<b>3,776,210</b>	<b>1,000,000</b>	<b>375,900</b>	<b>1,000,000</b>	<b>3,743,563</b>	<b>1,000,000</b>	<b>-408,547</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>3,974,963</b>	
General Fund Unallocated Reserve				-400,071	1,000,000				1,000,000				1,000,000					1,000,000	

**Council Tax Collection Fund Surplus  
as at 15 January 2010**

<b><u>Bad Debts Provision Summary</u></b>		<b>£'000</b>
Bad Debts Provision balances :	Previous 14 Years	1,507
	2007/08	411
	2008/09	447
	2009/10	369
	TOTAL	2,734
Increase due to reassessment of arrears		112
<b>Required Bad Debt Provision</b>		<b>2,846</b>

<b><u>Collection Fund Balance Summary</u></b>		<b>£'000</b>
Actual Deficit as at 1st April 2009		69
Movement to 31st December 2009		(332)
Surplus as at 31st December 2009		(263)
Reassessment of Bad Debts Provision (see above)		112
<b>Total Balance for Distribution</b>		<b>(151)</b>

	<b>Proportion of Estimated Balance</b>	<b>Total Distribution</b>	<b>Rounded Distribution</b>
<b>Shared Between :</b>	<b>£</b>	<b>£</b>	<b>£</b>
Lancaster City Council	8,005,060	(18,677.49)	(19,000.00)
Lancashire County Council	47,878,509	(111,710.63)	(112,000.00)
Lancashire Police Authority	6,138,015	(14,321.28)	(14,000.00)
Fire Authority Precepts	2,696,112	(6,290.60)	(6,000.00)
	64,717,696	<b>(151,000.00)</b>	<b>(151,000.00)</b>
		<b>(151,000.00)</b>	<b>(151,000.00)</b>

## APPENDIX D

## Future Years' Budgets, Provisional Settlements and associated Council Tax Rates

For Consideration by Cabinet 16 February 2010

	2009/10 Budget £000	2010/11 Estimate £000	2011/12 Projection £000	2012/13 Projection £000
Original Revenue Budget Projection (Per Budget Council 04 March 2009)	23,999	25,765	26,685	0
<b>Latest Projection February 2010</b>	<b>24,046</b>	<b>24,906</b>	<b>26,183</b>	<b>26,583</b>
<b>Base Budget Amendments :</b>				
Cabinet 19 January 2010 (Referral back from Overview & Scrutiny)			-147	-151
Other Base Budget Adjustments and Changes			-16	-20
<b>Current Net Revenue Budget</b>	<b>24,046</b>	<b>24,906</b>	<b>26,019</b>	<b>26,413</b>
<b>Proposed Savings &amp; Growth :</b>				
Savings		-535	-746	-786
Growth		+361	+52	+52
<b>Assumed Contribution to(+)/ from (-) Balances</b>	<b>-47</b>	<b>+9</b>		
<b>Resulting Net Revenue Budget</b>	<b>23,999</b>	<b>24,740</b>	<b>25,324</b>	<b>25,678</b>
<b>Provisional Government Support</b>	15,994	16,377	15,886	15,409
Collection Fund Deficit / (-) Surplus	+0	-19	+0	+0
<b>Amount met by Council Tax</b>	<b>8,005</b>	<b>8,344</b>	<b>9,438</b>	<b>10,269</b>

Latest Tax Base Estimates	43,200	43,400	43,450	43,500
---------------------------	--------	--------	--------	--------

## COUNCIL TAX IMPLICATIONS :

## A : Excluding Proposed Savings &amp; Growth

	2009/10	2010/11	2011/12	2012/13
Band D Basic Council Tax (across district)	£185.31	£196.07	£233.21	£252.95
Percentage Increase Year on Year	4.0%	5.81%	18.94%	8.46%

## B : Including Proposed Savings &amp; Growth

	2009/10	2010/11	2011/12	2012/13
Band D Basic Council Tax (across district)	£185.31	£192.25	£217.22	£236.07
Percentage Increase Year on Year	4.0%	3.75%	12.99%	8.68%

## As Compared with:

Original Projections	£217.06	£230.49
	17.1%	6.2%
MTFS Original Targets	£192.72	£200.43
	4.0%	4.0%

<b>Target Year on Year Basic Council Tax Increase</b>	In % terms	3.75%	4.0%	4.0%
	In £ terms (Band D)	£6.94	£7.69	£8.00
<b>Target Basic City Council Tax Rate across the District</b>		£192.25	£199.94	£207.94
<b>Budget assumptions to achieve these targets:</b>	£'000	£'000	£'000	
Current Revenue Budget Projection ('B' from above table, after savings & growth)	24,740	25,324	25,678	
Net Savings Requirement (-)	0	-751	-1,223	
<b>Target Revenue Budget Requirement</b>	<b>24,740</b>	<b>24,573</b>	<b>24,455</b>	



Page 40  
**SUMMARY BUDGET POSITION**  
**(INCLUDING PROVISIONAL SAVINGS & GROWTH)**  
For Consideration by Cabinet 16 February 2010

