

CABINET

Budget and Policy Framework 2012/13 – Revenue Budget and Capital Programme Update 06 December 2011

Report Head of Financial Services

PURPOSE OF REPORT				
This report provides an update on the draft revenue budget and capital programme to inform development of Cabinet's budget proposals.				
Key Decision	X	Non-Key Decision		Referral
This report is public.				

RECOMMENDATIONS OF COUNCILLOR BRYNING

1. That Cabinet notes the draft budgetary position for current and future years.
2. That the mid-year treasury management progress report set out at Appendix C be noted and referred on to Council.
3. That Cabinet approves the allocation of up to £120K to fund the remedial works for Ashton Memorial Steps, and authorises the Head of Financial Services to update the Revenue Budget and Capital Programme once timing of the works is clear.
4. That the use of the Lancaster Market Reserve be amended to support incidental costs arising in progressing the decision of Council.
5. That in accordance with the Local Strategic Partnership's recommendations, Cabinet confirms the allocation of £100K capital related Performance Reward Grant for a Community Capital Fund.
6. That further to the decision taken at November Cabinet regarding land at Ashbourne Road/Tan Hill Drive for affordable housing, Cabinet notes the s106 receipts position and therefore agrees that the 2010 General Consent Order be used to transfer the land in question for £nil consideration.
7. That in view of the budget savings needed in future years and Cabinet's aspirations for supporting growth, the following actions be undertaken:
 - in terms of efficiency, all Cabinet Members undertake detailed budget reviews of their portfolio areas to identify any further efficiencies for 2012/13;

- in terms of income generation, Cabinet considers the draft Charging Policy as set out at Appendix E and indicates any areas in which it wishes to consider additional or alternative income generation options;
- in terms of service reduction, Cabinet identifies lower priority areas in which service reduction options should be developed.

8. That progress against the above actions be reported to the January Cabinet meeting.

1 INTRODUCTION

1.1 Over the last few months Cabinet has considered various proposals associated with developing the Budget and Policy Framework for 2012/13 onwards. This report provides a financial update in support of the process.

2 GENERAL FUND REVENUE BUDGET – CURRENT YEAR

2.1 At Council on 02 March Members approved the current year's budget at £22.022M, of which £21.481M relates to the City Council and £541K relates to parish precepts. Since then, various adjustments have been approved and other changes have become apparent through the monitoring process.

2.2 To draw together such changes, an in-depth analysis of all current year budgets has now been undertaken in conjunction with Service Heads. This has resulted in a draft revised budget of £19.900M for the City Council, representing a projected total net underspending of £1.581M or 7.4%. This overall position does include very large one-off variances outside of normal service provision, as shown below:

	£'000	£'000
Operational Variances:		
Staffing Savings	-784	
Other Savings and Underspendings	-401	
Reductions in Income	+701	
Increased Costs	+336	
Net Operational Underspending 2011/12		-148
Other Variances:		
Iceland: Improved Recovery Prospects		-1,158
Slippage on Revenue Funded Activities		-275
Total Net Underspending		-1,581

2.3 If the impact of Icelandic Investment recovery and slippage is excluded, the actual operational underspending is only £148K or around 0.7% of the budget. Further summaries of the budget and variance analysis are attached at **Appendices A and B**. Key points to note are as follows:

- Around £1.1M of the underspending is a direct result of the improved prospects for recovery of Icelandic investments. This is referred to within the mid-year treasury management report, attached at **Appendix C** for referral on to Council.

- Net staff savings are forecast from a combination of turnover, longer-term vacancies and from there being no pay award made this year. Also various restructurings have been undertaken.
- The impact of the national and global economic position has clearly had adverse impact. This is demonstrated through increased prices for energy and significantly reduced demand and income from services and facilities such as car parking.
- There is slippage expected on some regeneration activities such as Business Improvement District (BID) development and the Morecambe Area Action Plan. Budgets in the current year have been reduced accordingly, but this apparent saving is offset by increases in the following year.
- There are two budgetary referrals due for consideration at Council next week. The first one (for West End Car Parking, minute 44 refers) impacts only on the current year but the second (for 'Red Book' employees, Personnel Committee minute 29 refers) will have implications for future years also. This change relates to the proposed transfer of vehicle maintenance staff onto the Council's main pay and grading structure developed under the Fair Pay project.

2.4 Taking account of the above changes, Revenue Balances would stand at £3.565M as at 31 March 2012. This is some £2.2M higher than expected back in March time.

