CABINET

Revenue Budget and Capital Programme
17 February 2009

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

PURPOSE OF REPORT To inform Cabinet of the latest position following Council's consideration of the Budget and Policy Framework at its meeting held on 04 February, and to make recommendations back to Council in order to complete the budget setting process for 2009/10.					
Key Decision		**Non-Key Decision**		**Referral**	**X**
Date Included in Forward Plan	February 2009				
This report is public.					

RECOMMENDATIONS OF COUNCILLOR BRYNING:

1) **That Cabinet notes the latest position regarding the Corporate Plan.**

2) **That Cabinet notes the actions of the Head of Financial Services with regard to the funding of asset acquisitions as outlined in section 3.1 of the report.**

3) **That Cabinet approves the current year's revised General Fund Capital Programme as set out at Appendix B (as amended for items elsewhere on the agenda), for referral on to Council.**

4) **That Cabinet considers the draft Capital Investment Priorities for 2009/10 onwards, as set out at Appendix C, and makes any amendments as appropriate.**

5) **That Cabinet considers the five-year draft Capital Programme from 2009/10 onwards as set out at Appendix B (as amended for items elsewhere on the agenda), together with the supporting principles and information as set out in section 3 of the report, and:**
   - **makes any amendments as appropriate, keeping the Programme in balance**
   - **refers the resulting 5-year Programme on to Council, for final approval.**

6) **That the associated Prudential Indicators at Appendix D be updated in line with recommendation (5) above, and be referred on to Council for approval.**

7) That the existing Capital Investment Strategy be updated in line with recommendations (4) and (5) above, for referral on to Council.

8) That Cabinet notes the position regarding estimated Collection Fund balances.

9) That Cabinet approves the reassessment of reserves as set out in section 5 of the report, and notes that the full policy on provisions and reserves, as updated, will be reported into Council in support of Cabinet's budget proposals.

10) That Council be recommended to approve the General Fund Revenue Budget at £23.999M for 2009/10, excluding parish precepts.

11) That Cabinet considers the budget proposals summarised at Appendix G and makes recommendations regarding a balanced revenue budget for 2009/10, for referral on to Council.

12) That the existing Medium Term Financial Strategy be updated in line with Cabinet's budget proposals, for consideration by Council.

1 INTRODUCTION

1.1 Cabinet's initial proposals regarding the Budget and Policy Framework were considered by Council on 04 February and the relevant resolutions of that meeting are included at ***Appendix A***. This report builds on those resolutions and on other updated financial information, in order that recommendations can be made back to Budget Council on 04 March to finalise the Capital Programme, the Revenue Budget and Council Tax for 2009/10.

2 CORPORATE PLAN

2.1 A draft version of the Corporate Plan was approved by Council at its last meeting. Officers are now working on developing the targets and outcomes for each corporate priority to fit with Cabinet's draft budget proposals, and the outcome of this will be reviewed by the Council's Business Committee prior to referral back to Council. As such, at this meeting there are no further specific proposals for Cabinet to consider.

3 GENERAL FUND CAPITAL PROGRAMME

3.1 With regard to the current year, a review has now been undertaken for all schemes and this has resulted in a number of adjustments being proposed, together with various other slippage adjustments mainly between this year and next. These are reflected in ***Appendix B*** for Members' consideration. The main points to highlight are as follows:

- There have been a few minor changes to the current year programme since it was last considered by Cabinet. This includes the proposed changes regarding Marketgate Toilets, included elsewhere in the agenda. Associated profiling adjustments have been made to the funding arrangements.

- Recently the Council received notification of an additional £152K Regional Housing Pot (RHP) grant allocation in the current year, of which £70K remains unallocated; other amounts have been used to meet costs in connection with existing housing schemes. It is assumed that this unallocated amount will be rolled forward and its use be considered as part of any other RHP allocation that the Council may receive for 2009/10.

- The Council has recently completed an options appraisal regarding the acquisition of just over £1M of asset acquisitions and as a result of this, £175K of wheeled bins are to financed through unsupported borrowing, rather than through leasing arrangements. The revenue consequences of this can be met from existing budget provisions, although some transfers between budget headings is required. This action is covered by existing delegations to the Head of Financial Services and Cabinet is asked to note these actions.

3.2 Overall, the current year's gross Revised Programme now stands at £11.653M. Capital receipts unapplied as at 31 March 2009 are estimated at £370K (to be carried forward for use in the following year).

3.3 With regard to future years, at earlier Cabinet meetings Members have approved a number of financing principles to be followed in determining the General Fund Capital Programme, as well as draft capital investment priorities; the latest version of these is set out at ***Appendix C***. Subject to any amendments that Cabinet may propose, the draft priorities will be incorporated into the Capital Investment Strategy, for consideration by Council.

