

CABINET

2010/11 Budget and Policy Framework Update – General Fund Revenue Budget and Capital Programme 19 January 2010

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

PURPOSE OF REPORT

To provide information on the latest budget position for current and future years, to allow Cabinet to make recommendations to Council on Council Tax levels for 2010/11.

Key Decision

Non-Key Decision

Referral

X

This report is public.

RECOMMENDATIONS OF OFFICERS:

1. That Cabinet notes the draft 2009/10 Revised Budget of £24.046M with the assumption that the overspending of £47K be funded from Balances, but that this position is dependent upon receiving an appropriate capitalisation directive from Government in connection with Icelandic investments.
2. That Cabinet approves the reassessment of other earmarked reserves and provisions as set out in section 3 of the report.
3. That Cabinet notes the position regarding the Local Government Finance Settlement and capping, together with prospects for future years.
4. That subject to all the above, Cabinet notes the resulting draft 2010/11 General Fund Revenue Budget of £24.921M, and the indicative spending projections of £26.197M for 2011/12 and £26.597M for 2012/13.
5. That Cabinet notes the draft capital investment position from 2009/10 onwards.
6. That Cabinet considers the draft budget information and proposals as set out in the report in context of the Council's strategic planning and the associated risks it faces, together with the outcome of the public consultation, and:
 - makes any further proposals as appropriate, and refers the information on (as updated) for Council's initial consideration,
 - makes recommendations to Council regarding the level of increase in Council Tax for 2010/11.

1 INTRODUCTION

- 1.1 Over the last few months Members have approved various proposals and considered much information associated with the 2010/11 Budget and Policy Framework. This report, together with the separate item on the Housing Revenue Account, provides a further update in support of the process. In particular this report seeks Cabinet's recommendations regarding Council Tax increases for 2010/11 for referral on to Council. In making recommendations, Members are advised to consider the strategic context and associated risks, together with the outcome of the recent public consultation exercise.

2 GENERAL FUND BUDGET: CURRENT YEAR UPDATE

- 2.1 At the last meeting it was reported that the Council faced a net overspending of £903K, albeit that this reduced to £47K after allowing for various transfers from earmarked reserves. Since then, further changes are needed:

2.1.1 Housing and Planning Delivery Grant

At the last Cabinet meeting it was reported that provisionally, the City Council has been allocated Housing and Planning Delivery Grant (PDG) of £680K. Whilst it is expected that the actual award will not be confirmed until February, in the past there has been little or no change between provisional and final allocations. As such, the grant has been included with the draft Revised Budget for the current year. Given the position on senior management restructuring, the draft assumes that the bulk of the PDG allocation would, in effect, be used to help replenish the restructuring reserve (see later section).

Consideration has also been given as to whether any alternative options need to be considered for using this funding, as there are spending needs linked to progressing the Morecambe Area Action Plan. These have now been recognised as potential growth in 2010/11, given the assumptions above.

2.1.2 Icelandic Investments

Members may be aware that the Winding Up Board (WUB) of Glitnir has accepted local authority claims only as general, unsecured creditors, rather than having priority status as was expected. (Landsbanki, which is being administered under the same Icelandic law, has already accepted local authority claims as priority). Whatever the status gained at this point, in due course it will be challenged through the courts – by local authorities for Glitnir, and by other non-priority creditors for Landsbanki. Legal advice remains that investment deposits such as that made by the City Council should be treated as priority.

Nonetheless, the actions by Glitnir WUB have prompted further review of the accounting treatment for potential losses, in line with current professional guidance. A summary of the potential losses in principal terms, assuming both priority and non-priority status, is given in the table overleaf:

Bank:	Estimated Losses:		
	With Priority Status (where applicable)	Without Priority Status	Now Assumed for Revised Budget
	£'000	£'000	£'000
Glitnir	0	2,100	2,100
KSF*	500 – 800	500 - 800	750
Landsbanki	120	680	120
Total	620 – 920	3,280 – 3,580	2,970

* KSF is unaffected by Icelandic law

As at December £923K had already been provided for in this year, leaving around a further £2M that now needs to be covered. A capitalisation bid has been submitted to Government to address this position. It is worth re-iterating that legal advice is still that claims such as the Council's should be priority but whatever the final outcome, it is expected that the same status will apply to both Glitnir and Landsbanki.