2.5 That said, there is still time for the revised budget position to change further over the coming weeks and therefore Cabinet is simply requested to note the overall position at this stage. In particular, Cabinet's attention is drawn to the following:

- Previous reports to Cabinet have highlighted the need to undertake emergency works in connection with Ashton Memorial steps. It is now expected that funding of up to £120K will be needed for full remedial works and it is recommended that this amount be allocated from the overall underspending to the Capital Support Reserve. It follows, therefore, that if Cabinet approves this allocation the total net revenue underspending would reduce to £1.461M, with Balances also reducing.
- Working is ongoing with the Storey Creative Industry Centre, to establish its trading position and any implications for the Council.
- At the time of writing this report, Council's decision on Lancaster Indoor Market had only just been taken and therefore no specific development of the financial framework has taken place. At present, there is an estimated £120K available in the specific reserve and it is recommended that its use be amended slightly as an interim measure, to fund any incidental costs arising in taking forward the decision of Council. Authority to use the reserve would stay as at present.

2.6 In terms of other earmarked reserves and provisions, a full review has not yet been completed. Aside from revenue Balances therefore, the main one-off funds available to Cabinet to help develop its budget proposals are currently as follows.

£'000

Invest to Save	1,762	Balance at March 2013, of which £750K is earmarked for photovoltaics subject to procurement and appraisal.
Restructuring	408	To cover future redundancy / early retirement costs.

3 2012/13 DRAFT REVENUE BUDGET

3.1 The first draft of the 2012/13 budget has also been produced, in accordance with Financial Regulations and the Council's Medium Term Financial Strategy (MTFS). Further information will be provided for the January meeting but for now, there are several key points to highlight:

- The draft provides for no changes in the budgeted contributions from Revenue Balances. Formal advice on minimum levels will be given at a future meeting.
- Efficiency and other service savings of over £700K have been built into the base budget; these include around £375K from deleting vacant posts.
- The draft position does not include any of Cabinet's growth options at present, nor does it include any specific savings options such as any included elsewhere on the agenda.
- In terms of capital financing, the draft budget is based on the existing approved capital programme. There will clearly be changes coming through, once aspects such as Lancaster Market are developed further.

3.2 Currently the draft budget for 2012/13 stands at £20.838M, as shown in **Appendices A and D**. These appendices also include the provisional variance analysis undertaken so far.

3.3 If no further changes were made, the current draft budget would translate into around a 10% Council Tax increase for next year; the Band D Council Tax payable would be £212.16. Again, it is reiterated that this is before considering any savings and growth options.

4 LOCAL GOVERNMENT FINANCE SETTLEMENT

4.1 At the time of writing this report the provisional Local Government Finance Settlement had not been announced, and the Localism Bill had only just gained royal assent. Hopefully a further update should be available prior to the Cabinet meeting.

4.2 In the meantime, existing projections of Government support have been used in the budget projections to 2013/14. These are based on either the provisional announcements made nearly a year ago, or the indicative prospects outlined in the last Comprehensive Spending Review (October 2010). For 2014/15, in the absence of any real information it has simply been assumed that there will be no change in support levels either way. The projections are summarised below.

Year	Formula Grant	Year on Year (YoY) Reduction	
		£'000	%
2011/12 (Actual)	13,128	1,996 *	13.2 *
2012/13 (Provisional, issued last year)	11,609	1,519	11.6
2013/14 (Indicative estimate only)	11,377	232	2.0
2014/15 (Estimate only)	11,377	--	--

* Year on year comparisons allow for transfer of concessionary travel responsibilities

- 4.3 The outcome of Government's Resource Review could have a major impact on the Council's financial position, but changes might only be felt from 2014/15 onwards. Unless there is a major positive shift in the direction of the economy, however, with significant sustainable local growth being delivered or some other key policy change coming through, it is considered that there is a greater risk of the Review resulting in less funding for the district, rather than more. The reason behind this is Government's apparent assertion that in future, general financial support for local government should be met wholly through local taxation – avoiding the need for Revenue Support Grant (RSG). To provide context, nationally RSG amounts to £5.9BN, as compared with Business Rate Income of £19BN and Council Tax income of £27BN.

