

CABINET

Medium Term Financial Strategy Update 06 November 2012

Report of the Head of Resources

PURPOSE OF REPORT				
To update Cabinet on the Council's financial prospects for future years, to help inform development of its budget strategy.				
Key Decision	<input checked="" type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>	Referral
This report is public.				

RECOMMENDATIONS OF COUNCILLOR BRYNING:

1. That the current position regarding current spending and forecasts for future years be noted, together with associated risks and uncertainties.
2. That the Government's proposed council tax threshold of 2% for 2013/14 be noted, and that Cabinet considers whether it wishes to recommend any formal changes to council tax targets at this stage, or reconsider the matter in December when more information should be available.
3. That Cabinet notes the work underway in developing the budget and indicates any further specific actions to be taken, particularly with regard to savings options.
4. That the key issues arising from this review be reported to Council for information.

1 BACKGROUND

- 1.1 In planning for the future, the Council needs to be clear about what finances and other resources it will have, to both shape and deliver its corporate priorities.
- 1.2 To help with such planning, the Council's existing Medium Term Financial Strategy (MTFS) provides a financial basis on which Members can consider what changes may be needed to Council's priorities, the associated levels and scope of services provided, and also to council tax levels. Inevitably a flexible approach is needed, to respond to national policy changes and more local issues.
- 1.3 Each year, Cabinet has responsibility for reviewing the MTFS and recommending any updates to Council. This is normally done twice a year:

- the first review is generally done in the autumn, to see what has changed financially and to assess whether existing council tax targets are still appropriate; and
- the second update concludes the budget setting exercise, drawing on decisions taken in fixing the budget, to set the financial direction for future years.

1.4 Similar to last year, this first review does not attempt to give an in-depth update on the Council's finances. The aims at this stage are to:

- ensure an appreciation of the financial outlook and likely challenges facing the Council, in order that Members can formulate how best to tackle those challenges;
- allow initial consideration of whether any changes to future council tax targets should be recommended to Council;
- gain direction on any specific areas in which Cabinet requires savings proposals to be developed, to help with planning and management.

2 GENERAL FUND REVENUE UPDATE: CURRENT PROSPECTS

2.1 The starting point for reviewing General Fund financial prospects stems from Budget Council in February 2012. Prospects back then can be summarised as follows:

	2012/13 Budget £000	2013/14 Projection £000	2014/15 Projection £000
Net Revenue Budget	20,190	20,655	21,000
Less: Government Support	11,818	11,582	11,582
Less: Collection Fund Surplus	9	0	0
Required Council tax funding	8,363	9,073	9,418
Tax Base	43,500	43,550	43,600
Resulting Band D Council Tax	£192.25	£208.34	£216.01
Resulting % Increase Year on Year	0%	8.4%	3.7%
Target Band D Council Tax	£192.25	£198.97	£205.93
Target % Increase	0%	3.5%	3.5%
Budget Savings Required to meet Target	0	408	440

2.2 Inevitably circumstances have changed and budget prospects have altered over the last few months. Taking account of information available to date, anticipated changes for current and future years can be summarised as follows, with more details included at **Appendix A**:

	2012/13 Budget £000	2013/14 Projection £000	2014/15 Projection £000
Original MTFS Net Savings Requirement A	n/a	408	440
Approved or expected Base Budget Savings	-638	-765	-639
Approved or expected Budget Increases	+129	+770	+452
Total Net Changes (- reduction / + increase) B	-509	+5	-187
Additional savings to reduce council tax increase to 2% C	0	+125	+258
Updated Net Savings Requirement (simply assumes a 2% council tax increase, but with no growth included) A+B+C	n/a	538	511
Resulting Projected Council Tax Increase	0%	8.4%	1.6%
Band D Basic City Council Tax	£192.25	£208.45	£211.72
Potential Savings Options identified to date		-300	-301
Potential Extra Impact of Council Tax Freeze for 2013/14 (see section 6.1)		+84	+92

2.3 Importantly, Council approved target city council tax increases of up to 3.5% per year, subject to future local referendum thresholds. The indicative net savings requirements shown now allow for an annual target of 2%, following the recent Government announcement on thresholds for 2013/14. There has also been another offer of council tax freeze compensation and the impact of this too is shown at the bottom of the table. More information on the recent developments regarding council tax is covered in section 5 of this report.