It is clear that the Council's financial position hinges on the capitalisation bid being accepted by Government. Further information should have been received by the date of the Cabinet meeting; in any event, decisions on capitalisation are expected by 29 January.

In the circumstances, the draft revised budget assumes that a capitalisation directive will be received. If this proves to be the case, there would be very little impact for the current year, but there would be budgetary implications for 2010/11 onwards, as set out later in this report. If a directive is not forthcoming and there is no change in creditor status, the Council's finances will need to be overhauled to ascertain whether and where sufficient resource cover can be identified.

- 2.2 Taking into account the above assumptions and other minor changes, the Revised Budget is still assumed at £24.046M, representing a net overspending of £47K. The main changes since December are summarised below:

	2009/10 £'000
Original Budget as approved on 04 March 2009	23,999
Net Changes as reported to December Cabinet	+47
Draft Budget as at December	24,046
Further Changes to date:	
Icelandic Investments: estimated additional impairment	+2,047
Assumed Capitalisation Directive for the above	-2,047
Planning Delivery Grant	-680
Further Reassessment of Reserves	+620
Reduced Court Costs Income and other Minor Changes	+60
Updated Revised Budget Position	24,046
Net Overspending to be met from Balances	+47

- 2.3 As the outcome of the capitalisation request is not yet known and a decision is not expected until after the Cabinet meeting, there are no recommendations to refer the draft Revised Budget to Council for approval. The current position is only for noting, and to inform other budget considerations. It is included in summary form at **Appendices A and B.**

3 PROVISIONS AND RESERVES

- 3.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and balances.

- 3.2 Generally advice has been that balances should be kept at £1M and the draft budget is in line with this advice. After using the £47K surplus in the current year, balances would fall to £1M by March 2010 and remain at that level for the foreseeable future. Whilst there have been changes in the various risks facing the Council, generally in the past it has managed to keep spending well within budget and this has given some additional comfort in considering how the Council would deal with unexpected pressures arising. The advice is therefore unlikely to change, unless there are major changes to the investment related assumptions as set out above or other key issues arise.

- 3.3 For other earmarked reserves, at the last Cabinet meeting a number of proposed changes were outlined. In the main these remain the same but there are some further developments:

3.3.1 Service Restructuring:

At its meeting on 12 January Personnel Committee approved a number of restructurings for Planning and Policy and Community Engagement. Whilst these will generate significant savings from 2010/11 onwards, the Restructuring Reserve has almost been fully utilised. Only £53K is left.

Following the resolution of the December Cabinet meeting, a further progress report on the senior management restructure is to be reported to Cabinet in February. Additional funding would be required to complete the restructuring proposals; the amount needed is currently estimated at £749K but this may well fluctuate. On the basis that Cabinet wish to complete the exercise, an additional £720K is proposed to be transferred into the Reserve and any remaining funding requirement would be met from savings arising in next year. Other assumptions regarding any further senior management restructuring are outlined later in this report.

3.3.2 Concessionary Travel

Whilst discussions are ongoing regarding this matter, there are no new pressures coming through this year so far. As a result, the £200K reserve contribution has been reduced to £100K. Furthermore, for future years it is proposed that the use of the reserve (and its annual contribution) be widened to cover any additional costs arising through Fairpay appeals and any municipal building works that cannot properly be capitalised (see section 9). The Reserve would be earmarked as Revenue Support and in effect it would operate as a contingency for these three cost pressures only. Without this approach, the Council would have significant financial pressures where unbudgeted costs are expected to arise – but would have no resources to finance them. This would not represent sound financial planning.

- 3.4 The net impact from the various changes is summarised below. This is also reflected in the statement attached at **Appendix C**, and the draft budget figures. The

Head of Financial Services advises that the resulting level of reserves is adequate for the period covered, but will need to be reviewed as the budget develops. A further update will be provided in February.