5 BUDGET PROSPECTS FOR FUTURE YEARS (BEYOND 2012/13)

- 5.1 As part of the Council's financial planning, indicative revenue spending and Council Tax forecasts for 2013/14 and 2014/15 have been produced and are included at **Appendix A**. They are also summarised below:

	Revenue Budget Projections (excluding savings & growth options)			Council Tax Projections	
	Net Budget	Annual Increase	Assumed Contribution to / from Balances	Average Band D Tax Rate	Annual Increase (YOY)
	£000	%	£000		%
2013/14	21,036	1.0	--	£221.80	4.5
2014/15	21,273	1.1	--	£226.96	2.3

- 5.2 It can be seen that for future years, the Council's net spending is forecast to increase at a small but steady rate, with no major swings.
- 5.3 No assumptions have been made for any major service or policy changes, such as Government's welfare reforms, etc.
- 5.4 In essence, the Council still needs to make further substantial recurring savings in its Revenue Budget. It is in this context that Cabinet will be asked to review its targets for council tax.

6 COUNCIL TAX AND SAVINGS REQUIREMENTS

- 6.1 With regard to any Government constraints or thresholds for increasing council tax, it is envisaged that information will be received alongside the Settlement. Assuming that this is the case a supplementary report will be produced, setting out the implications for council tax targets and savings requirements. For now though, details of the grant support available to help freeze council tax rates is repeated below. Take up of this arrangement is voluntary.

- The Council would receive a grant equivalent to a 2.5% increase; this is estimated at around £210K. As the Council's current forecasts assume a tax

increase of 2%, in next year the Council would have a little over £40K additional income to help balance its budget.

- The difficulty is, however, that the compensation grant would be a one-off only. This means that in all subsequent years, when compared with existing tax plans, the Council would forgo council tax income of around £170K, unless it considered that it could 'recoup' this income by having higher council tax increases in future years. For example, rather than having a 2% year on year increase in tax, a freeze in 2012/13 and then a 4% increase in the following year would give broadly the same sort of income stream for 2013/14.
- The risk is, however, that a 4% increase would be viewed as unacceptable by Government, which could result in either capping applying or a local referendum being needed, depending on what Regulations are in force.
- If the Council determined that it should not (or could not) seek to 'recoup' the income foregone, then there would be the need to generate additional annual savings of around £170K from 2013/14 onwards, adding even more pressure to the budget.
- Based on the City Council's tax rate of £192.25 for a Band D property, a 2% change in tax rate amounts to £3.85 per year or around 7 pence per week.
- The same or similar offers of grant support apply to the County Council, police and fire authorities. For information, the full basic Band D tax for the area is currently £1,510.47.

6.2 It can be seen that the matter is not as straightforward as was a year ago and balancing future years' budgets is already a major challenge; the task gets even harder if scope is to be created to support any growth.

6.3 To summarise, the main scenarios for council tax and their implications for savings targets for the next three years are summarised in the following table. These will be updated in due course, to take account of the provisional Settlement.

Council Tax Increase Scenarios	Indicative Net Savings Requirements		
	2012/13 £000	2013/14 £000	2014/15 £000
a. 2% all years (existing MTFs targets)	698	948	1,000
b. 0% then 2% each year, with 'compensation' in 2012/13	657	1,119	1,175
c. 0% then 4% each year - subject to capping or local referendum?	657	952	829

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

7.1 At previous meetings Cabinet has approved fourteen priority areas, to form the basis of its budget proposals and corporate planning for 2012 to 2015. Various aspects have already been fed into development of the budget. As yet though, Cabinet has no leeway available in the draft budget in which to support growth; much work still needs to be done to balance the budget just allowing for existing service levels.

7.2 In view of this position, Cabinet is again advised to focus its immediate attention on identifying and prioritising areas for making recurring savings. It is reiterated that without such an approach, it runs the risk of:

- not being able to formulate a set of balanced budget proposals for consideration by Council in February, or
- resorting to drawing heavily on reserves and balances, and storing up pressures and difficulties for the following year; and / or
- not being able to take forward its draft priority list and any associated growth options.

7.3 A further update is set out below on the themes for achieving savings in line with the MTFS:

Efficiencies

Sessions with Service Heads and Portfolio Holders to review their own detailed budgets (and a wider corporate session) are currently being arranged. This will provide a useful forum in which to recognise the efficiencies already gained and identify any new areas.

Invest to Save Schemes

So far, plans for using this reserve are focused on delivering savings in the longer term only, rather than the short to medium term. The outcome of the procurement and appraisal of photovoltaic proposals, and Lancaster Market negotiations as another example, could easily absorb the funds available.