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
<b>Original Revenue Budget Projection (Per Budget Council 04 March 2009)</b>	<b>23,999.0</b>	<b>25,765.0</b>	<b>26,685.0</b>	<b>0.0</b>
<b>BUDGET PROJECTIONS AS AT FEBRUARY 2010</b>	<b>23,999.0</b>	<b>24,906.2</b>	<b>26,182.6</b>	<b>26,583.1</b>
<b>Cabinet 19 January 2010 :</b> Community Pools (Terminate agreement with County Council) - Referred back from O&S	-	-	-147.4	-150.5
<b>OTHER BASE BUDGET ADJUSTMENTS &amp; CHANGES :</b> Other Base Budget Changes	-	+44.6	+29.7	+27.3
Museums Service (Cabinet 19 Jan 2010 - Terminate agreement with County Council)	-	-	-	tbw
Future Provision of Toilets (Cabinet 10 Nov 2009 - approved closures, subject to any transfers)	-	-45.0	-46.0	-47.0
<b>BASE BUDGET PROJECTIONS</b>	<b>23,999.0</b>	<b>24,905.8</b>	<b>26,018.9</b>	<b>26,412.9</b>
<b>TARGET REVENUE BUDGET (for a 3.75% increase in basic Council Tax for 2010/11, and 4% for subsequent years)</b>		<b>24,740.0</b>	<b>24,573.0</b>	<b>24,455.0</b>
<b>SAVINGS REQUIREMENT</b>		<b>-165.8</b>	<b>-1,445.9</b>	<b>-1,957.9</b>
Provisional Savings (see schedule below)		-535.3	-746.2	-786.1
Provisional Growth (see schedule below)		+360.6	+51.5	+51.9
<b>Net Total</b>		<b>-174.7</b>	<b>-694.7</b>	<b>-734.2</b>
<b>ASSUMED CONTRIBUTION TO GENERAL FUND BALANCES</b>		<b>+8.9</b>	-	-
<b>REMAINING SAVINGS REQUIREMENT</b>		<b>0</b>	<b>751.2</b>	<b>1,223.7</b>

**BUDGET PROPOSALS TO DATE :**

PROVISIONAL SAVINGS / LINKS TO EFFICIENCY & SAVINGS STRATEGY	SERVICE	NOTES	-535.3	-746.2	-786.1
<b>Commissioning &amp; Procurement</b>					
Future Provision of Toilets (Subject to capital growth)	CC(D)S	Cabinet 10 Nov 09	-	-5.0	-21.0
Morecambe Meteorological Station	Regeneration & Policy	Cabinet 16 Feb 10	-1.5	-1.5	-1.5
Procurement savings - agency staffing	Corporate	Operational	-20.0	-20.4	-20.8
Procurement savings - printing and stationery	Corporate	Operational	-10.0	-10.2	-10.4
Customer Services - Customer Insight / Office Equipment	Community Engagement	Operational	-6.5	-6.6	-6.7
IT - Telephone / Printing and copying equipment	IS	Operational	-24.0	-34.0	-34.7
Software / Banking Savings	Financial Services	Operational	-30.5	-31.1	-31.7
<b>Charging for Services</b>					
Revenues Recovery of Legal Costs	Revenue Services	Operational	-127.7	-130.2	-132.8
<b>Business Process Re-engineering</b>					
Co-Mingling for recycling	CC(D)S	Operational	-245.1	-403.9	-423.1
Staffing savings from minor restructure	Financial Services	Operational	-2.5	-2.6	-2.7
Increased use of BACS (withdrawal of cheque payments)	Financial Services	Operational	-6.0	-9.2	-9.4
<b>Partnership Working</b>					
Revenues and Benefits Management Services	Revenue Services	Cabinet 16 Feb 10	-61.5	-91.5	-91.3

PROVISIONAL GROWTH / LINKS TO CORPORATE PRIORITIES	SERVICE	NOTES	+360.6	+51.5	+51.9
<b>Economic Regeneration</b>					
Countryside Projects	Regeneration & Policy	Cabinet 16 Feb 10	+3.2	+3.3	+3.4
Arnsdale / Silverdale AONB	Regeneration & Policy	Cabinet 16 Feb 10	+2.7	+2.8	+2.9
Forest of Bowland AONB	Regeneration & Policy	Cabinet 16 Feb 10	+0.8	+0.8	+0.8
Chatsworth Gardens	Regeneration & Policy	Cabinet 19 Jan 10	+60.0	-	-
Morecambe Area Action Plan	Regeneration & Policy	-	+155.0	-	-
Roman Bath House & Vicarage Field	Property Services	Cabinet 19 Jan 10	+17.7	+2.0	+2.0
<b>Partnership Working</b>					
Allotments	Community Engagement	Cabinet 06 Oct 09	+8.0	+8.0	+8.0
Fairfield Association Urban Nature Area (Minimum cost shown)	Property Services	Cabinet 08 Dec 09	+2.0	+2.0	+2.0
<b>Statutory Services</b>					
Refuse Collection vehicle tracking system	CC(D)S	Revenue Cost	+19.6	+12.6	+12.8
Refuse Collection vehicle tracking system	CC(D)S	DRF re Capital	+91.6	-	-
Climate Change Initiatives	Community Engagement	Cabinet 10 Nov 09	-	+20.0	+20.0

