

CABINET

Budget and Policy Framework 2013/16 – Revenue Budget and Capital Programme Update 04 December 2012

Report Head of Resources

PURPOSE OF REPORT				
This report provides an update on the Council's financial position to help inform development of Cabinet's budget proposals. Given that the Local Government settlement has not yet been received, the report is primarily for information, rather than seeking any specific decisions.				
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>	Referral from Officer
				X
Date of notice of forthcoming key decision	05 November 2012			
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. As part of identifying service areas for review linked to corporate priorities, Cabinet indicates the lower priority areas within General Fund, for which service reduction options should be developed.
4. 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 next year onwards. A separate report elsewhere on the agenda seeks Cabinet's views regarding corporate priorities and associated services. This report provides a financial update in support of the process.

2 GENERAL FUND REVENUE BUDGET – CURRENT YEAR

- 2.1 At Council on 29 February Members approved the current year's budget at £20.732M, of which £20.190M relates to the City Council and £542K 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. This has resulted in a draft revised budget of £19.209M for the City Council, representing a projected total net underspending of £981K or 4.8%:

	£'000	£'000
Operational Variances:		
Staffing Savings	-322	
Other Net Savings and Underspendings	-244	
Reduced Borrowing Costs	-363	
Reduced Investment Interest	+52	
Reductions in Income	+170	
Increases in Income	-182	
Net Operational Underspending 2012/13		-889
Other Variances:		
Slippage on Revenue Funded Activities		-92
Total Net Underspending		-981

- 2.3 A further summary of the budget and variance analysis is attached at **Appendix A**. Key points to note are as follows:
- Net staff savings are forecast from a combination of savings measures, turnover & longer-term vacancies.
 - The impact of the national and global economic position is still having an adverse impact on some service areas and their associated budgets.
 - There is slippage expected on some regeneration activities such as Heysham Gateway, Business Improvement District (BID) development and the Morecambe Area Action Plan. This will be the second year that the latter two budgets have slipped. Budgets in the current year have been reduced accordingly, but this apparent saving is offset by increases in the following year. The creation of specific reserves is being considered.

- 2.4 Taking account of the above changes, Revenue Balances would stand at £2.620M as at 31 March 2013. This is some £1.342M higher than expected back in February 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.
- 2.6 In terms of earmarked reserves and provisions, a full review has not yet been completed. This will be undertaken in time to report to January's Cabinet meeting.

3 2013/14 DRAFT REVENUE BUDGET

- 3.1 The first draft of the 2013/14 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:
- At this stage, council tax support changes are simply assumed to be budget neutral. Arrangements are in hand for a special Council meeting to be held in January, in order to determine the Council's local scheme for next year.
 - The draft makes no assumptions on the outcome of the fees and charges review and other reports elsewhere on this agenda.
 - 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.
 - The draft position does not include any growth options, nor does it include any specific savings options.
 - In terms of capital financing, the draft budget is based on the revised capital programme which has been updated for delays in schemes which have been put on hold due to the delayed capital receipt from the sale of land at South Lancaster. There will clearly be more changes coming through, once aspects such as Lancaster Market are finalised and the results of the municipal buildings survey are known. The impact of the delay in the major capital receipt being received has increased the underlying need to borrow and therefore increased the revenue budget by £353K in 2013/14 only, for now – but this initial assumption is also likely to change.
 - The interest rate on the loan taken out to enable the HRA to become self financing was slightly less than originally anticipated – 3.03% instead of 3.5%, and a single 'pooled' approach is assumed for apportioning debt interest across the Council's Funds. This has resulted in lower borrowing costs of £432K, of which £364K is retained by the General Fund.
- 3.2 Currently the draft budget for 2013/14 stands at £20.196M, as shown in **Appendix A**, which also shows the provisional variance analysis undertaken so far.

4 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 4.1 The provisional Local Government Finance Settlement is not expected to be announced until later this month and therefore the impact will be reported formally into January's Cabinet meeting.
- 4.2 To reiterate, the MTFs approved back in February assumed that Government support would reduce by 2% in 2013/14 (over 4% in real terms) compared with 2012/13, and 0% (about 2% in real terms) the year after. These projections were based on the 2010 Spending Review forecasts, in the absence of any more up to date information.
- 4.3 There are various views circulating on the extent and speed of further funding reductions, but the Autumn Statement to be made by the Chancellor on 05 December will provide the real context for future funding prospects. There is a general expectation that further significant reductions will come, and in the medium term, the changes in business rates distribution arising under the Finance Act 2012 adds even more uncertainty.