3.4 In line with the strategy and to address recognised capital risks, Star Chamber have also considered the re-scheduling of various schemes in order to ease pressure on the funding position, especially in 2009/10. In line with these points, a programme for the five-year period to 2013/14 is also set out at ***Appendix B*** 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.

3.5 In total the 5-year draft Capital Programme (from 2009/10 onwards) now amounts to £30.817M. The funding position is balanced in all years, and should the programme and its financing be delivered as currently planned, there would be a surplus in capital receipts of £917K, at the end of 2013/14.

3.6 Cabinet is now required to make formal recommendations to Council regarding the Capital Programme. In doing so, a number of points are highlighted:

i. There have been no major changes to the basic funding assumptions underpinning the draft programme and they are as follows, from 2009/10 onwards (i.e. excluding the current year):

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

  - £8.783M of applied capital receipts over the period. A further £917K is receivable, but any additional resources such as this will not be allocated to fund new capital expenditure. Instead, these balances will be left for now, to help with any potential funding difficulties arising over the period.

- £745K funding from revenue / reserves. This has increased by £250K, to provide additional cover for legal costs associated with Luneside compensation claims.

3.7 With regard to the timing of specific capital receipts, around £4M (of the £7M due in 2009/10) is needed to fund capital spending in that year. There is a clear risk in that schemes may not be able to progress as planned, if receipts are not received early enough in the financial year (see separate report on the capital receipts position, included elsewhere on the agenda).

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

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

   To be clear, the draft programme does not include any budget provision for resolving any future development of the site. Options around this are currently being assessed, centred around further external funding bids. A report on such options will be presented to Cabinet in due course. It is reiterated also that the draft programme (or revenue budget) does not provide for any developer contribution being receivable in connection with any future transfer of the development site; the total contribution due under existing agreements is £1.89M.

ii. Similarly the draft programme makes no provision for any new Access to Services developments, any Chatsworth Road Scheme, nor any capitalisation of concessionary travel costs or potential losses in respect of Icelandic investments. (Officers have now received confirmation that the capitalisation bid for concessionary travel was unsuccessful).

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, Townscape Heritage Phase 2, Energy Efficiency measures, and any developments associated with The Platform, as examples. It is highlighted that the proposed arrangements for strengthening programme management and project support included elsewhere on this agenda will assist with ensuring that robust appraisals are undertaken, before any such schemes progress.

iv. The Lancaster Science Park scheme is included provisionally, but this will be the subject of a separate Cabinet report in any event.

v. Other potential capital schemes have been omitted at this stage, and will only be incorporated into the Programme should they gain the relevant approvals to progress. This covers the Sea Change Bid for the Winter Gardens, and also other schemes covered by the Council's Economic Regeneration Strategy generally. These will also be taken through the Council's formal appraisal and decision-making process, with the Capital Programme being updated accordingly if required.

vi. Members will see from the attached draft Programme that by far the biggest area of capital investment to be funded from the Council's own resources relates to Muncipal and other Building Works. Under the Financial Regulations, schemes cannot progress until funding is in place, and section 3.7 above touches on the risks involved. Notwithstanding the financial pressures, there could be a need to progress some emergency works to ensure that key health and safety standards are met and buildings can be kept in operation, irrespective of the funding position (this is also catered for within Financial Regulations.) In this regard, it is recommended that an additional interim increase of £1M be built into the borrowing limits on a similar basis to that approved by Council last year (i.e. short term only, to be 'repaid' through future capital receipts). A strict approach would be adopted to ensure that the use of any such facility is kept to an absolute minimum; this would be determined by the Corporate Director (Regeneration) and the Head of Financial Services, with the relevant Cabinet portfolio holder being updated accordingly.

vii. Finally, and also with regard to Municipal and Other Building Works, it is recognised that the draft Programme assumes that the bulk of backlog 'repairs' will constitute capital expenditure, given the amount of structural works involved, but there is significant risk in this approach. To manage this, arrangements are in place to assess the nature of works at the tendering stage. Should some expenditure fall as revenue, this would be scored against the revenue budget provisions and if necessary, the Council's existing renewals reserves, prior to entering any contractual commitment. This gives some flexibility, but it is an area that will require close management. It will also be covered by future plans for facilities management generally.

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

3.10 The Capital Investment Strategy will also be updated to reflect all of the above points, as amended for any Cabinet changes, and the full document will be presented to Council in March for approval. The existing Strategy document has not been attached to this report at this time, but it is available either through the Council's website or by contacting the Head of Financial Services.

