

CABINET

Budget Update Report 2011/12 15 February 2011

Report of 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 02 February, and to make recommendations back to Council in order to complete the budget setting process for 2011/12.

Key Decision	<input type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>	Referral	<input checked="" type="checkbox"/>
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Date Included in Forward Plan	February 2011
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This report is public.

RECOMMENDATIONS OF COUNCILLOR LANGHORN:

- 1) That Cabinet notes the inclusion of housing regeneration in the Council's corporate priorities and:
 - makes no changes to its budget proposals for 2011/12 but draws on existing housing related activity to inform development of the draft Corporate Plan;
 - requests the regeneration and housing Portfolio Holders to work jointly on proposals for consideration as part of the 2012/13 budget exercise, taking into account affordability and the Council's financial prospects.
- 2) That Council be recommended to approve the General Fund Revenue Budget at £21.481M for 2011/12, excluding parish precepts.
- 3) That Cabinet approves the budget proposals summarised at Appendices B and C for referral on to Council, subject to any changes in relation to items included elsewhere on the agenda.
- 4) That Cabinet approves the policy on provisions and reserves as included at Appendix D, for referral on to Council.
- 5) That Cabinet notes the final Local Government Settlement and the position regarding the estimated Collection Fund balance.
- 6) That Cabinet recommends a Council Tax target increase of no more than 2% for years 2012/13 and 2013/14, for incorporation into the draft Medium Term Financial Strategy.

- 7) That Cabinet approves the draft Capital Investment Priorities for 2012/13 onwards included at Appendix E, for incorporation into the draft Medium Term Financial Strategy.
- 8) That in line with recommendation (7) above, Cabinet approves the Capital Programme as set out at Appendix F for referral on to Council.
- 9) That the associated Prudential Indicators at Appendix G be referred on to Council for approval.

RECOMMENDATION OF COUNCILLOR KERR:

- 10) That the Housing Revenue Account budgets as set out at Appendix H be referred back to Council for approval.

1 INTRODUCTION

- 1.1 Cabinet's initial proposals regarding the Budget and Policy Framework were considered at Budget and Performance Panel on 25 January and at Council on 02 February (minute 99 refers). No specific feedback was received from the Panel. The key points arising from Council are as follows:
 - The priority of Economic Regeneration now covers Housing Regeneration as well as Energy Coast and Visitor Economy.
 - A freeze in 2011/12 City Council Tax rates was approved.
 - No specific recommendations or amendments were put forward in connection with the General Fund revenue or capital budget proposals.
 - For Council Housing, the capital and reserves proposals were approved but the overall revenue budget was not approved.
- 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 02 March to finalise the Capital Programme, the Revenue Budget and Council Tax for 2011/12.
- 1.3 In addition, the report also seeks approval for key financial targets to be built into the Medium Term Financial Strategy (MTFS) update, which will be presented in full at the next Cabinet meeting.

2 POLICY IMPLICATIONS

- 2.1 Throughout this year's budget process, Cabinet has been consistently clear that proposals for allocating resources should be driven by policy and in particular, the Council's corporate priorities.
- 2.2 Further to the last Council meeting, development of the policy framework is now to cover housing as well as other regeneration. This presents Cabinet with the challenge of formulating proposals on how this priority is to be taken forward, in an affordable manner. To assist with this, the following points are highlighted:

- Support for housing regeneration may take various forms, such as through the planning framework, promoting and enforcing housing standards, investment in council housing, or enabling or delivering specific schemes in other housing sectors, as examples. Current growth proposals provide for increasing capacity in private sector housing standards. Future capacity for council housing investment will be dependent upon the Housing Revenue Account's financial prospects, taking account of rent levels and self-financing arrangements.
- Whilst various housing related functions and activities are already provided for within existing budget proposals, the only other available resources identified that could be used to support this priority further are £0.9M of s106 monies (held in the Other Commuted Sums Reserve), or alternatively unallocated Balances. Use of the former is covered by an existing protocol to support affordable housing. Use of the latter would mean that less (or no) funds could be set aside for invest to save initiatives, as set out later.
- At the time of writing this report, it is still unclear whether the Council will receive any specific housing capital grant funding for future years, other than that assumed for Disabled Facilities Grants. If possible an update will be provided at the meeting. There are no other housing investment provisions including in the draft Capital Programme for 2011/12 onwards.
- Alternatively, Cabinet may wish to consider redirecting resources away from other areas, into housing regeneration.