Reserve	2009/10 Contribution to / (from) Reserve £'000
December Cabinet:	
Access to Services	(139)
Capital Support	(800)
Customer First	(50)
Every Child Matters	(2)
Various Renewals Reserves	(65)
Concessionary Travel	200
Sub-total	(856)
January Cabinet:	
Concessionary Travel / Revenue Support	(100)
Restructuring Reserve	720
NET TOTAL	(236)

4 LOCAL GOVERNMENT FINANCE SETTLEMENT AND CAPPING

- 4.1 Since the last meeting there have been no further announcements regarding the 2010/11 Settlement; final figures are expected later this month.
- 4.2 Regarding capping, on 09 December a letter was sent from the Local Government Minister to all local authority Leaders. This included the following statements:

"...I am pleased that the average Band D council tax increase this year was 3 per cent. The Government anticipates this amount to fall further in 2010-11 whilst authorities protect and improve front line services. In fact, we expect the average Band D council tax increase in England to achieve a 16 year low in 2010-11. The Government remains prepared to take capping action against excessive increases by authorities and to require them to rebill households for a lower council tax if necessary. Capping principles have always been determined on a year by year basis to take into account current economic and social circumstances and this will again be the case in relation to 2010-11.

It would, therefore, be a mistake for any authority to assume that previous years' capping principles will apply to 2010-11. I have made it very clear that the Government expects the average Band D council tax percentage increase to reach a 16 year low in this period. I have also indicated that we will take capping action against any excessive increases and I do not propose to send any further written warnings about the risks involved. "

- 4.3 In her letter, she also outlined the actions already taken against three police authorities for 2010/11, based on their tax increases for last year (2008/09). Two other police authorities were capped in this year; they originally set their tax increases at 7.1% and 8.7%. As background, the capping criteria applied for 2009/10 were:

- no more than a 4% increase in budget requirement, and
 - no more than a 5% increase in council tax.
- 4.4 There is much speculation surrounding capping criteria for 2010/11 but ultimately, as set out in the Minister's letter, Government's actions will be informed by circumstances. Members are advised to take the above information into account when recommending 2010/11 Council Tax increases.
- 4.5 Regarding future years, and following the Chancellor's pre-budget report, there have been various reviews of the prospects for public spending. As an example, a recent briefing by the Institute for Fiscal Studies indicated that Government Department Expenditure Limits could reduce by more than 3% per year, but it is expected that any future Government would have areas that they would wish to protect – or at least not cut so much.
- 4.6 With these points in mind, and in light of others' expectations, the basic forecasts for the 2011/12 and 2012/13 Settlements now assume a 3% year on year cash reduction in funding. In real terms, this amounts to over 4% each year, taking account of inflationary pressures.
- 4.7 The final point to note regarding future years' Settlements is that there is no further information available as yet on any transfer of concessionary travel responsibilities. This adds greater uncertainty into forecasting.

5 2010/11 DRAFT REVENUE BUDGET

- 5.1 At the last meeting the draft base budget for 2010/11 stood at £25.084M, before consideration of savings and growth.
- 5.2 As a result of various changes, the budget position has improved and now stands at £24.921M, as shown in Appendices A and B. This represents an increase of 3.8% on the original budget requirement for the current year. If no further changes were made, the budget would translate into around a 6% Council Tax increase, giving a Band D Tax of £196.41.
- 5.3 The key changes, assumptions and issues arising since December Cabinet are outlined below:
- Around £400K of annual savings from approved restructurings are now built into the budget, but there are other proposals that have not yet been formally agreed and are still under consideration. In effect, the current draft base budget leaves Members' options open regarding further restructuring. It makes no assumptions regarding additional savings, given that final decisions have not yet been taken.
 - For Icelandic investments the draft budget provides for £105K annual financing costs attached to the assumed capitalisation directive, on the basis that the maximum 20-year financing period would be applied. The Council would also have less monies to invest than is currently assumed and this too has been provided for.
 - Other capital financing costs are based on the draft programme as outlined later in this report. Should any further capital pressures arise, e.g. in connection with Luneside etc., then these would result in additional charges to the revenue 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 are to be channelled through its Local Strategic Partnership. The draft budget makes no assumptions regarding these funds. Whilst amounts are not yet confirmed, a report to Cabinet will be required to approve the arrangements and this will follow in due course. The draft budgets also assume that the current arrangements for allocating and distributing the Council's share of second homes' Council Tax income through the Local Strategic Partnership (LSP) will continue, on the basis that other authorities also continue with the arrangements.
- The Council has recently been notified that will receive £87K of additional housing benefit grant for 2010/11 and this has been built into the budget. Final confirmation of other grants, such as that for concessionary travel, is still awaited.

