CABINET

Budget and Policy Framework Update –
General Fund Revenue Budget and Capital Programme
14 February 2012

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 01 February, and to make recommendations back to Council in order to complete the budget setting process for 2012/13.					
Key Decision		**Non-Key Decision**		**Referral**	**X**
Date Included in Forward Plan	February 2012				
This report is public.					

RECOMMENDATIONS OF COUNCILLORS BLAMIRE AND BRYNING:

That Council be recommended to approve:

1) **the General Fund Revenue Budget at £20.190M for 2012/13, resulting in a Council Tax Requirement of £8.363M excluding parish precepts;**

2) **the budget proposals as summarised at Appendix A, subject to any amendments arising in the Cabinet meeting and with the balance of any remaining savings requirement in 2012/13 being met from Revenue Balances;**

3) **the resulting policy on provisions and reserves as included at Appendix B;**

4) **the resulting Capital Programme as set out at Appendix C; and**

5) **the resulting Medium Term Financial Strategy (MTFS) and Prudential Indicators as set out at Appendix D.**

1 **INTRODUCTION**

1.1 Cabinet's initial proposals regarding the Budget and Policy Framework were considered at Budget and Performance Panel on 24 January and at Council on 01 February (minute 96 refers). No specific feedback was received from the Panel. The key points arising from Council are as follows:

- a freeze in 2012/13 City Council tax rates was approved, together with target increases of up to 3.5% for subsequent years;

- Cabinet's draft priority areas and the draft General Fund revenue and capital budget proposals were accepted;

- for Council Housing, budget setting is now approved in full.

1.2 This report builds on those resolutions and on other updated information in order that final recommendations can be made to Budget Council on 29 February.

2 POLICY IMPLICATIONS

2.1 Cabinet has developed its budget proposals to reflect its proposed priorities as far as possible, together with other emerging issues such as the future of Lancaster Indoor Market, as an example. As well as allowing (as far as possible) for such planned changes, budget proposals still reflect the continuation of other services, taking account of income generation expectations and improvements in efficiency.

2.2 A separate report elsewhere on the agenda provides an update on the existing Corporate Plan and associated priorities. To ensure that the Council's plans and budgets are meaningful and deliverable, it is essential that they fit together. If any gaps exist, these should be recognised and plans put in place to resolve them. It is inevitable though that not everything can be addressed at once and also, as the Council's planning arrangements typically cover three to five years, further challenges will arise during that time.

2.3 Cabinet is requested to consider the above points and the separate Corporate Planning report in finalising its budget proposals for 2012/13 onwards.

2.4 It is important to note too that whilst budget proposals will be considered at the next Council meeting, the Corporate Plan will be presented at the subsequent Council meeting. This means that the Budget will already have been set by the time Council considers the Corporate Plan and therefore there may be little flexibility in budgetary terms, at that stage. This is inevitable, but it should be borne in mind. Some further flexibility may be provided through the mid-year monitoring and review processes, but that will depend on prevailing circumstance.

3 LOCAL GOVERNMENT SETTLEMENT

3.1 Government has now announced the final Settlement for 2012/13 and there are no changes from the provisional position.

3.2 No amendments have been made therefore to future years' support assumptions, although with reforms to the redistribution of Business Rates still planned for 2013/14 onwards and the difficulties in the economy generally, these remain as key risks for medium term financial planning.

4 COLLECTION FUND POSITION

4.1 Legislation requires that an estimate of any surplus or deficit on the Collection Fund is made each year, and that any such balance is distributed to the major 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 are made to the County, Police, Fire and the City Council's own General Fund.

4.2 The review of the Collection Fund's financial position as at January 2012 indicates that overall the Fund has a comparatively small surplus of £72K for distribution, in comparison with the £66M that is due to be collected for this year. This indicates good practice, both in terms of collection rates and in terms of financial forecasting. The City Council's share of the surplus is £9K and this has been incorporated into the budget position.

5 2012/13 GENERAL FUND REVENUE BUDGET

5.1 In order to fit with a freeze in council tax rates and the final Settlement and Collection Fund positions outlined above, the General Fund Revenue Budget must be set at £20.190M for 2012/13, excluding parish precepts, and Cabinet is requested to refer this on to Council for approval.