4 COLLECTION FUND POSITION

4.1 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.

4.2 The review of the Fund's financial position as at January 2009 indicates that overall the Fund is broadly in balance, 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 E***.

5 GENERAL FUND BUDGET: CURRENT YEAR UPDATE

5.1 At the last meeting Council approved this year's overall revised budget position, reflecting a net overspending of £571K. Within that amount, however, there are a number of further changes for consideration as outlined below.

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

5.3 Another key budget issue arising since January relates to remaining earmarked reserves; Members may recall that some had yet to be reviewed and this work has now been completed. The outcome is as follows:

Access to Services (Accommodation)
The balance of £139K is to be retained, to support some smaller scale accommodation works. This is on the basis that any wider plans will not be taken forward at present. Once the Council's financial outlook is clearer, any future plans can be re-assessed.

Business Continuity
Provisional spending plans have been developed indicating that at most, funding of around £60K is needed, and accordingly the reserve balance has been reduced by £40K.

Capital Support
As highlighted earlier in this report, a further £250K is required for Luneside and other funding measures are proposed to provide cover for any further liabilities arising. On this basis, the reserve balance has been reduced by £447K. (Members may recall that last year's earlier award of additional LABGI grant was transferred here, pending an assessment of the Luneside position.)

Customer First
This reserve of £50K remains, to support one-off costs associated with some further integration of services into the Customer Service Centres. As with accommodation above, completion of any integration can be re-assessed later, when the Council's financial prospects are more certain.

Every Child Matters

This reserve was created as part of the 2007/08 budget, but with contributions starting in 2008/09. Funding for Children and Young People (staff and other minor budgets) has effectively been mainstreamed into the Council's budget on an ongoing basis, and specific amounts have been earmarked towards the Happy Mount Park Natural Play capital project (£5K in 2009/10) and Diversionary Activities (£20K in 2010/11). The remaining reserve balance has been reduced by £23K accordingly.

Homelessness

This reserve was created pending the outcome of the Supporting People funding review. Around £30K of the reserve has now been applied to the revenue budget to provide funding for Home Support, and the remaining reserve balance has been reduced by £45K. Furthermore, future years' net contributions amounting to £15K (total, not per year) have been removed from the base budget accordingly.

Other Commuted Sums

A further amount of £16K is to be applied to the revenue budget.

Renewals

The overall balance is to be consolidated within one reserve, with detailed information being held separately. Given the risks attached to the assumed capitalisation of Building Works referred to earlier, there are no further changes proposed regarding the reserve.

Restructuring Reserve

A report elsewhere on the agenda relates to staffing and pay issues, in particular the application of Human Resources (HR) policies for managing reductions in the Council's workforce. A number of key savings proposals, for either next year or future years, rely on such reductions being achieved but these will incur significant one-off costs in relation to redundancy and/or early retirement. It is proposed therefore that the additional income from LABGI and the transfers from the various reserves above are transferred to create a new Restructuring Reserve, approaching £1M. Any subsequent use of this Reserve would require either Personnel Committee approval for larger restructuring, or approval through existing officer delegations for more minor changes. Any future contributions to the reserve would require Cabinet approval, and its balance would be reviewed half yearly.

5.4 The Head of Financial Services advises that taking account of the above proposals and those elsewhere on the agenda, the resulting level of reserves is adequate for the period covered, but they will need to be reviewed regularly and this is provided for within the current policy.

5.5 Cabinet is therefore recommended to approve the associated recommendations on reserves as set out above, as amended for other agenda items. The above changes will be actioned in the current year, as summarised overleaf, but overall they have no net impact on the Revised Budget.

	2008/09 £'000
RESERVES MOVEMENTS	
Business Continuity	-40
Capital Support	-447
Every Child Matters	-23
Homelessness	-75
Other Commuted Sums	-16
Restructuring	+945
OTHER BUDGET CHANGES	
Additional LABGI Grant	-344
NET TOTAL	**--**

5.6 A schedule of all provisions and resulting reserve levels is included at ***Appendix F*** Cabinet is asked to note that the full policy on provisions and reserves is required to be presented to Council. The document will be duly updated to reflect Cabinet's resolutions from both this and the January meeting. The existing policy has not been included with this agenda, but copies are available either through the Council's website, or by contacting the Head of Financial Services.

6 2009/10 GENERAL FUND REVENUE BUDGET

6.1 Following confirmation of Government support and the Collection Fund position, and in order to fit with the Council Tax increase approved by Council on 04 February, the General Fund Revenue Budget must be set at £23.999M for 2009/10, excluding parish precepts, and Cabinet is requested to refer this on to Council for approval.