5.4 As ever, in producing budget information for the Council as a whole there are always some fairly significant assumptions made with a degree of risk attached. An updated summary of the key financial risks is attached at **Appendix D** and again Members are advised to consider this information carefully when formulating their budget proposals. The main changes arising since December Cabinet are:

- failure to gain priority creditor status / capitalisation directive for the Glitnir claim;
- increased risk of the Council exceeding its VAT Partial Exemption limit;
- strengthening messages surrounding public spending cuts; but
- better scope to manage some other risks, through earmarked reserve changes.

6 BUDGET PROSPECTS FOR FUTURE YEARS (BEYOND 2010/11)

6.1 As part of the Council's financial planning, indicative revenue spending and Council Tax forecasts for 2011/12 and 2012/13 have been updated and included within Appendices A and B. They are also summarised below (excluding savings & growth):

	Revenue Budget Projections			Council Tax Projections	
	Net Budget	Annual Increase	Assumed Contribution from Balances	Average Band D Tax Rate	Annual Increase (YOY)
	£000	%	£000		%
2011/12	26,197	5.1	--	£237.31	20.8
2012/13	26,597	1.5	--	£257.19	8.4

6.2 Further analysis of the budget position is required to provide assurance regarding the robustness of the figures; in particular, the spending projections for 2012/13 seem a little low. Nonetheless, they highlight the expected increased pressure to make more savings in future years.

6.3 At present, future years' projections are based on a 4% year on year increase in Council Tax, and a 3% year on year cash reduction in Settlements from 2011/12 onwards as outlined earlier. Recognising the uncertain prospects for public spending and the choices available to Members regarding Council Tax levels, information on

other potential scenarios is included at **Appendix E**. This shows examples of how savings requirements would differ, should council tax increases or government support alter in future. It also helps demonstrate how challenging future budget setting could be.

- 6.4 In essence, future years' prospects could change drastically. This uncertainty should influence Members to look to the longer term in considering the 2010/11 budget and financial strategy, and any specific budget proposals for next year.

7 RE-DIRECTION OF RESOURCES (SAVINGS & GROWTH PROPOSALS)

- 7.1 The strategic context and outcome of the public consultation, together with the information provided above, set the scene for Members to consider and develop their budget proposals for 2010/11 onwards. The issues arising, together with any statutory changes, should be the main drivers in identifying savings and any potential growth requirements over the next three years.

- 7.2 Since December there have been various further changes to the budget options for Cabinet to consider and these are reflected at Appendix B. There are some points to highlight on this:

- Several budget proposals arise from items elsewhere on the agenda. For now, the schedule assumes that any specific recommendations on those reports will be approved as set out.
- Regarding the senior management restructure, potential further savings are included for years 2011/12 onwards but clearly these will be dependent initially upon the outcome of February Cabinet.
- Similarly work is progressing on developing shared management arrangements with Preston City Council for Revenues Services and therefore the savings included on the schedule are provisional until a final decision is reached.
- All other savings proposals affecting 2010/11 either have already been considered by Cabinet, or are operational in nature and require no further specific consideration by Members.
- With regard to growth, there is one new item in addition to those included elsewhere on the agenda and that relates to Morecambe Area Action Plan, as mentioned earlier.