5.2 Updated revenue proposals are set out at ***Appendix A***. These take account of all the decisions approved earlier by both Cabinet and Council. Other base budget changes have been made but in net terms, these are fairly minor. In addition, later this month Council will be required to consider a pay policy statement (now required under the Localism Act) and there will be financial implications linked to this. Full details will be reported to Council but the base budget has been updated provisionally, subject to Council's final decision.

5.3 Regarding savings and growth proposals, if those listed were all taken forward further savings of £363K would still be needed to balance the 2012/13 budget. This figure could well change, as outlined below:

- The proposals allow for the published recommendations for items elsewhere on the agenda, namely charging for bins and boxes, wellbeing fees and charges and the security/health and safety related aspects of accommodation. It is noted that at this stage the recommendations in some of the reports are officer recommendations. If different decisions are taken, the savings requirement would alter.

- Any other potential growth associated with accommodation has not been allowed for as yet; this would be amended depending on Cabinet's decision. If additional growth is added in, this would increase the savings needed.

- In relation to the potential saving regarding Morecambe Bay Strategy Partnership, work is underway to establish with other partners what the risks and loss of benefits would be from withdrawal. The outcome will be reported prior to the Cabinet meeting, together with any other updates from Officers on outstanding budgetary matters.

- Although no formal amendments or suggestions were put forward from either Council or Budget and Performance Panel, a query was raised in the Panel meeting regarding the intended savings associated with the Morecambe Business Improvement District (BID) development. Cabinet will recall that this savings option was allowed for, but on the basis that further investigations on the prospects for progressing any Morecambe BID would be undertaken and budget provision would be reassessed if any future spending needs materialised. The outcome of those investigations so far can be summarised as follows:

i. Discussions to date have focussed on developing a suitable forum to assist with progressing the BID and considering the BID's potential area / coverage.

ii. Informal feedback is that the various associations do want to progress a BID; a formal statement of proposed arrangements and commitments is being sought.

iii. To help with this it is felt that the local trade associations should be given a chance to explain where they are up to in a formal setting. It is considered that the appropriate forum for this would be the next Business Cabinet Liaison Group scheduled for 28 February.

In view of these points and timescales, Officer views are that it would be more appropriate to reinstate the budget at this time so that funds are still in place should the BID development go ahead. Cabinet is requested to reconsider this savings proposal therefore.

5.4 Cabinet is now required to finalise its full savings and growth proposals and make recommendations to Council to tie in with a Revenue Budget of £20.190M. 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.

5.5 Linked to the above, under the Localism Act emphasis is now moving away from the current 'Budget' definition, onto 'Council Tax Requirement'. This is therefore a term that will feature in the formal council tax resolutions to be made by Council and in due course, it may well become more widely used in comparing councils' financial forecasts. For now though, both measures are provided for.

6 PROVISIONS, RESERVES AND BALANCES

6.1 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.

6.2 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.

6.3 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 can 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.

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

– Once again the Council has demonstrated its ability to achieve major savings and underspendings, whilst still providing financial capacity for invest to save schemes and other initiatives. It has also been able to manage the revenue impact of current economic conditions felt through reducing income streams, etc. Going forward, whilst the Council's budget is tighter, it should be more representative of its known spending needs and achievable income levels. Unless windfalls arise though, there should be less chance of major underspendings (and more chance of overspends) occurring.

– Other risks have reduced as a result of external factors, Luneside East being an example. The less that the Council is involved in direct delivery of major schemes – promoting or supporting other partners or routes instead to further its priorities - the lower its general exposure to financial risk may be.

– That said, there are still clearly financial and other risks attached to resolving the way forward for stalled housing regeneration schemes, and in due course the Council will consider taking on additional financial obligations for these. A similar situation exists for Lancaster Indoor Market, albeit that this aims to 'swap' a long term financial obligation with an arrangement that would save money overall, and still provide an opportunity for improving the city centre retail offer. Separately, the expected delays in selling the land at south Lancaster mean that this risk is not yet eliminated.

– Linked to the economy and the Government's reform agenda, there are still big challenges and risks ahead. Welfare reforms are worthy of a special mention, as are plans for changing how (and how much) business rate income is distributed. It is assumed that in future Government will retain its current threshold of a 3.5% but this could change, taking account of reduced inflation prospects as an example.