6.2 In support of the above, much work has been undertaken regarding the budget position and updated revenue proposals have been prepared as set out at ***Appendix G***. These take account of recent base budget adjustments and issues raised informally at Star Chamber meetings, as well as other specific items covered elsewhere on this agenda. Where appropriate, the appendix includes Officer recommendations regarding various items.

6.3 In summary, sufficient savings have now been identified to give a revenue budget that fits with a 4% increase in Council Tax. This is on the assumption, however, that all the savings and growth proposals as set out in Appendix G will be approved by Cabinet, for referral on to Council.

6.4 A summary of the key budget changes since January Cabinet is set out below:

	2009/10 £000
Target Budget (to give 4% Council Tax increase)	**23,999**
Draft Budget as considered on 20 January 2008	25,701
Net Savings Proposals at that date	-306
Remaining Savings Requirement at 20 January	**1,396**
Further Budget Changes:	
Review of Provisions and Reserves	-28
Other Base Budget Adjustments	-345
New Savings Proposals Included on Schedule	-1,023
Savings Requirement still remaining	**0**

6.5 The main base budget adjustments allow for January Cabinet decisions not subject to the budget, such as car parking changes, as well as reviews of various budget headings, including:

- the profiling of debt repayment provisions in line with policy, as well as investment interest rates
- concessionary travel, based on latest usage forecasts
- contributions to reserves, as referred to earlier
- planning fee income
- vehicle fuel
- updates regarding various grant notifications, e.g. benefits
- planning inquiry costs; a provision of £50K is now assumed.

6.6 There are a few other points to note, with regard to next year's budget:

- Members 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. Details are not yet confirmed, although it is assumed that the City Council will be expected to act as accountable body, and therefore a report to Cabinet will be required in due course prior to any arrangements being implemented.

- Members may also recall that participatory budgeting was going to be considered in more detail after setting next year's budget, drawing on the presentation made last year. Since then, however, the Council's financial position and its budget prospects have deteriorated considerably, and this will impact on the availability of budgets for which participatory budgeting might have been considered. Given these points, this concept has been put on hold for the foreseeable future.

- In line with the Capital Programme Proposals, the profiling of revenue funding has been updated, resulting in one-off savings for 2009/10.

- Further to Cabinet in January, is it reiterated that the draft budget assumes that the phased use of surplus revenue balances will end, unless Cabinet indicates otherwise. A contribution of £191K is already included in the base budget, meaning that balances are already forecast to reduce to their minimum level.

- The proposals as set out have been updated to include other Officer proposals. This includes a re-assessment of general inflation for supplies and services. The latest Bank of England Inflation Report has just been issued and this forecasts that general inflation (i.e. the Consumer Price Index- CPI) is likely to be between 0-1% for next year, but could be even lower. Given this, it is reasonable to assume an inflation freeze for some spending, resulting in savings of around £50K per year.

- Potentially there could be further savings arising, depending on Cabinet's resolutions regarding other items on this agenda, e.g. Grants to Outside Bodies. This provides Members with some opportunity to consider the relative merits and priorities of different savings options.

6.7 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 £23.999M. This will result in a 4% 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 £185.31, representing a cash increase of £7.14. Clearly this excludes any impact from the recent abolition of the Special Expenses adjustment for non-parishes areas. It does correspond with the Council Tax amounts that the Secretary of State is expected to consider when considering capping, however.

7 PROSPECTS FOR FUTURE YEARS

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

	Revenue Budget Projections			**Council Tax Projections**	
	Net Budget	**Annual Increase**	**Assumed Contribution from Balances**	**Average Band D Tax Rate**	**Annual Increase (YOY)**
	£000	**%**	***£000***		**%**
2010/11	25,684	7.0	--	£215.19	16.1
2011/12	26,604	3.6	--	£228.62	6.2

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

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

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

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

7.4 For 2010/11, in simple terms the reasons for the higher Council Tax forecast can be accounted for by a small number of budget changes:

- Effects of pay and other price increases / economic conditions
- Fall out of one-off savings and removal of any contribution from Balances
- Increased net revenue growth

7.5 Regarding Government funding, the Council received a good three-year provisional Settlement for the period to 2010/11, but future prospects are gloomy and authorities may well see real reductions in their funding levels.

7.6 Whilst the Council has the potential to achieve substantial recurring savings during this budget exercise, based on current forecasts there is still a considerable way to go before the Council has what could be viewed as a financially sustainable budget. The Council needs to maintain focus on the medium term, in order to make future budget exercises easier to manage and deliver. Should there be an over-reliance on one-off savings, this makes future years' budget setting much more difficult, including managing various stakeholder expectations.