<b>PROPOSALS TO BE TAKEN FORWARD DURING 2010/11 (for future years)</b>					
SAVINGS :	SERVICE				
<b>Business Process Re-engineering</b>					
Senior Management Restructure : Net Savings	Corporate	Cabinet 16 Feb 10	-	?	?
Review of Payroll Administration following Fair Pay	Corporate		-	?	?
Review of Car Allowances	Corporate		-	?	?
Information Services Restructure	Information Services		-	?	?
<b>GROWTH :</b>					
<b>Statutory Services</b>					
Municipal Buildings Repairs / Facilities Management	Property Services	Cabinet 19 Jan 10	-	?	?

**Potential Additional Savings Needed for Various Council Tax &  
Government Support Scenarios  
For Consideration by Cabinet 16 February 2010**

**Note :** The Savings Requirements shown below are after currently identified Savings and Growth proposals.

		<b>2011/12</b>						
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Council Tax Increase for 2011/12 ⇨</b>		<b>0%</b>	<b>+1%</b>	<b>+2%</b>	<b>+2.5%</b>	<b>+3%</b>	<b>+3.75%</b>	<b>+4%</b>
	2010/11 Increase ↓							
<b>Savings Requirement</b>	<b>3.75%</b>	<b>1,085</b>	<b>1,002</b>	<b>918</b>	<b>876</b>	<b>835</b>	<b>772</b>	<b>751</b>
<b>Change in Government Support</b>		<b>-6.0%</b>	<b>-4.5%</b>	<b>-3.0%</b>	<b>-2.0%</b>	<b>-1.5%</b>	<b>-1.0%</b>	<b>0.0%</b>
<b>Additonal or (Reduced) Savings Requirement</b>		<b>491</b>	<b>246</b>	<b>0</b>	<b>(164)</b>	<b>(246)</b>	<b>(328)</b>	<b>(491)</b>
<i>Current projections based on a reduction of 3%</i>								

		<b>2012/13</b>						
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Council Tax Increase for 2011/12 &amp; 2012/13 ⇨</b>		<b>0%</b>	<b>+1%</b>	<b>+2%</b>	<b>+2.5%</b>	<b>+3%</b>	<b>+3.75%</b>	<b>+4%</b>
	2010/11 Increase ↓							
<b>Savings Requirement</b>	<b>3.75%</b>	<b>1,905</b>	<b>1,737</b>	<b>1,568</b>	<b>1,482</b>	<b>1,396</b>	<b>1,263</b>	<b>1,223</b>
<b>Change in Government Support</b>		<b>-6.0%</b>	<b>-4.5%</b>	<b>-3.0%</b>	<b>-2.0%</b>	<b>-1.5%</b>	<b>-1.0%</b>	<b>0.0%</b>
<b>Additonal or (Reduced) Savings Requirement</b>		<b>447</b>	<b>226</b>	<b>0</b>	<b>(159)</b>	<b>(238)</b>	<b>(318)</b>	<b>(477)</b>
<i>Current projections based on a reduction of 3%</i>								

**Best case scenario from above:**

Council Tax increase of 3.75% for 2010/11 then 4% per year, and no reduction in Government Support per year resulting in a savings requirement over the 3 year period of **£515K** (cumulative total value, not each year).

**Current Assumed Scenario :**

Council Tax increase of 3.75% for 2010/11 and then 4% per year, and Government Support reduced by 3% per year resulting in a savings requirement over the 3 year period of **£1.974M**.

**Worst case scenario from above:**

0% increase in Council Tax per year and Government Support reduced by 6% per year resulting in a savings requirement over the 3 year period of **£4.420M**.



## MEDIUM TERM FINANCIAL STRATEGY 2010/11 TO 2012/13



### Key Extracts for Consideration by Cabinet

16 February 2010

#### 1 KEY FINANCIAL REVENUE TARGETS

The Strategy provides a framework for matching resources to spending priorities, translating this into realistic expectations for future Council Tax levels. Lancaster City Council believes that tax increases should allow for a balance between spending aspirations and best value for local taxpayers. In deciding on the level of Council Tax, the Council should also have regard to

- anticipated level of pay awards,
- the level and measure of inflation,
- the level of Government funding,
- Government's *targets* for the overall rise in Council Tax,
- Government's *targets* for efficiency savings,
- the ability to meet statutory minimum requirements.

The Council will aim to set an upper limit of a [current policy] 4.0% Council Tax increase for 2011/12 and 2012/13. Given the existing capping criteria, this limit applies to the basic City Council Tax Rate across the district, excluding parish precepts.