2.3 Cabinet is requested to consider the above points in finalising its budget proposals and capital investment priorities for 2011/12 or later years. Similarly Members are advised to take into account the key financial risks facing the Council, as summarised at **Appendix A**, and raise any other perceived key risks or opportunities that may influence budget setting.

2.4 It is important to note also that whilst budget proposals will be considered at the March Council meeting, the Corporate Plan will be considered at the 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 it should be borne in mind.

3 2011/12 GENERAL FUND REVENUE BUDGET

3.1 In order to fit with a freeze in Council Tax rates and the final Settlement and Collection Fund positions as outlined later in this report, the General Fund Revenue Budget must be set at £21.481M for 2011/12, excluding parish precepts, and Cabinet is requested to refer this on to Council for approval.

3.2 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 B and C**. In summary, sufficient net savings have been identified to give a revenue budget that fits with a freeze in Council Tax, whilst still allowing a £500K contribution into Balances. 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.

3.3 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 the change in thresholds for empty property rate relief, National Insurance contribution rates and also capital financing costs.
 - The schedule takes account of various recommendations for items elsewhere on the agenda.
 - The principle still remains that the City Council will no longer support any discretionary travel concessions and all budgets have been removed accordingly. Any administration changes will be resolved in due course.
 - This is the last formal 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 any consultation.
 - At the last Cabinet meeting it was resolved that in principle, any surplus balances be used to support invest to save schemes and this is covered in section 4 below.
- 3.4 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 £21.481M. This represents a year on year reduction in net spending of 13.2%; but after adjusting for the transfer of concessionary travel responsibilities the reduction is 5.6%.
- 3.5 Setting the Revenue Budget at this level will result in a 0% 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.

4 PROVISIONS, RESERVES AND BALANCES

- 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 no less than £1M to support the next three years' budget forecasts, on the basis that other

provisions and reserves remain broadly as set out in this report unless a specific service policy change indicates otherwise.

4.4 The s151 Officer's advice takes account of a number of key risk considerations:

- The Council has demonstrated its ability to achieve major recurring savings particularly over the last year or so, whilst still providing financial cover for issues such as estimated losses on Icelandic investments, and increasing financial capacity for invest to save schemes. Other risks have reduced as a result of external factors. The transfer of concessionary travel will remove much budget uncertainty in future; assessing the financial impact of this function has proved particularly difficult in recent times. Whilst compensation claims and the future for the Luneside East site have not yet been fully resolved, progress is being made. Overall, it is considered that the Council has reduced its exposure to specific financial risks when compared with its position over the last two years.
- As ever though, there are still big challenges and risks ahead. The national economy, through its influence on public spending reductions and demand for various services, presents the greatest challenge. The Council still has a considerable way to go before it has a financially sustainable budget, even in the medium term. Its capital financing plans for next year are based on achieving £9M of asset sales and these are not guaranteed. If these are not forthcoming, the contingency plan would be to increase the Council's borrowing requirement but this in itself poses difficulties in meeting the requirements of the Prudential Code, namely that borrowing is prudent, affordable and sustainable. The next two years are considered crucial in shaping the Council's future financial prospects and its standing.

4.5 At this stage, the draft proposals as set out are in line with the above advice. Whilst balances are forecast to be £2.356M by March 2011, the budget assumes that surplus resources would be transferred into the Invest to Save Reserve early in the following year (with the same principle applying as at March 2012). This allows consideration of the provisional outturn position and helps mitigate any risks of the Council spending surplus balances before it has actually confirmed them.

4.6 A full review of provisions and other reserves has also been completed and the main changes arising are outlined below:

i. Capital Support Reserve

In view of proposals regarding Lancaster Market and taking account of the latest draft Capital Programme, the balance of this general reserve has been effectively transferred to create a Lancaster Markets Reserve (£130K) and a Municipal Buildings Reserve (£300K).

ii. Restructuring Reserve

The balance of the Revenue Support Reserve has been transferred in, together with other minor amounts. After allowing for estimated costs arising from known or expected staff restructuring proposals, this would leave around a further £200K to cover other needs.

iii. Williamson Park

This provision now reflects the latest estimated outcome of the winding up of the Company, with the balance being set aside pending future assimilation of staff.

iv. Invest to Save Reserve

After allowing for all of Cabinet's budget proposals and advice regarding minimum balances, any surplus resources have been transferred into an Invest to Save Reserve.

