CABINET

Budget and Policy Framework 2010/11
16 February 2010

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 03 February, and to make recommendations back to Council in order to complete the budget setting process for 2010/11.					
Key Decision		**Non-Key Decision**		**Referral**	X
Date Included in Forward Plan	February 2010				
This report is public.					

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 *£000*	**Annual Increase** %	**Assumed Contribution from Balances** *£000*	**Average Band D Tax Rate**	**Annual Increase (YOY)** %
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.

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.

- 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 un-quantified, 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**