As a consequence, the table below sets out the key financial targets that the Council will strive to work within for the next three years.

	2010/11	2011/12	2012/13
Target Council Tax Increase	3.75%	4.0%	4.0%
Target Year on Year Net Savings Requirement	-	£751,000	£472,000
Target Cumulative Net Savings Requirement	-	£751,000	£1,223,000

#### 2 CAPITAL INVESTMENT STRATEGY - FUNDING

##### 2.1 FUNDING FORECASTS AND ASSUMPTIONS

To support affordable, sustainable and prudent capital investment, the Council's approach to planning and forecasting its future capital resources is outlined below. Whilst the Strategy covers all capital investment irrespective of how it is financed, many sources of external funding (mainly through grants and contributions) are tied in with delivering specific schemes; decisions on whether these should be progressed will be based on the options appraisal and prioritisation processes outlined later. With this in mind, at this stage this section focuses on the availability of the Council's resources through borrowing, revenue financing or capital receipts.

##### 2.2 UNDERLYING BORROWING REQUIREMENT TO SUPPORT CAPITAL INVESTMENT

There is no *supported* underlying borrowing requirement assumed for the five-year period.

Assumptions underpinning the Council's **unsupported** underlying borrowing requirement are outlined below:

- i. Taking into account the latest revenue budget and council tax projections set out later in this Strategy, and the Council's likely investment needs arising from the condition of its asset base and from progressing its corporate and service priorities, the General Fund capital programme provides for a **£1.2M** reduction in the underlying requirement for unsupported borrowing from 2010/11 onwards.
- ii. As in previous years, the practice will continue by which the Head of Finance will, under delegated authority, assess the most appropriate means of financing for the purchase of new vehicles and equipment. Unsupported borrowing will be selected if this offers a more cost effective solution than leasing, with the Capital Programme being updated as necessary.
- iii. Further prudential unsupported borrowing may be considered, but only in context of either:
  - Providing funding to meet any additional costs arising in connection with liabilities arising for the Luneside East scheme. Cabinet approval would be required before this facility could be called on;
  - Providing cover for any losses associated with Icelandic investments, should there be any increases to the capitalisation directive granted by Government.
  - Providing interim funding for any emergency building works, prior to other sources of funding (e.g. capital receipts) becoming available;
  - Robust, achievable revenue savings being identified or income being generated to at least offset the ongoing (whole life) costs associated with individual schemes, and / or borrowing being required to support the cashflow position of major schemes spanning financial years. This would require further specific Cabinet / Council approval as required.
  - No underlying borrowing requirement is assumed for council housing investment but this will need to be reviewed in light of the outcome of the housing funding review.
  - Whether or not any of these underlying borrowing needs will give rise to actual additional long-term borrowing or, alternatively, be financed by utilising the Council's cash balances, is a decision that will be made within the framework of the Council's Treasury Management Strategy.

## 2.3 REVENUE FINANCING OF CAPITAL SCHEMES

Assumptions regarding direct revenue financing (DRF) are as follows:

- Substantial general budgetary provision for direct revenue financing will be made within the Housing Revenue Account (HRA) for council housing purposes, in line with existing budget forecasts. No such general provision will be built into the General Fund revenue budget, though revenue financing related to specific schemes may be considered in appropriate circumstances, e.g. invest to save schemes (and the vehicle system bid).
- Revenue financing from reserves will be based on existing earmarked reserve levels (or projections), as long as capital investment proposals match with the approved use of those reserves.

## 2.4 CAPITAL RECEIPTS FORECASTS

Over the next five years, from 01 April 2010, general capital receipts totalling £10.1M are anticipated, of which approximately £9.6M relates to General Fund property disposals with the remainder relating to Council housing. The assumptions regarding their use are set out below:

- Any council housing capital receipts will be used to support capital investment in council housing stock and supporting assets, and related environmental improvements.
- For General Fund, all of the £9.6M capital receipts will be used over the period to support capital investment generally. Capital receipts will not normally be ring-fenced into reinvestment into particular areas, as this can undermine the prioritisation of investment needs, but there are exceptions to this:
  - o Capital receipts arising from the West End Masterplan implementation will be ring-fenced to the further development of projects identified in the Masterplan itself, subject to appropriate Cabinet approval.
- The application of any additional General Fund capital receipts arising (i.e. apparently exceeding the target referred to above and not covered by the specific ring-fencing arrangements outlined) will be considered in context of the likelihood of meeting the overall target. They will not automatically be used to support new spending or commitments. For Council Housing, any additional capital receipts may be used to support the 30-year business plan.

