



# LANCASTER CITY COUNCIL

*Promoting City, Coast & Countryside*

Cabinet

Tuesday, 19 January 2016

The following reports were received too late to be included on the main agenda for this meeting and were marked 'to follow'. They are now enclosed, as follows:

Agenda Item Number	Page	Title
8	1 - 12	SALT AYRE SPORTS CENTRE DEVELOPMENT PROJECT
9	13 - 46	BUDGET & POLICY FRAMEWORK UPDATE 2016/20 <ul style="list-style-type: none"><li>• GENERAL FUND BUDGET UPDATE</li><li>• HOUSING REVENUE ACCOUNT</li></ul>

**CABINET**

**Salt Ayre Sports Centre Development Project  
19 January 2016**

**Report of Chief Officer (Health & Housing)**

<b>PURPOSE OF REPORT</b>			
To seek support from Cabinet for the redevelopment of Salt Ayre Sports Centre, in partnership with a development partner, and to include it in their budget proposals.			
<b>Key Decision</b>	<b>X</b>	<b>Non-Key Decision</b>	<b>Referral from Cabinet Member</b>
<b>Date of notice of forthcoming key decision</b>	18 December 2015		
<b>This report is public.</b>			

**RECOMMENDATIONS OF COUNCILLOR DARREN CLIFFORD**

- (1) That Cabinet supports the redevelopment of Salt Ayre with the development partner Alliance Leisure Services Limited, and includes it in its budget proposals for referral onto Budget Council.
- (2) Subject to approval being granted at Budget Council, it be noted that officers will use existing delegated authority to award the contract to Alliance Leisure Services Limited and implement the development plan accordingly. In addition, any subsequent contractual decisions, not covered by delegated authority, will be brought back to Cabinet for approval.
- (3) That it be noted that progress on the development be covered through normal quarterly performance and financial monitoring arrangements and regular updates are provided to the Cabinet Portfolio holder.

**1.0 Introduction**

- 1.1 In January 2015, Cabinet agreed to approve in principle to seeking a development partner to invest and improve facilities at Salt Ayre Sports Centre (SASC) recognising that this would give the council the opportunity to assess how a partner could improve the facilities, enable a more secure financial operation and prepare the council for a more sustainable model of sport and leisure provision for the future. It was also agreed that the outcome of this piece of work be reported back to Cabinet with more detailed proposals, associated financial implications and to seek authority to proceed prior to entering in to any contractual arrangement (minute 74 refers).

- 1.2 A development partner works with the council to provide expertise, capacity, project management (including all construction aspects), marketing and finance if required but the council still retains full control of the policy issues and operational management of the sports centre.

### **2.0 Proposal Details**

- 2.1 A comprehensive procurement exercise has taken place involving a cross service panel of officers. Having initially received interest from six companies, the number was reduced to two following the pre-qualification stage. The companies were then invited to tender on a 70% quality / 30% price basis with primary aims of the project listed as:

- To encourage partnerships which deliver increased participation, enable the promotion of broader social and health outcomes and achieve financially sustainable leisure provision.
- To improve the public's health and wellbeing, and reduce health inequalities.
- Reduce operating costs to the council.
- To enhance the customer engagement with SASC services in line with the council's business and digital agendas.
- To provide computer systems for the day to day running of the leisure services and produce accurate reporting for management and marketing purposes.

- 2.2 A wide range of financial, economic and technical considerations have been taken into account during the selection process. These included:

- Consideration of Business Impact.
- Main Contractor Procurement and Staffing Resources.
- Innovation.
- Meeting the councils Priorities.
- Financial Information and Proposals.

- 2.3 The award criteria was based on value for money issues and the applicant's technical submissions with more emphasis placed on quality over price. Finally, the assessment included an evaluation of the written proposals, quality of presentation, performance at interview and overall consistency of responses.

### **2.4 Evaluation Results**

The results of the scoring exercise undertaken by the evaluation panel are as follows:

			Tender 1		Tender 2	
		Weighting	Average Mark out of 10	Weighted Scored	Average Mark out of 10	Weighted Scored
1	Consideration of Business Impact	30%	8.3	24.9	7.9	23.6
2	Main Contractor Procurement and Staffing Resources including CV's	10%	8.4	8.4	8.0	8.0
3	Innovation	30%	8.5	25.5	8.4	25.1
4	Meeting the Council Priorities	30%	9.0	27.0	8.0	24.0
<b>Weighted Totals</b>				<b>85.8</b>		<b>80.6</b>
<b>Normalised to 70%</b>				<b>60.1</b>		<b>56.5</b>
5	Financial Information & Proposals	100%	8	8	8	8
<b>Normalised to 30%</b>				<b>24</b>		<b>24</b>
<b>Total Scores</b>				<b>84.10</b>		<b>80.50</b>