2.4 With regard to Government funding prospects, although there is commitment to tackling the national deficit and introducing funding distribution changes as part of the Local Government Finance Bill, there is no clear consistent message about the scale of expected funding reductions in the coming years, or how the Bill may affect individual authority's prospects. Some scenarios are outlined later but for now, the above projections simply retain the previous projections that next year's funding would reduce by 2% in cash terms (around 4.2% in real terms). For 2014/15 no change is assumed, in cash terms.

2.5 With regard to specific budgets, the key changes relate to approvals in respect of staffing changes, cost sharing arrangements for waste collection/recycling, and the Highways partnership with Lancashire County Council. In addition, projected savings resulting from a lower than anticipated interest rate on the HRA self-financing loan have been built in.

2.6 On the downside, an annual budget increase for a new Information and Communications Technology (ICT) exchange licence is now expected, which will be

required in order to maintain various services. Full details will be provided in future budget reports and in updating the ICT strategy, scheduled for January.

- 2.7 Further delays have been experienced on completing some land sales, which in turn affects the financing of the capital programme. It means that the Council's underlying need to borrow will be around £1.8M higher than originally projected, resulting in higher capital financing costs for next year.
- 2.8 Overall, it can be seen that whilst annually base budget savings of up to £765K have been identified, these are expected to be offset by additional cost pressures coming through. This means that the net savings requirements are still around £538K for next year and £511K for the year after, and these do not allow any scope for growth.
- 2.9 The 2015/16 outlook will be reported later in the budget once the detailed three-year forecasts have been produced, but it is not expected to give a better picture.
- 2.10 In terms of tackling the savings requirements, some outline savings options have been listed, as identified during last year. These may not prove fully achievable but there are other initiatives underway that will add to the list. If any growth proposals are to be taken forward by Cabinet, then this will increase the need for savings.
- 2.11 The levels of provisions, reserves and balances still need to be reassessed, particularly in view of any material changes to the key risks facing the Council. In terms of revenue balances, as a result of last year's outturn and the budget changes identified to date, these would be some £869K higher than previously expected; balances as at 31 March 2013 would stand at £2.147M. The use of any such surplus amounts has not been built into the forecasts.
- 2.12 It should be appreciated that the financial projections shown are only a snapshot and more changes will arise. An in-depth update to current and future years' base budgets is currently underway and this will be reported to Cabinet in due course. Overall though, the message is that savings will be needed.

3 IDENTIFICATION OF SAVINGS OPTIONS

- 3.1 In view of this position, once again Cabinet needs to focus its attention on identifying and prioritising areas for saving. 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 for the following year; and
 - not being able to take forward its draft priority list and any associated growth options.
- 3.2 As such, Cabinet may find it useful to recap on the themes for achieving savings, as set out in the MTFS. The detailed budget reviews scheduled for December will provide a very useful forum to review progress.

Efficiencies

All Management Team are currently working on identifying and/or progressing options either within their own service areas or more corporately, but Cabinet may have specific ideas or initiatives that they wish Officers to appraise or develop.

Income Generation

A corporate update on the Council's charging policies has been re-scheduled for December. This can be used to indicate any areas in which Cabinet may consider increasing fees and charges above the assumptions provided for within the base budget, although difficulties are already being experienced in meeting budgets in some areas.

Service Reductions

Cabinet will need to be in position to rank service areas considered most likely for reduction (or put another way, those "least unacceptable") and as such, Members are advised to consider their information needs in order to ensure an informed approach.

4 GENERAL FUND CAPITAL INVESTMENT UPDATE

4.1 Linked to the comments on capital financing mentioned earlier, at present the capital programme is currently on hold for schemes deemed non-essential.

4.2 In terms of new in-year spending that has or will be deemed essential, the key projects are as follows. Perhaps not surprisingly, these relate mainly to infrastructure needed to maintain service delivery:

- **Municipal Building Works**

The main element of work currently being undertaken relates to energy efficient heating renewal at Lancaster Town Hall. This work is estimated to cost £284K allowing for contingency, fees and removal of asbestos, replacement ceiling and lighting and general redecoration as well as air conditioning units. The current units use a type of refrigerant that will be prohibited by 2015 and they are either not working or are in poor condition and could not be repaired if they failed. Given that Lancaster Town Hall is to be retained as a key office base, refurbishing these offices up to a reasonable standard and tackling the various health and safety matters in a holistic way is the common sense approach. In due course, it should support rationalisation of other council property and allow savings to be made. In any event, the facilities will be much more energy efficient.