### 3 CAPITAL INVESTMENT PRIORITIES

In line with the Council's core values, priorities and associated targets, capital investment for the period to 2015 will be focused into delivering the Council's medium term priorities and objectives as set out earlier. In determining priorities where funding is limited, then preference will be given to those schemes that contribute to delivering the agreed high priorities for capital investment, as set out below:

- Delivering the Council's Economic Vision as set out in the Economic Regeneration Strategy
- Delivering improvements for Cleaner Streets and the Public Realm
- Completion of the phased implementation of the Recycling and Waste Management Strategy
- Delivering schemes that support the Council's Climate Change agenda
- Developing further the district's Cycling Infrastructure
- Delivering the City Council's obligations in the Sustainable Community Strategy, Community Safety Partnership, and the county wide Lancashire Local Area Agreement.
- Progressing the priorities within the Council's agreed Housing Strategy and in particular, in meeting the 'Lancaster' Standard in the provision of Council Housing, in line with the 30-Year Business Plan.
- Refurbishment/ replacement of existing property or facilities required to deliver existing service levels, or to achieve key performance targets as set out in the Corporate Plan or Corporate Property Strategy, or to meet other legislative requirements.
- New (or the expansion of existing) facilities, where they link clearly with the draft Corporate Plan and they are either :
  - at least self financing (both in revenue and capital terms) or

- invest to save proposals that require some up front capital investment but would generate cashable (and where possible, non-cashable) ongoing revenue savings. As a general guide, payback should be achievable in the medium term, up to 5 years, but longer payback periods may be considered should circumstances warrant it.

#### 4 KEY STRATEGIC AND FINANCIAL RISKS

**The following sections set out key recognised strategic risks, and those financial risks which could significantly impact the council's ability to achieve its plans and strategies.**

##### **A. Strategic risks:**

###### **Priority Setting**

Cabinet's consideration and effective management of key strategic risks is fundamental to ensuring that the chosen priorities and non-priorities represent the best way forward to meet the needs and wants of the district, as well as fulfilling the council's key legal obligations. *(Mitigation: robust consideration of risks by Cabinet; clear training, guidance and advice provided by officers, consultation)*

###### **Financial Planning**

Robust financial projections through the MTFS are necessary to support service delivery objectives and to meet Council Tax targets, resulting in inefficient use of resources, overspending, staffing and service cuts, and reputational damage. The main threats to the MTFS (and associated mitigation actions) are covered in section B, setting out the key financial risks.

###### **Corporate Capacity**

If the council is to deliver its priorities and fulfil its ambitions, it must seek to develop the skills and capacity of both its officers and elected members, ensuring that adequate resources are in place. *(Mitigation: continuation and development of the member training programme; workforce planning implementation of management and service restructuring; development and implementation of a robust workforce planning strategy).*

###### **Service Delivery**

Poor quality service delivery by both the council and its partners could damage the council's reputation and morale. It could also impact relationships with central government and the results of external assessments of the council's performance, e.g. CAA and Use of Resources. *(Mitigation: comprehensive and robust public consultation on priorities; ensuring performance management framework remains effective)*

###### **Partnership Working**

Ineffective partnering arrangements could result in failure to deliver planned outcomes, as well as abortive time and financial input. *(Mitigation: continuation of programme of partnership evaluation; introduction of a code of practice for working in partnership; robust pre-evaluation of any new/proposed partnering arrangements)*

###### **Fair Pay**

Failure to effectively implement the Fair Pay project could result in employee dissatisfaction, service disruption, increased costs, loss of key staff and compensation claims. Note that Fair Pay also features as a significant financial risk. *(Mitigation: continued management by Fair Pay Project Board; active liaison with trade unions and communication with staff)*

###### **Equality Standard**

Failure to achieve the Equality Standard could result in lost opportunities for the Council, particularly around community engagement and leadership. It could also adversely affect the council's standing through the CAA regime and its Use of Resources score. *(Mitigation: provision of awareness training for elected members; assistance from NWEQ in planning for the new Equality Standards Framework)*

###### **Civil Contingencies and Business Continuity**

The council must remain able to respond efficiently and effectively to threats, both to the local community and to the council's own operations. Such threats might include fuel shortages, flu pandemic or a major incident, e.g.

gas explosion, terrorist incident or flooding. *(Mitigation: scheduled testing of emergency plans and business continuity plans)*

## **B. Financial risks:**

### ***Luneside East***

Keys risks relate to the outcome of the lands tribunal and associated legal costs, and potential clawback of funding should the project not progress to deliver its economic outputs. Should the project progress, however, there is the opportunity to receive a developer contribution on site transfer. *(Mitigation: defence at tribunal, seeking funding to advance project, use of earmarked reserve)*

### ***Other Regeneration (including support etc)***

Other regeneration projects have been affected by economic factors. Those still in various stages of development may have financial risks attached to their contractual position to date. As a wider issue, there are affordability risks attached to the Council's regeneration strategy. There are also risks attached to project and programme support, including those associated with abortive works and plans. *(Mitigation: covered through specific project & programme management arrangements regarding feasibility, seeking funding, establishing core staffing support, etc)*

### ***Municipal Buildings***

Essential works are being progressed to protect the Council's interests, but this may lead to additional financing costs. Price increases are being experienced on the municipal building works programme and there will be a need to increase the budgets over the coming years to reflect these. At present, the broad assumption is that most works will fall as capital but this has not been fully tested as yet. There is therefore the risk that budgets are inappropriate. *(Mitigation: capital investment strategy provisions, incorporating appraisal of revenue v capital, earmarked reserves)*