Income Generation

A draft corporate charging policy is set out at **Appendix E** for Cabinet's consideration. In particular, Cabinet is requested to review the list of charging areas included (at Annex B) and indicate any in which it wishes to see additional or alternative income generation options being developed. In doing so though, the difficulties already experienced in the current year must be taken into account.

Service Reductions

It is still expected that the Council will need to reduce the level and/or range of services provided, in order to establish a sustainable balanced budget. Cabinet's direction is therefore again sought as to the areas in which it requires savings options to be developed.

8 GENERAL FUND CAPITAL PROGRAMME

8.1 In line with the existing capital investment priorities and taking account of information available for Cabinet's new priority areas so far and other potential growth, the latest draft capital position is summarised below and a more detailed statement is included at **Appendix F**. At present a £335K shortfall is shown for the 5-year period, although more information is needed to complete the picture.

General Fund Programme	2011/12	2012/13	2013/14	2014/15	2014/15	2015/16	Total
	£'000	£'000	£'000	£'000	£'000	£'000	
Total Provisional Programme	6,357	4,023	2,991	949	859	859	16,038
Estimated Funding Available	6,357	3,688	2,991	949	859	859	15,703
Cumulative Shortfall	--	335	335	335	335	335	335

8.2 Points to note regarding investment include the following:

- a. Municipal building and other infrastructure provisions (i.e. IT and vehicle replacement) have been reviewed and updated but further changes may come through as projects develop. It is not expected that investment needs will alter substantially for 2012/13 though. The outcome of building condition surveys will feed into the next budget process, for 2013/14 onwards.
- b. Three capital growth options have been identified so far by Cabinet. One of these has arisen as a direct result of Cabinet's draft priorities, this being for allotments (minute 58 refers). Work is underway on quantifying any likely growth needs for housing regeneration proposed priorities. There are a further two growth options identified to date, which have not been directly linked with Cabinet's draft priorities so far, but they could link with existing corporate objectives:
 - Lancaster Square Routes (£300K, minute 50 refers)
 - Morecambe Area Action Plan (£200K indicative, minute 49 refers).
- c. In due course, Cabinet will be required to reconsider and prioritise these alongside its other budget proposals, but Lancaster Indoor Market is expected to create the greatest pressure on General Fund capital in the short to medium term.

8.3 Points to note regarding financing include the following:

- a. For now, the draft programme assumes that existing levels of Disabled Facilities Grant funding will be maintained and used wholly to support such schemes, rather than being redirected into other areas. It should be noted that to ensure continuity of the scheme and to avoid undue delays in processing applications, up to £150K will be committed against next year.
- b. Further to November Cabinet, unallocated Performance Reward Grant has now been built into the financing assumptions (minute 57 refers). Since that meeting, however, an anomaly has arisen in that the November report assumed that £100K for the Community Capital Fund had been already been approved by Cabinet. This was not actually the case, however, so technically, rather than there being only £89K capital funding unallocated, there is actually £189K. The draft capital programme has been produced on the basis that Cabinet accepts the LSP's recommendations and would wish to allow for the Community Fund allocation, which is targeted 'for improvements to neighbourhood/parish/community buildings that would support positive activities and involvement in the local community...'. Accordingly, this is reflected in the recommendations of this report and only £89K of unallocated grant is currently built into the draft programme.
- c. Also following on from November's meeting, it has been confirmed that there are no surplus s106 resources available for the Ashbourne Road/Tan Hill Drive affordable

housing scheme, assuming that the outline proposals for other such schemes are to be considered as priority in due course. The Council's land will therefore need to be transferred to the developer at £nil consideration in order for the scheme to go ahead; this can be facilitated legally under the 2010 General Disposal Consent Order. Whilst no monetary benefit will be obtained from this arrangement, it will help deliver 27 affordable homes within the district. This approach is reflected in the recommendations of this report and in considering this matter, Cabinet is advised to refer back to the exempt report presented in October (minute 61 refers) to ensure it takes an informed decision. The Council's property disposal policy is currently being reviewed, to determine whether a formal update would provide a clearer context in which to consider any similar affordable housing schemes in future.

- d. No other changes to the capital financing principles (as set out in the MTFS) are considered appropriate at this stage. Outcomes for Luneside East and sale of land at South Lancaster are expected in this financial year.
- 8.4 All of the Council's capital investment plans need to be affordable, sustainable and prudent. As with revenue, the big risk regarding capital investment is affordability, but prudence also needs particular consideration – this is more about ensuring that the Council does not take on too much at one time, in capital terms.
- 8.5 Members are reminded that when combined, all the potential pressures on borrowing could make it inadvisable to take forward all capital investment options at the same time, even if they were affordable (though clearly this latter point has not yet been addressed). In view of Council's stance on Lancaster Market, this represents the first priority for additional capital resources. Cabinet is advised to reflect this accordingly, in developing its draft priorities further.