- **Lancaster Indoor Market**

The market hall is now empty and negotiations are progressing with Allied to complete the surrender option agreement.

- **ICT Renewal**

Users may have noticed that the Council's systems have been getting slower of late. Basically storage is getting full and procurement of a solution for this was needed urgently. To avoid the Council's network grinding to a halt the procurement of the required infrastructure has taken place and implementation commenced. The estimated cost of the solution is around £140K. Separately, upgrade of the Council's customer services system is needed, to ensure that it is fit for purpose and still supported by the supplier. This will cost an estimated £43K. Such ICT needs will be financed from existing ICT provisions,

supplemented if necessary by the Renewals Reserve under normal delegated arrangements.

– **Ashton Memorial Steps**

As reported during the budget last year, significant works to these are needed and extra monies were put aside in the Municipal Buildings Reserve as the budget of £120K was expected to be insufficient. On the basis that these works will need to be done at some point and they represent a health and safety hazard, at the time of writing this report arrangements were being put in place to award the contract, at an estimated cost of £183K.

4.3 Some concerns have been raised by Members regarding the process for approving capital schemes to progress, and whether it is appropriate for Officers to have delegated authority for the use of various Reserves, as an example. Such delegations are clearly set out in the policy as approved by Cabinet / Council or other aspects of the Constitution. It is expected also that the recent changes in regulations for access to information concerning decision-making may also help in providing greater transparency. Nonetheless, if it is an area of general concern, then Cabinet may wish to reconsider the approach as part of the budget process.

4.4 Other capital points to note include the following:

Municipal Building Works

The largest budget is allocated to backlog work on municipal buildings. The detailed condition survey on which the original budgets were based is out of date, however, and the results of the latest survey will be reported to Cabinet in January to inform future budgeting. The aim is to have a more robust capital investment programme and planned/responsive repair and maintenance budgets, but achieving this is expected to add more financial pressure, at least in the short to medium term and it is a big task. In due course options for rationalising the property portfolio will be developed also, and this should achieve financial and other savings.

Private Sector Housing

A grant of £1.9M has been secured from the Homes and Community Agency to finance further development of Chatsworth Gardens and other clusters of empty homes. The financing of this scheme allows for recycling of capital receipts, subject to Member approval, therefore there would be no call on City Council capital requirements, although the programme requires staff time to manage. A detailed report is currently being prepared.

Lancaster and Morecambe Bay Project

A bid of £1.2M has been submitted to the ERDF to support a £2.4M project aimed at rejuvenating the centres of Lancaster and Morecambe by investing in high quality public realm and strengthening their position as quality destinations and providing links and gateways to key commercial opportunity sites. The £1.2M matched funding would need to come from a combination of current City Council schemes for Lancaster Square Routes, A View for Eric, Poulton Pedestrian Route and the Morecambe Area Action Plan. If the bid is successful, which will be known shortly, then it would mean funding for these projects would need to be committed, as well as staff time, to ensure delivery of the project by the end of September 2014. The Head of Regeneration and Planning will submit a full report to Cabinet, timescales for which are being confirmed. In future, any such major bids will be appraised and reported prior to submission.

Other New Potential Investment Priorities or Needs

In terms of future investment priorities, Cabinet has already identified two potential new investment areas for consideration, these being Heysham Mossgate and Morecambe Market. No other changes to the capital financing principles (as set out in the MTFS) are considered appropriate at this stage. As with revenue, the big risk regarding capital investment is affordability.

4.5 In terms capital financing, there are now potentially three main receipts that may underpin it, these being:

– **Land at South Lancaster**

As mentioned above, this receipt has been further delayed and at the earliest, it may be receivable in 2013/14. A judicial review is scheduled for early December and the outcome of this will be fed into future budget reports, to inform budget assumptions.

– **Heysham Mossgate**

This disposal is still assumed to be completed in 2013/14.

– **Land off Quernmore Road / Willow Grove**

Subject to the outcome of joint marketing, it is assumed that this would be receivable in next financial year.

5 COUNCIL TAX AND GOVERNMENT SUPPORT CONSIDERATIONS

5.1 Council Tax Freeze Grant and Local Referendums

5.1.1 Under the Localism Act, should any local authority choose to set a council tax increase in excess of Government guidelines, it would need to hold a local referendum.