- 7.3 In total, the schedule includes savings proposals of £500K for 2010/11, rising to over £1M for future years. Growth proposals amount to £354K in 2010/11, with smaller amounts thereafter.

8 2010/11 COUNCIL TAX PROJECTIONS AND SAVINGS REQUIREMENTS

- 8.1 At Council in December, Members approved "that the Council Tax target increase of no more than 4% be retained for future years".

- 8.2 In order to assist Cabinet in making final recommendations with regard to Council Tax increases, the table overleaf has been prepared. The savings requirements are shown both before and after the savings and growth proposals contained in Appendix B. Clearly should Cabinet choose not to support all such proposals, or should further changes come forward, this would affect the figures.

	DRAFT REVENUE BUDGET	COUNCIL TAX		SAVINGS REQUIRED / (AVAILABLE RESOURCES)	
		Band D	Increase	Before App. B proposals	After App. B Proposals
	£000	£	% / £	£000	£000
2009/10 Council Tax		£185.31			
2010/11 Original Projection (MTFS)	25,765	£217.06	17.1%		
2010/11 Current Projection	24,921	£196.41	6.0% or		
Other Options based on a Tax increase of:			£11.10		
0%	24,439	£185.31	0	482	336
1%	24,519	£187.16	£1.85	402	256
2%	24,600	£189.02	£3.71	321	175
3%	24,680	£190.87	£5.56	241	95
4%	24,760	£192.72	£7.41	161	15

- 8.3 The table shows a range of Council Tax increases from 0% to 4% together with associated estimated savings required, or available resources. In summary each 1% increase in Council Tax generates about an additional £80K approximately.
- 8.4 It should also be noted that as yet only a provisional estimate of the Collection Fund balance has been made. This will be finalised shortly.
- 8.5 In total, if all the potential quantified savings and growth shown in the schedule at Appendix B are ultimately approved, this would reduce next year's budget by £146K to £24.775M. Assuming that Members wished to retain the target of a 4% increase in Council Tax, this would mean that additional savings of £15K would be needed. Members are advised to consider this in context of the financial risks and pressures facing the Council, including future years' prospects. Again, advice is that as far as possible, next financial year should be very much about creating sufficient flexibility to respond to such challenges.
- 8.6 Accordingly, Cabinet is requested to make recommendations to Council regarding the Council Tax increase for 2010/11, also bearing in mind the comments on capping as set out earlier.

9 GENERAL FUND CAPITAL PROGRAMME

- 9.1 Since the last Cabinet meeting some further work has also been undertaken on the Capital Programme and the latest draft is set out at **Appendix F**. There is still no further information available on the likely outcomes of the Luneside East Lands Tribunal, or the Public Inquiry into the Town Green application on land at South Lancaster. An informal briefing on the Capital Programme has now been arranged for early February, prior to the next Cabinet meeting. By then, Cabinet will need to be in a position to make formal recommendations regarding capital and associated treasury matters to Budget Council in early March.

9.2 For now, other key points to note on the capital position are as follows:

- IT requirements have been reviewed and updated; other known growth bids such as those for toilet works and allotments have also been updated where appropriate. Growth in connection with climate change is now being treated as revenue, rather than capital.
- For municipal building works, no information is available regarding the extent to which expenditure may need to be treated as revenue. It is proposed that this risk be managed through the use of reserves, as mentioned earlier. There are also other potential schemes that need reviewing to ensure they can be capitalised.
- The draft programme makes no provision for any further accommodation improvements linked to improving access to services. Similarly though, it also excludes any potential income from the sale of related property.
- The City Council has now received notification of its Regional Housing Pot (RHP) funding for 2010/11, which amounts to £642K. Whilst notification has been received much earlier than in previous years, the amount of grant is some 50% lower than the £1.294M allocation received for 2009/10.
- As yet, the Council has not received its allocation of Disabled Facilities Grant (DFG) funding and therefore the draft programme makes assumptions regarding future scheme provisions. These would require £560K of the RHP allocation set out above. This area will need careful consideration by Members, given competing demands and priorities.
- An item elsewhere on the agenda makes recommendations regarding land at Kellet Road; the draft programme assumes that these will be approved.
- The draft programme is now based on an increase of £646K in the Council's underlying need to borrow over the period from 2009/10 onwards. The change is due solely to Icelandic investments. Whilst the financing costs attached to this are already included within the draft revenue budget, any other options will require further consideration in context of affordability, prudence and sustainability, as well as treasury implications.
- There are still some other aspects of the programme and its financing to consider, including potential use of the Renewals Reserve where appropriate.