### ***Funding of Capital Programme***

Should the latest capital receipts schedule not be achievable, this would prevent some capital investment from happening, but ensuring that funding is in place for essential works would add more pressure on revenue and cause affordability and financial sustainability risks. *(Mitigation: capital investment strategy provisions, ongoing review and monitoring, options appraisal through budget process).*

### ***Decision-making***

There is the risk that the Council fails to reach agreement in order to deliver a balanced, robust and deliverable budget for future years. *(Mitigation: through budget process, learning from previous years, not being over-ambitious in terms of balancing service provision against Council Tax levels, and delivering change)*

### ***Icelandic Investments (and investment losses generally)***

The prospects for successful recovery action and affordability risks are influenced by creditor status for two of the investments made. Priority status has been accepted by one Winding Up Board and rejected by the other. Legal advice remains however that investment 'deposits' such as that made by the City Council should be treated as priority and as such the latter decision is being challenged. Risks remain throughout the banking sector generally. *(Mitigation: adverse decisions challenged through Icelandic courts, ongoing work through LGA, capitalisation directive, updated investment strategy & future review)*

### ***Government Support (future years)***

The level of support for assumed for future years could be better or worse than projected. Current projections assume a year on year reduction of 3% after 2010/11. *(Mitigation: scenario planning, future budget processes and monitoring / review.)*

### ***Other Economic Factors and Prospects generally***

As well as affecting future levels of government support, economic factors will affect the Council's finances through other funding streams, inflation, interest rates and pay settlements, as well as demand for services. *(Mitigation through monitoring and future budget processes)*

### ***Council Tax Capping***

In recent times the Government has demonstrated a firm commitment to capping, and whilst the forthcoming General Election makes future arrangements less certain, pressure to keep tax increases low is expected to remain. *(Mitigation: setting of targets for future years, review any national capping actions etc. for 2010/11)*

### **Concessionary Travel**

Costs for current scheme are uncertain, as reimbursement rates to bus operators are not yet agreed with bus operators, and usage of scheme can fluctuate. Responsibilities for the scheme from 2011/12 onwards are not yet clear; any transfer away from the Council could create new financial pressures (or could improve position, but this did not feature in modelling undertaken). County-wide pooling is also under review. *(Mitigation: countywide approach with consultancy support regarding reimbursement rates, countywide liaison and review regarding pooling, future arrangements, earmarked reserves)*

### **Fairpay & Equal pay**

The financial implications of the proposed pay and grading structure have been recognised as unsustainable in the medium and longer term. Furthermore, the impact of elements such as market supplements and the outcome of stage 2 appeals is not yet determined. *(Mitigation: supporting HR policies, use of earmarked reserves and provision, commitment to review and amend the grading structure within 2 years of implementation)*

### **Change Management & Investing to Save (e.g. Restructuring Reserves)**

There are a number of major restructures currently just implemented or being progressed that will incur one-off termination costs. As these restructures affect senior officer posts these costs will be significant. Whilst there are sufficient funds identified to facilitate current outline plans, further development is needed. There is the general risk that the Council could have insufficient funds available to enable other future change or to invest to save. There are also financial risks attached to the process of change, and maintaining sufficient capacity to ensure sound financial management and planning etc. *(Mitigation: through budget process, reserves, and change management arrangements)*

### **Pensions Costs**

The current triennial review period comes to an end on 31 March 2011; thereafter at present it has been assumed that pension rates will increase by 2%. However, the impact of demographics and the current recession on pension fund investments is unknown at this stage. Also, it is expected that further national proposals regarding the Pension Scheme will come through at some point. *(Mitigation: liaison with Pensions authority, ongoing monitoring and review)*

### **HRA review (for General Fund)**

The Government has recently consulted on plans to abolish the housing subsidy mechanism and replace it with a form of redistributed housing debt. Whilst the Housing Revenue Account would still remain, it is unclear how these proposals will impact on the General Fund, in particular in relation to Treasury Management and other cost allocations. The outcome of the consultation process is expected soon. *(Mitigation: monitoring, review and appraisal of future developments)*

### **VAT**

The VAT recovery claim (estimated in the region of £400K) is still to be settled by HMRC. In addition, the Council's VAT exempt income is currently being reviewed and initial indications show that the level of exempt supplies is close to the 5% de minimis limit. Should the limit be breached then the council could face repaying £130K of VAT. No assumptions have been made within the current budget projections and the review is ongoing. *(Mitigation: monitoring and review)*

### **Changes in Accounting Requirements**

Adoption of International Financial Reporting Standards (IFRS) could give rise to changes in accounting treatment of certain transactions, such as leases, and creates additional workload requirements on some services, which may add pressure to the revenue budget. The extent of risk is dependent on the dispensations applicable to local authorities, influenced by professional bodies and Government etc. *(Mitigation: project management arrangements and monitoring and review, linked to budget process)*

### **Other Risk Areas**

As well as the above points, there are many other issues that may present financial risks or opportunities to the Council, that have been reported to Members and are under further consideration. Where significant these will be highlighted in future monitoring reports.