7.7 A year ago, the Council Tax forecast increases for 2009/10 and 2010/11 were 13.1% and 8.8% respectively. A year on, the proposed rate increase for 2009/10 is down to 4% but 2010/11 is now forecast at around 16%. To some degree this follows a similar pattern in previous years but there are many factors that have changed the projections; the major ones being:

- the economy as a whole, and its impact on income and services
- service growth coming on line in 2009/10 (e.g. food waste)
- the timing and nature of savings proposals, in particular one-off items
- to a lesser degree, changes in contributions from balances.

7.8 Given this context, Cabinet is asked to consider its targets for future years' Council Tax increases, for incorporation into the Medium Term Financial Strategy (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 net savings requirements would be:

2010/11:	£972K
2011/12:	£1.221M

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

- It is again assumed that Cabinet would attempt to generate additional savings beyond those required to meet the proposed MTFS targets, to support the options of either allowing further growth, and/or allowing a lower increase in Council Tax below the targets. A number of actions to generate savings from 2010/11 onwards are included at the bottom of Appendix G.

7.9 The existing MTFS document will be updated to reflect all of Cabinet's budget proposals, for consideration by Council. Again, whilst the existing document has not been included within this report, it is available either through the website or from the Head of Financial Services.

7.10 Finally, the budget reports presented to Cabinet have highlighted the assumptions and estimates underpinning the budget process; these will also be incorporated into the MTFS. They 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 Details of Consultation

The outcome of budget consultation was reported into Council on 04 February. There has been no further general consultation since then.

9 Options and Options Analysis (including risk assessment)

Cabinet are now requested to finalise their 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 Policy Framework
This is for noting only and therefore no options have been put forward.

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 additional capital resources (e.g. receipts, direct revenue financing or borrowing), within affordable limits;
- deferring projects into later years – although this would not help with the overall five-year programme unless schemes were deferred until after 2013/14.

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 2009/10, there are no options to change the total net revenue budget for next year (recommended at £23.999M) 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 surplus balances, Cabinet could put forward alternative arrangements with regard to the £191K available, but this would result in the need to make other budget savings.

Medium Term Financial Strategy (MTFS)

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 the target above 4%, as Government has made it very clear about expecting increases to be substantially below 5%. 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.

10 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 (i.e. establishing a balanced, affordable capital programme, approving a budget level to tie in with a 4% increase in Council Tax and the Government's stance regarding capping). The recommendations as set out meet these requirements; the detailed supporting budget proposals are then a matter for Members.

11 **Conclusion**

This report outlines the actions required to complete the budget setting process for 2009/10 and to set the financial planning framework for future years.

RELATIONSHIP TO POLICY FRAMEWORK

The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)
None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.

FINANCIAL IMPLICATIONS

As set out in the report.

SECTION 151 OFFICER'S COMMENTS

The Local Government Act 2003 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, given that measures are in place to manage and reassess other key issues such as Fairpay / Job Evaluation, and recognising that the arrangements to deal with any principal losses arising from Icelandic investments have effectively been postponed, in line with Government Regulations. The budget proposals and future plans include a number of measures that involve reductions to the staffing establishment. With this in mind, a restructuring reserve has been created but clearly actual costs arising cannot yet be accurately assessed. This will need careful monitoring as the year progresses.

- Unallocated balances of £1M for General Fund are reasonable levels to safeguard the Council's overall financial position.

  With regard to General Fund balances, £1M represents about 4.2% 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.

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

Robustness of Estimates

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

- Producing a continuation budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.

- Reviewing the Council's priorities and its associated service activities and spending / income generation plans. This is being supported by the Star Chamber exercise and by consultation. It includes putting some wider plans on hold for the time being, e.g. accommodation.

- Reviewing the Council's medium term financial strategy and planning, following its adoption last March, together with other corporate financial monitoring information produced during the year.

- Undertaking a review of the Council's affordable borrowing levels to support capital investment, in line with the Prudential Code, but taking account of Government Regulations regarding Icelandic investments.

- Reviewing the level of reserves and other sources of financing, to ensure as far as possible that funding arrangements are in place for potential but un-quantified costs and liabilities (again this excludes any provision for Icelandic investments, but does cover Luneside and future restructuring).

These measures ensure that as far as is practical at this stage, the estimates and assumptions underpinning the revenue budget are robust. Proposals already exist regarding a balanced General Fund Capital Programme.

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

Affordability of Spending Plans

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration. 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 2013/14.

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

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

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

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