**CABINET**

# Budget and Policy Framework Update – General Fund Revenue Budget and Capital Programme 12 February 2013

## Report of Head of Resources

| **PURPOSE OF REPORT** | | | | | |
|---|---|---|---|---|---|
| To inform Cabinet of the latest position following Council's initial consideration of the Budget and Policy Framework, and to make recommendations back to Council in order to complete the budget setting process for 2013/14. | | | | | |
| **Key Decision** | | **Non-Key Decision** | | **Referral** | **X** |
| **Date of notice of forthcoming key decision** | 21 December 2012 | | | | |
| **This report is public.** | | | | | |

**OFFICER RECOMMENDATIONS:**

**(1) That subject to confirmation of the Local Government Finance Settlement, the associated Local Referendum Thresholds and any budget amendments arising in the Cabinet meeting, Council be recommended to approve:**

- **a General Fund Revenue Budget of £19.819M for 2013/14, resulting in a Council Tax Requirement of £7.274M excluding parish precepts;**
- **the budget proposals as summarised at Appendix A;**
- **the resulting policy on provisions and reserves as included at Appendix B; and**
- **the resulting Capital Programme as set out at Appendices C and D.**

**(2) That should any minor changes arise as part of Government approving the Settlement, the Leader and Finance Portfolio Holder be given delegated authority to update the budget proposals accordingly.**

**(3) That the Leader and Finance Portfolio Holder be given delegated authority to update the Medium Term Financial Strategy based on the principles outlined in section 8 of this report, for referral on to Budget Council.**

## 1 INTRODUCTION

1.1 Cabinet's initial proposals regarding the Budget and Policy Framework were considered at Budget and Performance Panel on 29 January and at Council on 06 February (minute 112 refers). No specific feedback was received from the Panel. The key points arising from Council are as follows:

- a 2% increase in the 2013/14 City Council tax rate was approved, together with target increases of 2% for subsequent years, all subject to local referendum thresholds.

- no other specific resolutions were made by Council, although it seems clear from the debate that Council may benefit from understanding more about the level of reserves held and how these fit with plans for addressing future years' expected budget shortfalls.

1.2 This report builds on these points and on other updated information, in order that final recommendations can be made to Budget Council on 27 February.

## 2 POLICY IMPLICATIONS

2.1 Cabinet has developed its budget proposals to reflect existing corporate priorities, with some redirection of resources proposed across various specific activities.

2.2 To ensure that the Council's plans and budgets are meaningful and deliverable, it is essential that they fit together. The fundamental difficulty is that at this point in time, it is known that there is a considerable gap between what the Council is currently planning to do and what it can afford in the medium term.

2.3 Work is underway on updating the Corporate Plan to reflect Cabinet's budget proposals, for consideration at a later meeting. This update will be an interim position, prior to establishing clear plans for changing corporate priorities and service provision to fit with what will be affordable.

2.4 Cabinet is requested to appreciate the above points in finalising its budget proposals.

## 3 LOCAL GOVERNMENT SETTLEMENT AND COUNCIL TAX THRESHOLDS

3.1 Government has now announced the final Settlement for 2013/14, which is substantially unchanged from the provisional position. Similarly, the local referendum threshold for next year remains at 2%.

3.2 Government has also confirmed the provisional Settlement for 2014/15, which still forecasts a funding reduction of almost £1.5M or 11% for that year, after allowing for estimated New Homes Bonus.

3.3 These matters have been laid before the House of Commons for approval and they are due to be considered on 13 February. It is envisaged that only minor adjustments could arise, and provision for dealing with this situation is reflected in the recommendations.

3.4 With regard to business rates retention, around £5M of the Council's future annual funding is attributed to business rates. Although more work is needed to understand fully the new system, it is known that the Council's 'safety net threshold' is forecast at around £4.6M; this may be viewed as the minimum level of income that the Council would retain, if business rate yields fell in the district. In very simple terms, therefore, the Council's risk exposure may be around £400K per year. This will be explored further in the coming months.

## 4 COLLECTION FUND POSITION

4.1 Legislation requires that an estimate of any surplus or deficit on the Collection Fund is made each year, with any such balance being shared with 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 payable, 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 2013 indicates that overall the Fund is in balance. This demonstrates continuing good practice, both in terms of collection rates and in terms of financial forecasting. For next year, the Fund will have the extra challenges of localised council tax support and second/empty homes' charging, so its monitoring will be more high profile.

## 5 2013/14 GENERAL FUND REVENUE BUDGET

5.1 In order to fit with a 2% increase in council tax rates and the final Settlement, the General Fund Revenue Budget must be set at £19.819M for 2012/14, 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***. Various fairly minor changes have been made but the key points to note are listed below:

- With regard to the Living Wage, at its meeting on 05 February Personnel Committee resolved:

  *"That Cabinet be advised that Personnel Committee supported the principle of the living wage, but was concerned that it could adversely affect some employees' economic situation or cause budgetary difficulties for the council. The committee would support payment of the living wage to council employees if the additional costs be met from the current pay bill and suggested this be achieved by not replacing the outgoing Head of Community Engagement.*

  *That Cabinet be advised to recommend that the council does not become an accredited living wage employer."*

  Although not yet finalised, it is known that the Community Engagement management restructure would generate sufficient savings to cover the Living Wage proposals and so this is reflected in the schedule.