5.1.2 In a recent announcement the Government has proposed to lower the threshold for triggering a council tax referendum from 3.5% to 2%. If confirmed, this would mean that the Council would need to find additional savings of £125K next year and more in future years in order to avoid a local referendum, as the original MTFS projections were based on the previous limit of 3.5%. The Secretary of State will set out details in December.

5.1.3 In addition, the Government announced proposals for a continuation of the Council Tax Freeze Grant. The Council would receive the equivalent of 1% (£84K) for 2013/14 and 2014/15 should it choose to freeze or reduce council tax for 2013/14. However, in order to benefit from the grant the Council would also need to find additional savings equivalent to 1% (£84K), assuming the proposed referendum trigger of 2% had already been allowed for.

5.2 Government Support Prospects

5.2.1 As Members are aware, the Government consulted on proposals for changing how business rates income is distributed across councils from 2013/14 onwards, with the aim of providing incentives to local authorities to promote local business growth. Consultation closed on 24 September 2012 and details of the outcome are currently

awaited, therefore it is still too early to predict with any accuracy what the changes could mean for the City Council. Some tools are available to help with modelling and if possible, some scenario planning will be factored into future budget updates. There is no consistent or clear picture emerging at present, however.

- 5.2.2 At a strategic level, proposals have seemed to infer that Government wishes to see local government wholly funded by local taxation in future, ideally with no general financial support being provided centrally, but this is by no means clear.
- 5.2.3 In relation to 2013/14, as mentioned previously the Council's budget forecasts assume that Government support will reduce by 2% in cash terms (around 4.2% in real terms) when compared with 2012/13, and 0% (say around 2% in real terms) the following year. This projection was based on analysis of the 2010 Spending Review.
- 5.2.4 However, some authorities are now anticipating cuts of over 12% in 2013/14 and almost 9% in 2014/15. It is still not possible to say what the final outcome will be until the Government makes the provisional settlement announcement which is expected in mid December. All that can be provided at this stage is the impact of a range of funding reductions, as shown in the following table.

	2013/14 £000's	2014/15 £000's
Current Indicative Savings Targets (assumes council tax increase of 2% and Government funding reduction of 2% & 0% per annum in cash terms, for exemplification only)	538	511
Alternative Government Funding Cash Reduction Scenarios: 2013/14 & 2014/15	Annual Saving Required (Alternatives to the figures above, not additional)	
5% then 1.5%	893	1,033
7.5% then 4%	1,188	1,598
10% then 6.5%	1,484	2,147
12.5% then 9%	1,779	2,682
15% then 11.5%	2,075	3,202

- 5.2.5 For every 1% reduction in Government funding, the latest savings target increases by around £118K in 2013/14.
- 5.2.6 Member decisions regarding council tax freeze grant may also have further impact.
- 5.2.7 In addition to the business rates changes, the Government is also proposing a 10% reduction in council tax benefit /support grant from 2013/14 onwards. The impact for Lancaster and its major preceptors will be a reduction in funding of £1.112M, shared according to precepts.

5.3 Council Tax Support

- 5.3.1 In accordance with the requirements of the Local Government Finance Bill and as reported to Cabinet in September, the Council has very recently consulted on a new scheme, which proposes that people of working age would receive less support for paying their council tax bills from next year. As an indication, the reductions in support may be around 18% on average. Reductions in support would offset the related funding reductions expected by local authorities shown in 7.2.7 above.
- 5.3.2 At this stage the budget forecasts outlined earlier assume simply that any planned welfare reforms will be budget neutral, but this is considered a very high risk area. The Local Government Finance Bill which proposes these changes and those relating to the retention of business rates has now completed its second passage through the House of Lords and will now be passed back to the House of Commons. Both houses still need to agree the final wording before the bill receives royal assent and it becomes an Act of Parliament. Clearly the timescales of this may impact on the Council setting its 2013/14 budget and it is being closely watched.
- 5.3.3 Also in connection with welfare reforms, Government have very recently made an announcement of the availability of extra one-off funding for those councils whose council tax support schemes ensure that:
- claimants entitled to full benefit would have to pay no more than 8.5% of their council tax bill in future;
 - other claimants would have to pay no more than 25% of their bill; and
 - there is no sharp reduction in support for those entering work.
- 5.3.4 The practicalities of these requirements are currently being investigated. Nationally, the total funding available is £100M, which is not expected to cover the full costs involved. It is reiterated that this has bearing not just on the City Council's budget position, but also the County, Police and Fire Authorities. It is not yet known if parishes will be affected.
- 5.3.5 The criteria for applying for the grant will be considered along with the outcome of the consultation process, currently scheduled for reporting to Cabinet and Council in December. If this proves impossible, arrangements would need to be made for decision-making in January.