2.5 The panel felt that overall the standard of submissions was high and fully met expectations and in the opinion of the panel either company would make a credible development partner. Both companies demonstrated that they could fulfil the requirements of the council's ambition in relation to transforming the sport and leisure offer, delivering first class improved facilities which will improve footfall to the sports centre and there was supporting evidence from both of the potential additional income generated This has made the decision challenging and the result very close. However, the submission from Alliance Leisure was determined as being stronger in relation to the published evaluation criteria.

**2.6 Summary of Proposed Changes to Facilities**

The successful tenderer proposes the following introduction of new or replacement facilities. These would be implemented in phases over a period of up to 5 years but with substantial changes occurring in years 2 and 3. *(Photographs for illustrative purposes).*

*Outdoor Facilities* - Cease operating the outdoor artificial turf pitch and replace with a new high ropes thrill tower. Provide new (design to be agreed) BMX track. Provide new fitness training facilities.



*Reception Refurbishment* - To provide for remodelling of the building entrance and refurbishment of the reception area including for fast access turnstile system.



*Booking System* - To provide new / replacement of computerised booking system including facility to book online. Improvement of direct debit systems

*Café* - Complete refurbishment of cafeteria area including provision of specific birthday party facilities for children



*Adventure Play and VertGo* - Provision of three storey adventure play area within half the sports hall. Further provision of a clip and climb facility (VertGo) which is suitable for young people and adults.



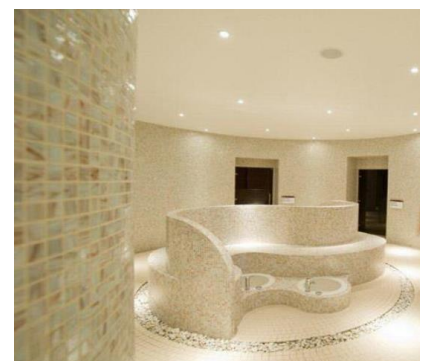
*Sports Hall* - Half the sports hall remains for sporting use e.g. five a side football, badminton.

*Projectile Hall* - This facility is transformed to a multi-functional training room, complementing the new fitness suite.



*Fitness Suite* - Expansion of existing fitness suite to allow for circa 100 fitness stations and a dedicated 'spinning studio'.

*Existing Sauna and Steam Suites* - Replaced by extension of fitness suite.



*Spa facility* - New build which would provide spa facilities, health and beauty treatment areas and toning tables.

*Community Facilities* – It is envisaged that within the spa complex, there would be additional community meeting rooms and areas for clubs and groups to make use of.



*Rehabilitation* - Also within the spa building complex would be further provision for rehabilitation classes thus improving the options for the current partnership agreement with the University of Cumbria.

*General* - All changing rooms and toilets would be refurbished and numerous improvements made to building finishes

### Asset Management

The project allows for a building condition survey to be undertaken with provision for equipment replacement / renewals and building maintenance included for. This will be the first time SASC has had such a plan.

### Council Priority: Health and Wellbeing

The project meets requirements within the Corporate Plan relating to Health and Wellbeing, in particular the extract 'The council will continue to work with partners as part of the health and wellbeing partnership to improve the health outcomes for our citizens. The council intends to take action to improve health; for example, by enabling access to sports and leisure activities ...'. The project similarly delivers against the outcome 'Health and wellbeing of our citizens is improved' and success measures of:

- Increased number of people participating in sports and leisure activities.
- Maximise opportunities for access to innovative leisure activities by working collaboratively with public and private sector partners.

## 3.0 Financial Implications

3.1 Should Members approve the appointment of a Development Partner and the proposed budgetary implications are approved by Budget Council, it is envisaged that the project will commence early in the new financial year (2016/17). During this implementation year there will be a number of major building works to various aspects of the current facility with some closure periods required to enable work to progress.

3.2 The overall indicative cost of the proposed changes is approximately £5M. This covers the design and build, equipment, fees and contingencies. It

should be noted that this may change once the exact design of each phase is agreed with the development partner. However, this will be a maximum cost for budget approval purposes.

3.3 Financing the cost of the new capital works will be incorporated into the update of the Medium Term Financial Strategy (MTFS) for consideration at Budget Council, and would subsequently be determined by the Section 151 Officer in accordance with that MTFS under her delegated powers. For the purposes of costing the net revenue savings, it has been assumed the scheme will be funded via unsupported borrowing with the relevant annual borrowing cost being charged to revenue. However, the final decision will need to satisfy the Prudential Code requirements in terms of prudence, affordability and value for money.