- Some forthcoming staffing changes have generated the need to consider growth in relation to conservation capacity with Regeneration and Planning. The request is to increase conservation staffing resources from 2 to 2½ full-time posts, for up to three years. Detailed arrangements would be finalised in due course, subject to any growth being approved.

- For the Storey's gardens, provision has been made for some limited grounds maintenance but there is a need to increase this by £8K as a one-off in next year to cover essential tree works, which pose a threat structurally to the Garden's walls. Given their nature, this has been included in the base budget.

- Costings are being sought for lighting up the Ashton Memorial. Generally, Officer advice is still that recurring growth should be avoided wherever possible.

- The only other item of recurring growth relates to the corporate property portfolio, which is unavoidable. Nonetheless, a commitment is sought for reducing the financing burden over the 5-year period. This is outlined later.

5.3 If the budget proposals were taken forward as listed, then this would result in a contribution of £325K into Balances in next year.

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 £19.819M.

5.5 Setting the Revenue Budget at this level will result in a 2% increase in the basic City Council tax rate for the district, or 1.99% to be more accurate. The actual basic Band D City Council tax payable (excluding parish precepts) will be £196.08, which will raise income of £7.274M for City Council services.

## 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.

6.2 On reviewing the General Fund in comparative terms and considering the issues and assumptions outlined above, the Head of Resources (as Section 151 Officer) advises that the level of General Fund balances should 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.

6.3 After transferring in this year's forecast net underspending, balances would amount to around £2.6M by 31 March 2013. Should the outturn prove in line with this forecast, it would mean that the Council has increased flexibility to help manage its position.

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, as part of its financial strategy. Earmarked reserve levels are healthy.

- Although there is progress being made in the Council's long-standing key financial risk areas (e.g. Luneside East Lands Tribunal appeal and capital receipts generation), they have not yet been resolved fully.

- Newer risks now feature strongly, many of which relate to the very recent changes in local government finance. Business rates retention, localised council tax support, and increased council tax charging for empty/second homes all bring risk, and Lancaster Market headlease surrender is not yet resolved fully.

- The Authority has only recently received information on its very bleak medium term funding forecasts, and a plan of action to tackle the medium term budget deficit will take time to develop.

6.5 As a very simple measure, the inherent value of the risks referred to above by far exceeds the total of all General Fund reserves and balances. Whilst it is not the case that all these risks could fall due immediately, the information should help Members appreciate the need for holding Balances and reserves more generally. It is inappropriate to view simply the level of funds held, without considering the reasons as to why those funds might be needed.

6.6 It is appropriate to plan for the future though and as reported to January Cabinet, a sensible approach would be to:

- retain existing levels of reserves and Balances for now but with a firm commitment to establish, for autumn, clear plans for reducing net spending from 2014/15 onwards. The recent budget reviews would be used to inform such plans.

- To support delivery of those plans, a full reassessment of reserves and Balances would be completed to ensure that monies were allocated appropriately. The whole exercise would be reflected in the mid year review of the Corporate Plan and Medium Term Financial Strategy.

- This would mean that by late Autumn / early winter, the Council should be far clearer about how it will tackle its budget deficit and work could focus on ensuring implementation, rather than still being at the planning stage.

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 2017/18 is included at ***Appendix C*** for Cabinet's consideration. ***Appendix D*** includes some brief comments in relation to the schemes included from next year onwards.

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

- The programme has been updated to reflect planned vehicle acquisitions, the financing of which will be agreed under Officer delegated arrangements.

- Costings for the car parking improvement programme have been increased by £250K, to reflect far more realistic estimates for the works involved.

- Improvements of £115K for the Platform have been removed for now, as immediate requirements of £15K have been met from the Renewals Reserve. Any additional needs will be addressed during next year, as part of developing a full plan for the use of that Reserve.

- In terms of corporate property investment, the full £7.2M growth bid is provided for over the next five years. To help with affordability, this must be linked with a commitment that the primary aim of the forthcoming property review is to reduce this investment need through the rationalisation of property holdings, with any resulting capital receipts being applied accordingly, rather than being used to support other new investment. Discretionary investment will need to be minimised, wherever possible.

- Any developments in the Lancaster Market headlease position or in the recent Lancaster and Morecambe Bay (LAMB) funding bid will be included in the report to Budget Council, as appropriate.

- The budget proposals assume that Cabinet does not wish to take forward the request from Heysham Mossgate Company, which was considered as an exempt item back in July.