**General Fund Gross Capital Programme  
For consideration by Cabinet 16 February 2010**

Service / Scheme	2009/10 Total	2010/11 to 2014/15					5 year Total
		2010/11	2011/12	2012/13	2013/14	2014/15	
	£	£	£	£	£	£	
<b>City Council (Direct) Services</b>							
Refuse Vehicle Tracking System bid	0	91,600					91,600
Neighbourhood Quick Response Vehicles	73,000						0
District Playground Improvements	0	60,000	60,000				120,000
Other Toilet Works bid	0	100,000	90,000	90,000	60,000	90,000	430,000
Marketgate Toilet Refurbishment	45,000						0
Fairfield Allotments Extension	23,000						0
Allotment Improvements bid	0	16,000	16,000	16,000	16,000	16,000	80,000
<b>Community Engagement</b>							
Energy Efficiency Schemes bid	29,000	20,000	20,000				60,000
The Dome (Demolition)	20,000	120,000					120,000
The Platform Improvements (Subject to business case)	0	108,000					108,000
Happy Mount Park Natural Adventure	112,000						0
Williamson Park Developments	0	75,000					75,000
Salt Ayre Athletics Track Security Fencing	0	20,000					20,000
Salt Ayre Reception Refurbishment	0	40,000					40,000
Salt Ayre Synthetic pitch bid	0	25,000					25,000
Salt Ayre Reflexions changing rooms bid	0	30,000					30,000
Salt Ayre Replacement of pool filters bid	0	18,000					18,000
Lancaster Hub TIC Refurbishment	12,000						0
Storey Institute Centre for Industries	15,000						0
Lancaster Science Park (Subject to Cabinet report)	2,167,000	7,854,000	7,219,000				15,073,000
Port of Heysham Site 4 Access Improvements	5,000						0
Port of Heysham Sites 1&4 (Payment of Clawback)	0	328,000					328,000
<b>Health and Strategic Housing</b>							
YMCA Places of Change	1,496,000						0
Business Continuity Fall Back Facilities - Salt Ayre	25,000						0
Disabled Facilities Grants	1,089,000						0
RHP funded schemes (subject to final allocations and Member approval)	0	1,482,000					1,482,000
District Wide Home Assistance	49,000						0
Poulton Public Realm-Edward St, Union St, Church Walk	40,000						0
Bold Street Renovation Scheme	596,000						0
Clarendon Road Car Park	1,000						0
Clarendon/West End Rd Rear Yard Wall	25,000						0
Marlborough Road Demolition	17,000						0
Marlborough Road Redevelopment	95,000						0
West End Flats-Adactus Post Completion Payment	34,000						0
Primrose Street Group Repairs/Renovation	25,000						0
Euston Road Group Repairs	10,000						0
<b>Information Services</b>							
I.T. Infrastructure	0	26,000	10,000		35,000		71,000
I.T. Application Systems Renewal	34,000	416,000			230,000		646,000
I.T. Desktop Equipment	15,000	65,000	70,000	70,000	70,000	70,000	345,000
<b>Regeneration &amp; Policy</b>							
Cycling England	701,000	423,000					423,000
Artle Beck Improvements (Flood Defences)	55,000	150,000					150,000
Christmas Lights Renewals	0	31,000					31,000
Strategic Monitoring (River & Sea Defences)	100,000	110,000	110,000	110,000	110,000		550,000
Denny Beck Bridge Improvements	0	139,000					139,000
Mill Head Warton (Flood Defences)	453,000						0
Wave Reflection Wall Refurbishment (Subj. to Env. Agency approval)	22,000	500,000	500,000	500,000	500,000		2,000,000
Slynedale Culvert project	47,000						0
Morecambe Promenade Frontage	0	40,000					40,000
Luneside East - Land Acquisition & Associated Fees	130,000	255,000					255,000
Luneside East Compensation Claims	487,000	272,000					272,000
Morecambe Townscape Heritage Initiative (THI)	292,000						0
Poulton Pedestrian Route	0	160,000					160,000
Public Realm Works	21,000						0
<b>Property Services</b>							
Car Park Improvement Programme	0		50,000				50,000
Customer Service Centres	16,000						0
Fire Safety Works	76,000						0
Other Corporate and Municipal Building Works	543,000	2,639,000	2,138,000	801,000			5,578,000
Carnforth CCTV	0	50,000					50,000
St Leonards House Electrics	105,000						0
Festival Market Electrical Works	19,000						0
67-71 Market Street Works	130,000						0
Ashton Hall Ceiling Restoration	90,000						0
Old Fire Station Renovation Works	47,000						0
<b>Financial Services</b>							
Icelandic bank impairment capitalisation	2,047,000						0
<b>GENERAL FUND CAPITAL PROGRAMME</b>	<b>11,433,000</b>	<b>15,663,600</b>	<b>10,283,000</b>	<b>1,607,000</b>	<b>1,021,000</b>	<b>286,000</b>	<b>28,860,600</b>
<b>Financing :</b>							
Grants and Contributions	7,473,000	10,650,000	7,811,000	592,000	592,000	102,000	19,747,000
Usable Capital Receipts	1,765,000	1,753,000	6,636,000	872,000	233,000	64,000	9,558,000
Revenue Financing	353,000	419,600	70,000	50,000			539,600
<b>Sub-total</b>	<b>9,591,000</b>	<b>12,822,600</b>	<b>14,517,000</b>	<b>1,514,000</b>	<b>825,000</b>	<b>166,000</b>	<b>29,844,600</b>
Increase in CFR (Underlying Increase in Borrowing Need)	1,842,000	2,841,000	-4,234,000	93,000	104,000		-1,196,000
<b>TOTAL FINANCING</b>	<b>11,433,000</b>	<b>15,663,600</b>	<b>10,283,000</b>	<b>1,607,000</b>	<b>929,000</b>	<b>166,000</b>	<b>28,648,600</b>
<b>Shortfall / Surplus (-)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>92,000</b>	<b>120,000</b>	
<b>Cumulative Shortfall / Surplus (-)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>92,000</b>	<b>212,000</b>	
<b>Capital Receipts Summary</b>							
	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Total
	£	£	£	£	£	£	£
Balance Brought Forwards:	809	0	59	977	169	0	
Receipts Due In Year:	956	1,812	7,554	64	64	64	9,558
In Year Capital Programme Financing:	-1,785	-1,753	-6,636	-872	-233	-64	-9,558
<b>Balance Carried Forwards :</b>	<b>0</b>	<b>59</b>	<b>977</b>	<b>169</b>	<b>0</b>	<b>0</b>	