– To date, the Council has maintained significant earmarked reserves to help manage its financial risks and these should give leeway if unexpected spending needs arise. Furthermore the Council has access to facilities such as capitalisation directives. These give some other comfort in considering how the Council would deal with any unexpected pressures arising.

– Finally, whilst acknowledging the uncertainties, current savings requirements for future years are significantly lower than they have been in previous budget rounds.

6.5 On balance, although there have been shifts in particular financial risks, it is considered that there is no justification for requiring a change to the Council's minimum balance levels. This advice would alter only if there were some major amendments to Cabinet's current budget proposals.

6.6 Balances are currently forecast to be £2.021M by the end of March 2012. After allowing for next year's budgeted use of £326K and the minimum level being retained at £1M, this still leaves £695K surplus Balances available for allocation.

6.7 The review of all Balances, provisions and reserves is reflected in the updated policy attached at ***Appendix B***. As well as showing the amounts held, the appendix also sets out the decision-making for their use. Cabinet is advised to consider this aspect carefully.

7 GENERAL FUND CAPITAL INVESTMENT

7.1 The current draft programme for the period to 2016/17 is included at ***Appendix C*** for Cabinet's consideration.

7.2 The draft includes a small number of adjustments made since the last Cabinet meeting. Other than any re-profiling of schemes, the main points to highlight are as follows:

- an additional (externally funded) phase of Hala playground improvements is now included, as are works to Ashton Memorial Steps;

- an extra £63K in Disabled Facilities Grant (DFG) funding has been received from Government in the current year. Future years' figures are still estimates, but if received in time the formal notification for 2012/13 will be incorporated into the report for Budget Council. Unless Cabinet indicates otherwise, given current demand for disabled facility adaptations the actual notification for next year will be wholly allocated for this purpose, without seeking any further specific Cabinet approval;

- the growth proposals for Allotments (£60K), Square Routes (£300K) and Morecambe Area Action (£200K) are all included.

7.3 The current year's Revised Programme now stands at £6.668M. It is estimated that there will be no capital receipts unapplied as at 31 March 2012. This year's programme now assumes a £2.407M increase in the underlying need to borrow (known as the Capital Financing Requirement: CFR).

7.4 For the 5-year period from 2012/13 onwards, the draft programme amounts to £10.554M, but Cabinet will see that it is now balanced. This is because it assumes that extra revenue financing of £235K will remain as part of Cabinet's revenue growth proposals (as provided for in Appendix A).

7.5 Nonetheless, Cabinet may still choose to adjust the draft programme, by removing non-essential schemes or any of the growth proposals, or indeed using other revenue resources to provide for some further limited capital investment.

7.6 In terms of managing the financing risks, to the extent 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. For any non-essential schemes, in line with the Financial Regulations these would only progress once the sale of land at south Lancaster has been confirmed.

7.7 The Council's Prudential Indicators have been updated to reflect the draft capital position so far and these are also incorporated at ***Appendix D (Annex A)***.

8 OPTIONS FOR BALANCING THE BUDGET

8.1 Cabinet is now required to identify a full set of balanced budget proposals for referral to Council, to fit with agreed council tax for 2012/13. These final budget proposals should be informed by and support Cabinet's review of the Corporate Plan and the fourteen activity areas.

8.2 As a recap, the current revenue shortfall in next year is £363K and to address this, Cabinet may consider options around the following:

i. identify more revenue savings;
ii. reduce or remove revenue growth;
iii. reduce or remove capital schemes (to the extent that they are revenue funded)
iv. apply some or all of the estimated surplus Balances of £695K.

8.3 Should there be any removal of current savings or increases in growth proposals, then further compensating savings would be needed.

8.4 In formulating its recommendations, Cabinet is advised to note the following points:

- given the tighter budgeting adopted it may be prudent for Cabinet to leave room for any new demands, by leaving some Balances unallocated as an example.

- in view of the formal advice regarding reserves, there is little scope for reallocation.