9.3 Taking account of information received to date, the latest capital position is summarised overleaf and a more detailed statement is included at **Appendix F**. Overall, at present a £381K shortfall is shown for the 5 year period.

General Fund Programme	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	Total
	£'000	£'000	£'000	£'000	£'000	£'000	
Total Provisional Programme	11,954	15,637	10,561	2,034	1,391	286	41,863
Estimated Funding Available	11,954	15,637	10,561	2,034	1,130	166	41,482
Cumulative Shortfall	--	--	--	--	261	381	381

- 9.4 Cabinet is requested to note the position at this stage, and indicate whether it requires any specific issues considered or options to be developed for the February meeting.

10 DETAILS OF CONSULTATION

The development of revenue budget proposals falls under the consultation exercise as outlined in the budget and policy framework timetable. The initial outcome of this summarised in **Appendix G**. The key messages largely support maintaining current spending levels on the service activities included in the consultation questionnaire. There was, however, 75% support for the policy of selling assets to re-invest in priorities. Cabinet is requested to consider this information in determining its budget proposals.

11 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

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

- With regard to the Revised Budget and resulting overspending, Cabinet could consider other proposals that may influence the Revised Budget for the year.
- In terms of surplus Balances generally, it could consider retaining balances at a higher level than the minimum.
- Regarding Council Tax increases, various options are set out at section 8 of the report. In considering these, Members should have regard to the impact on service delivery, the need to make savings or provide for growth, the impact on future years and the likelihood of capping.
- With regard to items for noting, no options are presented.
- With regard to developing savings and growth options to produce a budget in line with preferred Council Tax levels, any proposals put forward by Cabinet should be considered alongside the development of priorities and in light of the public consultation. Emphasis should be very much on achieving recurring reductions to the revenue budget, and avoiding any “unidentified” savings targets that undermine the robustness of the budget and financial planning arrangements generally.

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

11 OFFICER PREFERRED OPTION AND COMMENTS

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

There is no specific officer preferred option with regard to Council Tax levels. That said, both the Chief Executive and the s151 Officer would advise against planning for a Council Tax increase much lower than 4% at this time, at least for 2010/11, if Members aim to continue to provide a wide range of services to the public and wish to avoid more potential for major service cuts in future years. Conversely, they would advise against aiming for an increase of around 5% or above at this time as it would be subject to capping under existing criteria.

12 CONCLUSION

Whilst good progress has been made in addressing the 2010/11 budget, the current year remains very uncertain and this could have major implications. Also, prospects from 2011/12 are uncertain - but bleak. This uncertainty should influence Members' approach to the budget and making Council Tax recommendations. In essence, next year could give Members some breathing space, which could be used to plan for responding to any major reductions in future public spending.

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 section 151 Officer has prepared this report, in line with her responsibilities. Whilst the s151 Officer will be affected by any future senior management restructuring proposals, there is the need to consider the potential financial aspects in context of the budget, to support future planning. As such, the s151 Officer has incorporated relevant summary financial information into this report; this situation is unavoidable.	
LEGAL IMPLICATIONS	
Legal Services have been consulted and have no comments to add.	
MONITORING OFFICER'S COMMENTS	
The Monitoring Officer has been consulted and has no comments to add.	
BACKGROUND PAPERS LG Provisional Finance Settlement 2010/11	Contact Officer: Nadine Muschamp Telephone: 01524 582117 E-mail: nmuschamp@lancaster.gov.uk