Bids for additional funding or new schemes have been highlighted.

## APPENDIX I

## PRUDENTIAL INDICATORS - LANCASTER CITY COUNCIL

For consideration by Cabinet 16th February 2010

		2010/11 £'000	2011/12 £'000	2012/13 £'000	
<b>AFFORDABILITY</b>					
<b>PI 1:</b>	Estimates of ratio of financing costs to net revenue stream	Non - HRA HRA Overall	12.1% 8.1% 10.8%	11.5% 8.1% 10.3%	10.0% 7.8% 9.2%
<b>PI 2:</b>	Actual ratio of financing cost to net revenue stream	Reported after each financial year end			
<b>PI 3:</b>	Estimates of the incremental impact of new Capital Investment decisions on the Council Tax	3.48%	-1.27%	-1.82%	
	This includes the impact of all elements of funding, including any increase in the need to borrow, required to finance new schemes added to the Capital Programme	£6.69	£-2.55	£-3.78	
<b>PI 3A:</b>	Illustrative Impact of Additional Borrowing £1 million	Repayment Period			
		<b>5 Years</b>	<b>10 Years</b>	<b>25 Years</b>	
	Increase in Council Tax (£)	£4.90	£2.73	£1.54	
	Increase in Council Tax (%)	2.54%	1.41%	0.80%	
<b>PI 4:</b>	Estimates of the incremental impact of Capital Investment on Housing Rents	Nil	Nil	Nil	
<b>CAPITAL EXPENDITURE</b>					
<b>PI 5:</b>	Estimates of capital expenditure	Non - HRA HRA Total	15,664 3,685 19,349	10,283 3,586 13,869	1,607 3,589 5,196
<b>PI 6:</b>	Actual capital expenditure	Reported after each financial year end			
<b>PI 7:</b>	Estimates of Capital Financing Requirement	Non - HRA HRA* Total	32,090 15,303 47,393	26,419 15,303 41,722	25,436 15,303 40,739
*This does not take into account the potential extra borrowing that may be incurred through reforms to the Housing Revenue Account Subsidy system.					
<b>PI 8:</b>	Actual Capital Financing Requirement	Reported after each financial year end			
<b>EXTERNAL DEBT</b>					
<b>PI 9:</b>	Authorised Limit				
	Authorised Limit for Borrowing	52,820	48,520	48,630	
	Authorised Limit for Other Long Term Liabilities	280	280	270	
	Authorised Limit for External Debt	53,100	48,800	48,900	
<b>PI 10:</b>	External Debt: Operational Boundary	48,100	43,800	43,900	
<b>PI 11:</b>	Actual external debt	Reported after each financial year end			
<b>PRUDENCE</b>					
<b>PI 12:</b>	Treasury Management: adoption of CIPFA code of Practice	The Council has adopted the updated Treasury Management code of practice (November 2009).			
<b>PI 13:</b>	Net borrowing and the capital financing requirement				
	Anticipated indebtedness (Authorised limit)	48,100	43,800	43,900	
	Anticipated average investment	10,240	11,060	11,910	
	CFR	47,393	41,722	40,739	
	(Under)/over borrowed	-9,533	-8,982	-8,749	