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

9.1 Indicative revenue spending and council tax forecasts for 2013/14 and 2014/15 have been reported and updated on an ongoing basis during the budget process. The latest projections are summarised as follows:

	Budget Projections (allowing for savings & growth)			**Council Tax**		
	Net Budget	**Annual Increase**	**Budgeted Contribn. to Balances**	**Council Tax Requiremt.**	**Average Band D Tax Rate**	**Annual Increase (YOY)**
	£000	**%**	***£000***	***£000***		**%**
2013/14*	20,569	1.9	--		£206.37	7.3
2014/15	20,912	1.7	--		£214.00	3.7

* Annual increase assumes that 2012/13 budget will be balanced.

9.2 It can be seen that after next year, year on year changes in budget forecasts are relatively steady.

9.3 The Council aims to keep basic City Council tax increases to no more than 3.5% for 2013/14 and 2014/15. As a consequence, the following table sets out the key financial targets that the Council will strive to work within for the next three years.

Target (To be updated)	**2012/13**	**2013/14**	**2014/15**
Budget Requirement	£20.190M	£20.247M	£20.560M
Council Tax Increase (maximum)	0%	3.5%	3.5%
Year on Year Net Savings Requirement (assumes recurring savings achieved)	-	£322K	£30K
Cumulative Net Savings Requirement	-	£322K	£352K

9.4 The net savings targets would need to be increased for any additional growth that may be required in future, any further net increases in the base budget, or any reductions in council tax targets (below the maximum assumed).

9.5 The MTFS is now attached in full at ***Appendix D***, for Cabinet's consideration. Other than reflecting changes in budget and council tax projections, there have been no other substantive changes.

9.6 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.

10 DETAILS OF CONSULTATION

10.1 This is outlined in section 1 of the 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.

<u>Revenue Budget</u>
As Council has now determined the City Council tax rate for 2012/13, there are no options to change the total net revenue budget for next year (recommended at £20.190M) 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. Taking account of these, the Head of Financial

Services (as s151 Officer) continues to advise that wherever possible, emphasis should be 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 2011/12 and 2012/13 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.

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.*

Budget Framework (Reserves and Provisions / MTFS)
Given known commitments, risks and approved council tax targets there is little flexibility in financial terms, but Cabinet could consider different arrangements for approving the use of various reserves, or consider different budget strategies for future years. On the whole, however, the current arrangements have worked reasonably well and so no fundamental changes are proposed.

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.

13 CONCLUSION

This report outlines the actions required to complete the budget setting process for 2012/13.

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 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 advice to date is provided below for information, but it should be noted that some of this is provisional until Cabinet's full budget proposals are known. At Budget Council, Members will be recommended to note formally the advice of the s151 Officer.

Provisions, Reserves and Balances

- 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 other measures and safeguards in place.

With regard to General Fund balances, £1M represents 5% of the net Revenue Budget (or 12% of the Council Tax Requirement). The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific policy change indicates otherwise.

Robustness of Estimates

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

- producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks. In particular, this has drawn on previous years' spending and income generation patterns to tighten budgets and reduce the scope for underspending;
- reviewing the Council's priorities and new proposals, and its associated service activities and spending plans;
- reviewing the Council's MTFS, together with other corporate monitoring information produced during the year;
- undertaking a review of the Council's affordable borrowing levels to support capital investment, in line with the Prudential Code, but taking account of capital receipt expectations and potential investment needs for progressing Lancaster Indoor Market.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust.

Affordability of Spending Plans

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

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 (for General Fund). 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 planned 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 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 General Fund prudential borrowing over the period from 2012/13 to 2016/17. This is to offset earlier years' increases (resulting from delays in generating capital receipts). Comparatively low levels of new capital investment are provided for, in recognition of the pressures facing the Council, but these do not involve prudential borrowing. These issues have been built into the draft Prudential Indicators for approval by Budget Council.

It is acknowledged that uncertainties over capital receipts forecasts could add further pressure to the revenue budget, at least in the short term. If these result in medium term pressures, further revenue savings would be required to ensure affordability. Also, for Lancaster Indoor Market, this represents the top priority in terms of any future prudential borrowing need, to allow the Council to save money over the longer term.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no observations to make.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS **LG Finance Settlement** **Prudential Code**	**Contact Officer: Nadine Muschamp** **Telephone: 01524 582117** **E-mail:nmuschamp@lancaster.gov.uk**