5 COUNCIL TAX

- 5.1 To reiterate the points reported in November, in addition to the change in the referendum trigger threshold being reduced to 2%, the Government has also announced proposals for a continuation of the Council Tax Freeze Grant.
- 5.2 Under this proposal, the Council would receive the equivalent of a 1% tax rise (£84K) for 2013/14 and 2014/15, should it choose to freeze or reduce council tax for 2013/14. Take up of this arrangement is voluntary.
 - Based on the City Council's tax rate of £192.25 for a Band D property, a 1% change in tax rate amounts to £1.92 per year or just under 4 pence per week.
 - Similar offers of grant support apply to the County Council, the Police and Crime Commission and fire authorities. For information, the full basic Band D tax for the area is currently £1,514.13.

6 SAVINGS REQUIREMENTS: SCENARIOS

- 6.1 At this stage it is impossible to give any reasonably accurate picture of what the Council would need to save next year to continue with existing services, depending on its council tax targets. This is mainly because of the uncertainties over Government funding and other legislative changes.
- 6.2 Nonetheless some scenarios are set out as follows, similar to those outlined in the November report to Cabinet. Note that these projections do not include any new Council Tax Freeze Grant for 2013/14 and 2014/15. For now they simply assume that council tax would rise by the Referendum threshold of 2%, assumed year on year. They are for information, to highlight the potential scale of savings that the Council may face.

Government Funding Cash Reduction Scenarios: 2013/14 & 2014/15	2013/14 £000's	2014/15 £000's
	Savings Required	
2% then 0% (current MTFS)	75	763
5% then 1.5%	429	1,286
7.5% then 4%	725	1,850
10% then 6.5%	1,020	2,399
12.5% then 9%	1,316	2,934
15% then 11.5%	1,611	3,454

- 6.3 As a broad measure, every 1% change in Government funding amounts to around £118K in 2013/14, or around 1.4% in city council tax terms.
- 6.4 A 1% change in council tax amounts to around £84K.
- 6.5 Where recurring savings are made in 2013/14, these would also help achieve the savings targets shown for 2014/15 (and subsequent years).

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

7.1 As highlighted above, the Council's financial prospects could change significantly as a result of the Government funding settlement. In view of this position, Cabinet is advised once again to focus its attention on identifying and prioritising areas for making recurring savings and this links to the Corporate Priorities report elsewhere on the agenda. It is reiterated that without such an approach, Cabinet 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
- presenting an unaffordable and undeliverable medium term Corporate Plan to Council, leading to unmanageable expectations of stakeholders.

7.2 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 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

At present the reserve established to fund such schemes has provisionally been fully allocated against completing the Lancaster Market leasehold surrender. If this does not change, then there will be a need to address capacity for providing up front

funding for any new invest to save proposals. A report elsewhere on the agenda seeks direction regarding the adoption of an Energy Strategy and this is one potential area in which new schemes may be developed.

Income Generation

A report elsewhere on this agenda sets out proposals for a range of increases to fees and charges for a number of key service areas, and seeks views on any other potential areas.

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 sustainable balanced budgets for the medium term. Cabinet's direction is therefore sought on the areas in which it requires savings options to be developed, and this sits squarely with reviewing services in line with corporate priorities (elsewhere on the agenda).

8 GENERAL FUND CAPITAL PROGRAMME

8.1 The capital programme has been updated for slippage in a number of schemes, mainly resulting from the delay in the South Lancaster capital receipt, and a number of new Information and Communications Technology (ICT) schemes. Full details are contained within **Appendix B** but a summary is also provided below.

General Fund Programme	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total £'000
	£'000	£'000	£'000	£'000	£'000	£'000	
Total Gross Programme	6,903	3,977	1,838	1,155	1,085	814	15,772
Financing:							
Grants & Contributions	1,444	1,224	1,229	909	943	743	6,492
Direct Revenue Financing	357	87	30	30	30	0	534
Reserves Financing	1,012	347	70	184	70	60	1,743
Capital Receipts Applied	618	9,413	0	0	0	0	10,031
Increase / (Reduction) in Underlying Borrowing Need	3,472	(7,094)	509	32	42	11	(3,028)
Total Funding	6,903	3,977	1,838	1,155	1,085	814	15,772
Shortfall	0	0	0	0	0	0	0

8.2 Points to note regarding investment include the following:

- The ICT capital schemes have been updated to take account of the latest system / equipment upgrade requirements, all of which have been financed from the renewals reserve and as such are not reliant upon capital receipts or unsupported borrowing.
- Several matched funding projects linked to the recent Lancaster and Morecambe Bay Project ERDF bid have also been reprofiled, but no associated growth has been included at this stage. The schemes are Morecambe TH12 (A View for Eric), Lancaster Square Routes and the Morecambe Area Action Plan. At the time of writing the report no announcement had been made as to whether the bid had been successful. Any updates will be provided at the meeting.
- Vehicle renewals of £209K have been included in the revised programme for this year and currently they are assumed to be financed from unsupported borrowing in

accordance with delegated authority given to the Head of Resources. As and when the value for money assessment of whether to lease or buy has been made, the programme will be amended accordingly.