- 4.7 Movements between the various provisions and reserves are spread over three years but they are summarised below. This is also reflected in the statement attached at **Appendix D**, and the draft budget figures.

Provision / Reserve	Contribution to / (from) £'000
Capital Support	(430)
Lancaster Market	130
Municipal Buildings	300
Restructuring	698
Revenue Support	(661)
Invest to Save	1,857
Other Minor Reserves	(37)
Unallocated Balances	(1,857)
NET MOVEMENT	0

- 4.8 The appendices also set out the decision-making for use of all reserves and provisions. Cabinet is advised to consider this aspect carefully. In particular, given the level of funds involved and the need to consider potentially competing demands, it is proposed that any use of the Invest to Save Reserve would rest with Cabinet.
- 4.9 As well as holding Balances and reserves for specific purposes, the Council 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 any unexpected pressures arising.
- 4.10 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 LOCAL GOVERNMENT SETTLEMENT

- 5.1 Government has now announced the final Settlement for 2011/12 and has updated the provisional figures for 2012/13. The changes are summarised below.

Year	Updated Settlement £'000	Increase (+) / Reduction (-) £'000
2011/12	13,128	+91
2012/13	11,609	-11

- 5.2 The announcement also provides for the Council Tax Freeze Compensation grant. The New Homes Bonus has yet to be confirmed but this is due shortly and the draft

budget still assumes its receipt. Any further updates will be fed into the Cabinet meeting.

6 COLLECTION FUND POSITION

6.1 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.

6.2 The review of the Fund's financial position as at January 2011 indicates that overall the Fund is in balance, after allowing for a reassessment of the bad debts provision. There is therefore no surplus or deficit to take account of in tax setting. The County, Fire and Police Authorities have been informed accordingly.

7 BUDGET PROSPECTS FOR FUTURE YEARS (BEYOND 2011/12)

7.1 Indicative revenue spending and Council Tax forecasts for 2012/13 and 2013/14 have been reported and updated on an ongoing basis during the budget process. The latest projections are included at Appendices B and C and are summarised below:

	Revenue Budget Projections (allowing for savings & growth)			Council Tax Projections	
	Net Budget	Annual Increase	Assumed Contribution to Balances	Average Band D Tax Rate	Annual Increase (YOY)
	£000	%	£000		%
2012/13	21,061	-2.0	--	£217.27	13.01
2013/14	21,666	2.9	--	£236.26	8.74

7.2 It can be seen that the Council's budget forecast goes down in 2012/13 and there are three main reasons for this:

- There is no assumed contribution to Balances in 2012/13.
- Of the capital receipts assumed in 2011/12, around £5M is to be applied to reduce the Council's underlying borrowing requirement (known as the Capital Financing Requirement: CFR), to offset interim increases in previous years. This reduces the borrowing costs from 2012/13 onwards, but if there are any delays in land sales this will add costs back in.
- The cost of local elections falls out in 2012/13.

7.3 The current projections for 2013/14 assume a 2% year on year cash reduction in Government support but as reported in January, there could well be further finance reforms in the meantime.

- 7.4 In essence, over the next year the Council needs to make further substantial recurring savings in its Revenue Budget.
- 7.5 It is in this context that Cabinet is asked to review its targets for future years' Council Tax increases, for incorporation into the MTFS. In line with the decision of Council current targets are based on a range of between 0 and 2% and the table below sets out the estimated savings requirements. To make future modeling simpler and clearer, even if Members wish to retain a target range, it would be advisable to determine which percentage should be used as the core assumption. The estimate of how much a percentage change equates to would still be used to highlight the sensitivity, i.e. a 1% change amounts to approximately £84K.