5.4 Other Council Tax Technical Changes (Discounts and Exemptions)

- 5.5 As with council tax support, no assumptions have been made regarding changing various discounts and exemptions for council tax - empty homes being the best example. These proposals also form part of the Finance Bill. As outlined to Cabinet in September, if enacted and adopted they would allow the Council to increase its council tax revenues. Reporting and decision-making timescales mirror those for council tax support.

6 HOUSING REVENUE ACCOUNT

- 6.1 This is the first year the Housing Revenue Account (HRA) is operating under the self-financing regime, whereby the Council has taken on £31M of debt to effectively buy itself out of the Government subsidy system. This has also given the Council

freedom to set its own level of housing rent increase as there is no longer the requirement to adhere to Government rent limits and convergence to social housing rent levels is not mandatory.

- 6.2 At its meeting on 04 September 2012 Cabinet approved a medium term rent setting policy whereby rent increases are capped at no more than 3% per annum. As the detailed HRA budget is still being finalised further proposals in line with this policy will be presented to Members in December.
- 6.3 These proposals will also take on board the additional capital commitments previously identified in the September report. However, it should be noted that a full stock condition survey is due to be undertaken and this will provide a more accurate picture for future stock improvements / investment.

7 DETAILS OF CONSULTATION

- 7.1 No specific consultation has been undertaken in connection with this report. Arrangements for community engagement and consultation on the budget have already been approved and feedback will be fed into the budget process as it develops.
- 7.2 In terms of welfare reforms, the closing date for the public consultation exercise is 26 October. Some form of public consultation was planned for other council tax changes but this will prove impossible given the time available. Nonetheless, the views of key stakeholders will be sought, as far as time allows.

8 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 8.1 This report is primarily for information and for seeking direction from Cabinet and other than for council tax, no specific options are put forward at this time.
- 8.2 The options regarding council tax targets are basically to either:
 - reduce the existing council tax target to no more than 2% for future years; or
 - recommend alternative council tax target increases for future years; or
 - delay making recommendations at this stage, until later in the budget process.

The level of any net savings requirement (and the associated risks) would depend on the tax level proposed. Clearly the compensation arrangements in support of a council tax freeze require specific consideration.

- 8.3 The main risks attached to any option follow on from the information in this report and the ability of the Council to take decisions on matching service levels with the money available to fund them. The impact on council tax payers is key; the reputation and public perception of the Council may well be affected. The key risks can be summarised as follows:
 - Actual savings targets prove to be substantially different from those shown, due to changes in financial projections.
 - Required savings targets can't be met, without having an unacceptable impact on service delivery – either from the Council's own viewpoint or from public perception.

- Government / the public perceive council tax levels to be too high, resulting in capping action being taken against the Council and/or a negative impact on public relations and the Council's reputation.
- Council tax targets are too low, resulting in them being unsustainable in the longer term, without having adverse effects on future service delivery and/or the Council's financial standing and reputation.

8.4 To counter these risks, there will be further opportunities to review target increases later during the budget process.

9 CONCLUSION

9.1 Planning the Council's finances continues to be very challenging, especially given all the uncertainties. Nonetheless, it is impossible to get away from the fact that lower government funding and lower council tax increases ultimately mean that more savings are needed – with more pressure therefore to reduce service provision. Redirection of resources will be needed to support any new growth needs.

RELATIONSHIP TO POLICY FRAMEWORK

The Medium Term Financial Strategy is the part of the current budget and policy framework.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

There is no direct, quantifiable impact arising at this stage, although the MTFs sets out the level of funding expected for the delivery of council services. As such, it will have a direct bearing on the level and impact of services provided in future.

FINANCIAL IMPLICATIONS

As referred to in the report; there are no other quantifiable implications at this stage.

SECTION 151 OFFICER'S COMMENTS

The s151 officer has produced this report.

LEGAL IMPLICATIONS

There are no direct legal implications arising, given the nature of this report.

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Localising support for council tax – transitional grant scheme notification from DCLG, dated October 2012.

Lancaster and Morecambe Bay Project Bid
HCA Funding notification

Government Announcement 08 October 2012 – council tax freeze grant

All other background papers have previously been published or are exempt.

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