- Appendix D highlights those schemes that can only progress following a further Cabinet report, and those that are on hold generally until funding is in place and the need for capital investment is confirmed. This is advantageous, as it will give time for Cabinet to start developing its budget proposals for 2014/15 – and be clearer about whether any planned investment in discretionary facilities is still needed.

- In terms of the major capital receipt from the sale of land at south Lancaster, the application for a judicial review of the decision to grant Booths planning permission is being withdrawn. This means that there should be no remaining barriers to prevent the sale going ahead and it is therefore scheduled to take place during next year, at which point it would be applied to offset earlier increases in the Council's underlying borrowing requirement. Whilst this represents real progress, completion cannot yet be guaranteed.

7.3 The current year's Revised Programme now stands at £5.693M. It is estimated that there will be no capital receipts unapplied as at 31 March 2013.

7.4 For the 5-year period from 2013/14 onwards, the draft programme amounts to £18.411M, but Cabinet will see that it is balanced. This is because it assumes a £5.2M increase in the underlying need to borrow (known as the Capital Financing Requirement or CFR). The aim is to reduce this need, specifically through property rationalisation.

8 **BUDGET PROSPECTS FOR FUTURE YEARS (2014/15 AND BEYOND)**

8.1 Indicative revenue spending and council tax forecasts for 2014/15 and 2015/16 have been reported and updated on an ongoing basis during the budget process.

8.2 The Council aims to keep basic City Council tax increases at 2% 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 | £19.819M | £18.348M | £17.768M |
| Council Tax Increase<br>(subject to local referendum thresholds) | 2% | 2% | 2% |
| Year on Year Net Savings Requirement<br>(assumes recurring savings achieved) | - | £1,120K | 1,222K |
| Cumulative Net Savings Requirement | - | £1,120K | £2,342K |

8.3 The MTFS will be updated to reflect the above, as well Cabinet's full budget proposals. Delegated authority is sought to complete this task in order that the MTFS can be presented to Budget Council.

8.4 It is intended too that the MTFS would be updated for the following, unless Cabinet indicates otherwise:

- The approach for tackling the 2014/15 budget and reviewing reserves and balances will be incorporated, as set out in section 6.6 of this report.

- The approach for managing the capital financing position, the progression of capital schemes and the commitment to reduce the financing burden for property holdings will be included, as outlined in section 7.2. The associated Prudential Indicators will be attached.

- It will be stressed that because of existing arrangements - in that budget savings are made during the year whenever possible, rather than leaving them all to Budget Council - then the clear expectation should be that underspendings will arise in-year, for incorporation into the Revised Budget. This may help Members' understanding of the budget process.

8.5 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.

## 9 DETAILS OF CONSULTATION

9.1 This is outlined in section 1 of the report.

## 10 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

10.1 Cabinet is now requested to finalise its preferred revenue budget and capital programme proposals for referral on to Council, using the latest information as set out in this report.

**Revenue Budget**
As Council has now determined the City Council tax rate for 2013/14, there are no options to change the total net revenue budget for next year (recommended at £19.819M) but Cabinet now needs to put forward detailed budget proposals that add back to that amount. The Head of Resources (as s151 Officer) continues to advise that wherever possible, emphasis should be on reducing future years' net spending.

**Capital Programme**
Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but overall its proposals for 2012/13 and 2013/14 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.

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 approaches for addressing the medium term budget deficit.

## 11 OFFICER PREFERRED OPTION AND COMMENTS

11.1 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.

## 12 CONCLUSION

12.1 This report outlines the actions required to complete the budget setting process for 2013/14 and put in place plans for tackling 2014/15 and beyond.

**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. 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 proposed.

With regard to General Fund balances, £1M represents 5% of the net Revenue Budget (or 14% 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 services and activities, making provision for expected changes;
- reviewing the Council's MTFS, together with other corporate monitoring information produced during the year;
- undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

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 increase in "prudential borrowing" over the period to 2017/18. This excludes any impact from the plans to surrender the Lancaster Market headlease, but the Prudential Indicators will make provision for these plans.

The Council is in a difficult position. It cannot avoid the need to improve the condition of its buildings, but the scale of that investment will require an increase in its borrowing need, even allowing for the planned sale of land at south Lancaster. The investment will be affordable only if the Council commits to tackling its medium term deficit and reducing future investment needs through rationalising property holdings. Furthermore, any discretionary capital investment will need to be minimised wherever possible, or financed through available reserves. Without these measures, the Council's capital investment and revenue spending plans will be unaffordable, unless there is a fundamental shift in future Government policy and public spending. Such a shift seems highly unlikely, based on information available at present.

**LEGAL IMPLICATIONS**

Legal Services have been consulted and have no further comments.

**MONITORING OFFICER'S COMMENTS**

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

| **BACKGROUND PAPERS**<br>**None.** | **Contact Officer: Nadine Muschamp**<br>**Telephone: 01524 582117**<br>**E-mail:nmuschamp@lancaster.gov.uk** |
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