Council Tax Increase	2012/13	2013/14	
	Year on Year Net Savings Requirement £'000	Year on Year Net Savings Requirement £'000	Cumulative Net Savings Requirement £'000
0%	1,088	829	1,917
1%	1,005	743	1,748
2%	921	657	1,578

- 7.6 No general headroom for growth is provided. Instead, the savings requirements would need to be increased to cover any such needs. A number of actions to be taken forward during next year are included at the bottom of Appendix C.
- 7.7 The MTFS document will be updated to reflect all of Cabinet's budget proposals for consideration at the March meeting, for referral on to Council. 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 The Council's existing capital financing principles and investment priorities have been updated slightly to reflect the change of emphasis in some corporate priorities but prior to the last Council meeting. They are set out at **Appendix E**.
- 8.2 Cabinet is requested to reconsider these in light of the very recent changes associated with housing regeneration.
- 8.3 The current draft programme for the five-year period to 2014/15 is included at **Appendix F** also 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:

- Given the risks surrounding capital receipts, where operationally possible schemes have been deferred into 2012/13. The exceptions to this are Playground Improvements and Toilet Works. The timing of these is still based on the schedules previously approved by Members, but Cabinet may consider deferring these schemes also.
- The costs for other schemes have been updated where considered necessary to reflect estimated price changes. Reductions in IT provision have been incorporated to take account of expected changes in procurement and replacement cycles, together with associated changes in revenue financing.
- Luneside East provisions reflect current estimates for settling outstanding claims but should these prove insufficient, additional capacity is already built into the capital financing principles through unsupported borrowing. There is no provision though for making any contributions towards resolving future development of the site.
- It is assumed that Government funding for Disabled Facilities Grants will continue at current levels, but with no top up from the Council. The match funding requirement no longer applies but clearly with no top up, this adds pressure in managing the budgets available.
- Whilst there are no other resources allocated specifically for private sector housing there is the need to resolve the position on schemes such as Chatsworth Gardens and on other expected liabilities.
- In view of the creation of the Invest to Save Reserve, the capital budgets for energy efficiency have been simplified. Should Cabinet approve the replacement of the Town Hall boilers, this will be added into Municipal Buildings to be financed from the Reserve.
- There have been no other major changes to the basic funding assumptions underpinning the draft programme.

8.5 Overall, the current year's gross Revised Programme now stands at £5.851M. It is estimated that there will be no capital receipts unapplied as at 31 March 2011. This year's programme now assumes a £1.094M increase in the underlying need to borrow, or CFR.

8.6 For the 5-year period from 2011/12 onwards, the draft gross programme amounts to £11.915M and Cabinet is now required to make formal recommendations to Council regarding the Capital Programme. Whilst the draft position is now balanced, Cabinet can still make changes to the proposals.

8.7 In terms of managing the financing risks, on the basis that capital investment in next year covers only existing contractual commitments or essential works, all schemes would progress once any internal appraisal needs have been met. If sufficient capital receipts are not received the Council's underlying need to borrow would increase, resulting in additional costs for the revenue budget as mentioned earlier.

8.8 The Council's Prudential Indicators have been updated to reflect the draft capital position so far and these are attached at **Appendix G**. They will need to be updated

to reflect Cabinet's final budget proposals, prior to being considered by Council. The capital investment element of the MTFS will also be updated to reflect the final approved capital position.

9 HOUSING REVENUE ACCOUNT (HRA)

- 9.1 In light of the decision taken at Council on 02 February there is also the need for Cabinet to reconsider its HRA Revenue Budget proposals; these are summarised at **Appendix H**.
- 9.2 As the Capital Programme and its Balances position have been approved, this need is driven by the Council's own Constitution and Financial Regulations rather than it being a specific legal requirement. Essentially, to ensure appropriate governance and comprehensive service delivery, a Revenue Budget must be approved. The approval of a budget generally confers authority for expenditure to be incurred.
- 9.3 During the Council meeting, questions were raised regarding the content and status of the response from the District Wide Tenants' Forum. In response to this, the following points are highlighted:
- The Forum is established as a Cabinet Liaison Group. The response as fed into Cabinet on 18 January and as reported to Council on 02 February represents an extract from the draft notes of the Forum's meeting held on 12 January 2011.
 - Whilst no formal voting takes place regarding any item on the Group's agenda, the notes are drafted to record the meeting. These would then be considered for signing off as a true record at the following meeting, but a draft copy is sent to the Chairman as soon as possible. For the meeting in question, this was done on 13 January.
- 9.4 At Council it was apparent at the end of the debate that some Members thought that in not supporting the revenue Budget proposals they were, in effect, rescinding the decision of Cabinet to increase average housing rents by 6.9%. This is not the case. Indeed other Members at Council highlighted this fact during the debate and the Council report explicitly stated that "next year's proposed revenue budget ... takes account of Cabinet's decision to set average housing rents at £64.20 per week, which represents an increase of 6.9%."
- 9.5 A call-in of the rents decision would have been needed in order prevent its implementation. This is because the setting of housing rents is an executive function and so rests with Cabinet, as with other fees and charges such as parking. This principle has been tested out in previous years' budget exercises. There are other decisions that the law states are executive decisions and cannot therefore be taken by full Council.
- 9.6 As there were no formal amendments arising from Council, however, it is not possible to be absolutely clear about the reasons for Council's actions. Cabinet is therefore advised to form its own views on why its Revenue Budget proposals were not approved. Nonetheless, there is the need to resolve the HRA budget position and from an Officer perspective, the key issues appeared to relate to rent increases and uncertainty over the Tenant Forum's views.
- 9.7 Budgeting and rent setting can be difficult decisions. On the one hand, rent levels may impact on more vulnerable members of society but on the other hand, if the