9 COUNCIL HOUSING (HOUSING REVENUE ACCOUNT- HRA)

- 9.1 Cabinet will be aware that subject to all the necessary Regulations coming into force in time, self-financing will be implemented for the HRA from April next year. At the time of writing this report, the draft proposals and figures had only just been received; this was a little later than expected and there has been no time to consider their implications as yet.
- 9.2 A presentation on the self-financing arrangements is scheduled for 25 November and this will provide an opportunity for all Members to gain a better understanding of the proposals and the decisions that will need to be taken in due course.
- 9.3 Inevitably though, especially given that final self-financing figures will not be received until January time and there are various other elements of the proposed financial framework still out to consultation, it is not considered possible that there will be sufficient time to develop medium to longer term strategies for all the various aspects of the new arrangements.
- 9.4 In particular, rent setting has proved to be a difficult area for Council in recent years. Once self-financing has been introduced, there will be more time to develop and appraise different rent policies in context of the HRA business plan and investment needs, etc. Between now and February though, the immediate challenge will be to formulate a balanced set of budget proposals for 2012/13 and establish an interim framework within which the HRA can operate. This will mean that in terms of rent setting and other related strategies, a one-year focus will be taken. Any views taken from 2013/14 onwards will be indicative only and subject to further development early in 2012/13. This will then present Members with a good opportunity to have a much more in-depth review and challenge of the future direction for the HRA.

9.5 As context for rent setting, the current year's average rent is £64.20, representing a 6.9% increase from last year. The original projections for 2012/13 and 2013/14 assumed year on year increases of around 4.7%, drawing on the Government's policy of rent convergence.

10 DETAILS OF CONSULTATION

10.1 The national and local context in which the Council is developing its budget proposals was covered in the recent public sector engagement events. Cabinet should consider the feedback from these events in developing its proposals further.

10.2 Consultation will also be undertaken through the Budget and Performance Panel meeting in January, prior to Budget Council at the end of February.

11 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

11.1 In terms of the budget generally, at this stage Cabinet is requested to note the budgetary position but more importantly, take forward a number of actions to help develop a balanced set of budget proposals. In particular, direction is sought for areas in which savings options should be developed.

11.2 Depending on the timing of the Settlement, Cabinet may be requested to review council tax targets for future years.

11.3 With regard to the more specific recommendations, options are outlined below:

- For Treasury Management and land at Ashbourne Road / Tan Hill Drive, no alternative options are available. This is in view of formal reporting needs, or previous decisions of Cabinet.
- For Lancaster Market reserve, Cabinet could choose to either approve or reject the proposed amendments in the use of the Reserve. If the changes are rejected, this could have an adverse impact on progressing negotiations.
- For Ashton Memorial Steps, Cabinet could choose to support the allocation of funding, or defer a decision until later in the budget process. Given the nature of the memorial asset, works to rectify the steps must be undertaken at some point. For this reason, leaving the steps in their current condition for any length of time is advised against; there is no real benefit in delaying. The Council would be left with an asset that cannot be used for its original purpose, together with all the difficulties and potential liabilities that such a situation gives rise to. Clearly this would go against sound asset management practice.
- For the Community Capital Fund, Cabinet could choose to confirm or reject the allocation of funding, or defer a decision until later in the budget process. Cabinet may wish to refer back to the Partnerships report on the November Cabinet agenda. This allocation would support purely discretionary spending; Members are advised to consider the LSP's recommendations and assumed commitments, against other potential uses for these funds.

12 OFFICER PREFERRED OPTION AND COMMENTS

12.1 The Officer preferred options are reflected in the recommendations.

13 CONCLUSION

13.1 Whilst some key elements of budget setting remains uncertain and some good progress has been made by services in making efficiency savings overall, there is still much to be done in balancing the budget. Although Member focus has been on possible growth areas, it is strongly advised that this now needs to switch to identifying ongoing savings options. Although the Council's Balances are substantially higher than originally forecast and this provides some scope and flexibility in the shorter term, their use will not resolve any structural imbalance between the Council's ongoing spending levels and its expected funding.

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, and her comments and advice are reflected accordingly.

LEGAL IMPLICATIONS

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

LG Provisional Finance Settlement
2010/11

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