- d. The results of the municipal buildings surveys will be reported to Cabinet in January and as such the current programme is still based on the original estimates.
- e. No updates have been included for the £1.9M Chatsworth Gardens project as this is subject to a report elsewhere on this agenda.
- f. In terms of future investment priorities, Cabinet has already identified two potential new investment areas for consideration, these being Heysham Mossgate and Morecambe Market. These have not been included in the latest programme.

8.3 Points to note regarding financing include the following:

- a. The programme has been updated provisionally to account for new capital receipts and slippage, and changes in the timing of projects, but these assumptions will change further over the next month. The programme has been provisionally balanced, taking into account the profiling changes in unsupported borrowing resulting from the above and allowing for an overall £663K reduction in underlying borrowing need. This is not a recommended position; it is simply for presentation and it will change.
- b. 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 £200K will be committed against next year.
- c. No other changes to the capital financing principles (as set out in the MTFS) are considered appropriate at this stage. The final outcomes for Luneside East and sale of land at South Lancaster are key issues.

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 still 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 In September, Cabinet adopted a HRA medium term financial strategy and rent policy that supported the future investment needs of the HRA housing stock, whilst enabling the Council to consider using HRA funding in a wider regeneration context.

9.2 At that meeting Cabinet approved a rent setting policy which capped rent increases at no more than 3% per annum. The actual rent level for 2013/14 is still to be determined and proposals will be put before Cabinet in January for approval.

9.3 As part of the current budget process both revenue and capital estimates have been updated and the latest draft position is as follows:

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Draft Housing Revenue Account				
+Overspend / (Saving)	+152	+42	+57	(457)

9.4 The latest projections show a net overspend of £152K in the current year which would need to be met from the HRA unallocated balance of £1.205M, if no further savings can be identified. For information, the current minimum level on this reserve is still £350K, but is still subject to a formal review by the Head of Resources.

9.5 The current rent estimates for 2013/14 onwards have been based on an increase of 3% which is the maximum agreed increase as referred to above. For information a 1% change in rent equates to £134K in 2013/14.

9.6 The HRA capital programme has been updated for the items previously referred to in the September Cabinet report and include:

- Provision for additional fire precaution works
- Provision for remodelling of sheltered schemes
- Provision for improvements to communal areas to flats.
- Increase the boiler replacements
- Renewable technologies
- Increase the environmental budget.

9.7 Full details of the programme, together with a detailed review of provisions and reserves will be present to Cabinet in January. This will also include proposals for rent increases and the impact they have on reserves and investment opportunities.

10 TREASURY MANAGEMENT

10.1 In accordance with the CIPFA Code of Practice on Treasury Management Members are presented with regular monitoring reports on treasury activities. The report for the first half of the year is attached at **Appendix C** and provides Members with the latest position on Icelandic investments as well as investment and borrowing activities.

11 DETAILS OF CONSULTATION

11.1 Cabinet is requested to refer to the Corporate Priorities Review report elsewhere on the agenda.

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

12 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

12.1 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.

12.2 Cabinet is requested to note the treasury management update report and refer it onto Council. There are no options presented in this regard.

13 OFFICER PREFERRED OPTION AND COMMENTS

13.1 The Officer preferred options are reflected in the recommendations.

14 CONCLUSION

14.1 Once the Settlement has been received, the Council's financial outlook should become much clearer, although generally local authorities are expecting that further significant savings will need to be made in future years.

RELATIONSHIP TO POLICY FRAMEWORK The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.	
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.	
FINANCIAL IMPLICATIONS As set out in the report.	
SECTION 151 OFFICER'S COMMENTS The section 151 Officer (as Head of Resources) is responsible for 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.	
DEPUTY MONITORING OFFICER'S COMMENTS The Deputy Monitoring Officer has been consulted and has no further comments.	
BACKGROUND PAPERS None. Background information has previously been published as part of earlier committee reports.	Contact Officer: Nadine Muschamp Telephone: 01524 582117 E-mail: nmuschamp@lancaster.gov.uk