Council is to continue being a social housing provider, it needs to make sure that the service is funded properly. The future withdrawal of housing subsidy system should remove many of the year on year uncertainties and fluctuations but overall it is not expected to make decision-making any easier.

9.8 Outline options for resolving the HRA position are set out in section 11 below.

10 **DETAILS OF CONSULTATION**

10.1 This is outlined in section 1 of this report.

11 **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.

Revenue Budget

As Council has now determined the City Council Tax Rate for 2011/12, there are no options to change the total net revenue budget for next year (recommended at £21.481M) 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.

The Head of Financial Services (as s151 Officer) continues to advise that emphasis should be very much on achieving recurring reductions to the revenue budget.

Capital Programme

Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but overall its proposals for 2010/11 and 2011/12 must balance. Whilst there is no legal requirement to have a programme balanced over the full 5-year period, it is considered good 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.

Setting a balanced capital programme is an iterative process, essentially balancing service delivery impact and aspirations against what the Council can afford. The programme attached represents the outcome of the work undertaken to date.

In deciding its final proposals, 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.*

Future Years' Council Tax Targets

It is felt that there is little scope for increasing Council Tax increases targets above 2.5% for 2012/13 and beyond, assuming that the Council wishes to avoid any form of challenge. In considering any lower target, Members should have regard to the impact on service delivery, the capacity to make savings or to provide for growth, and the impact on subsequent years – as well as the implications for tax payers.

Housing Revenue Account Budget

The extent to which Cabinet's earlier decision on housing rents had bearing on the debate and outcome of Council needs careful consideration. Outline options for resolving the HRA position are set out below.

Option 1: To retain existing Revenue Budget proposals and refer them back to Council.

As previously reported, this supports the continuing need for the Council to maintain and invest in its housing stock and therefore represents the best position financially, to help sustain a good quality housing service.

Option 2: To consider changes to the Revenue Budget proposals for referral back to Council.

Given that decisions have already been taken on rent levels, balances, and the capital programme and its financing, the only other straightforward option would be for Cabinet to consider changing specific aspects of the budget, such as repairs and maintenance or management costs. No specific proposals have been identified at this time, however, and therefore depending on the nature of what Cabinet may consider, it is likely that Officers would need more time to undertake a full assessment.

Some proposals may prove very challenging to implement from 01 April. Whilst a later implementation could be assumed, there may be workload implications and also the timing would need to be factored into any updates to Cabinet's HRA budget proposals.

12 OFFICER PREFERRED OPTION AND COMMENTS

For General Fund, proposals to be 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.

For future Council Tax targets, both the Chief Executive and the s151 Officer would still advise against planning for a general Council Tax increase outside of the range of say 0 to 2.5%.

Regarding the HRA, Option 1 remains the Officer preferred option.

13 CONCLUSION

This report outlines the actions required to complete the budget setting process for 2011/12 and to establish the key financial targets and constraints, to inform 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. Where responsibilities for functions have transferred away from the City Council, it is assumed that decisions regarding future levels of service rest with the transferee authority.

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 4.7% 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 2015/16.

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 reduction in prudential borrowing over the period from 2011/12 to 2015/16. This is to offset earlier years' increases. 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 additional unsupported borrowing may be unavoidable in the interim, 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

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