3.4 A summary of the net revenue impact of the proposed developments are shown in the following table, together with relevant financing costs and renewals requirements, which are then compared to the current estimated operating costs.

	2016/17 £000's	2017/18 £000's	2018/19 £000's	2019/20 £000's
<b>Development Partner</b>				
Expenditure	2,939	3,121	3,314	3,372
Income	(1,167)	(2,149)	(2,448)	(2,522)
Renewals	0	77	77	77
Financing Costs	7	249	352	352
<b>Net Operating Cost</b>	<b>1,779</b>	<b>1,298</b>	<b>1,295</b>	<b>1,279</b>
<b>Continue Current Operation</b>				
Expenditure	2,761	2,812	2,864	2,919
Income	(1,092)	(1,114)	(1,119)	(1,140)
<b>Net Operating Cost</b>	<b>1,669</b>	<b>1,698</b>	<b>1,745</b>	<b>1,779</b>
<b>INDICATIVE NET COST/(SAVING)</b>	<b>110</b>	<b>(400)</b>	<b>(450)</b>	<b>(500)</b>

3.5 The overall payback period for the £5M investment is estimated to be 12 years.

3.6 The assumptions made in producing the estimates are as follows:

- The income projections are based on the development partners' experience of operating similar operations throughout the country, together with officers' local experience.
- Expenditure estimates are based on current forecasts updated for the

new staffing and operating costs of the new developments.

- Renewals have been included to ensure the standard of equipment is regularly maintained and renewed, which is essential if income projections are to be achieved.
- Finally, as mentioned in section 3.3 above, the financing costs are based on unsupported borrowing and represent the charge to revenue together with the loss in investment interest associated with using £5M of internal financing. The cost could be reduced if the Invest to Save Reserve were to be applied or alternatively the development partner can provide financing. As there are other invest to save proposals still to be considered as part of the budget process, the final financing decision will be determined at a later date based upon the most prudent option.

3.7 Whilst the intention is to implement the project in distinct phases in order to minimise the impact on the business, there remains the related loss of income associated with the closures. Officers have worked on a worst case scenario and therefore allowed for a period of up to seven months before the new facilities begin to make a positive return. This period allows for the associated pre sales opportunities and a comprehensive marketing and promotional campaign. In addition, it may be necessary to back fill certain key posts during the implementation phase, which has also been factored in. Overall, it is estimated there will be an initial cost of £110K in 2016/17, as shown above.

3.8 It should be noted that the intention is for the project to minimise service disruption and wherever possible continuum of service will be achieved. The phases of building work will be confirmed post contract award, however, it is envisaged that works could commence on the outdoor facilities as soon as possible. Should Members approve the recommendations, a project executive team made up of council officers and the Development Partner will meet at the earliest opportunity in order to agree build phases and associated interruption to service delivery. A further project implementation team will similarly work closely with the partner protecting council interests and maximising the potential benefits of the project.

## 4.0 Options

There are essentially two options to consider:

### 4.1 **Option 1 - Do not appoint a development partner but continue to invest in line with current budgets with replacement and repair as necessary but with no major improvements**

This would be continuing as we are now, replacing and repairing where necessary to maintain minimum health and safety legislative requirements and to provide the facilities to a level to meet the minimum customer expectation.

However, just to maintain current health and safety standards is likely to require additional expenditure in the region of £400K which has been identified as necessary in a recently updated building condition survey. It



should be noted that no provision for this cost has been included in the table under section 3.3 as investment needs for the project will be different to that of continuing with the current operation.

Only investing in essential planned capital improvements or repairs as opposed to any wider refurbishment would lead to a general decline in the quality of the facilities on offer and it is likely that gym memberships will decline further over the next few years and there would be a continued reduction in sports hall occupancy and sauna use. To compete with other providers in the district, we need to be able to offer high quality, “private sector feel” facilities.

There would be a further knock on detrimental effect on performance in remaining areas such as the swimming pool and café.

This option would require increased subsidy over the next few years and there will become a point where a decision about whether to continue to keep SASC open will need to be made.

In terms of the revised budget position, the estimated cost of operating Salt Ayre in 2015/16 is £1.625M (£938K excluding notional capital charges). This assumes customer numbers remain static, therefore any drop in numbers would increase this cost further.

**4.2 Option 2 – Appoint Alliance Leisure as the development partner and confirm Cabinet’s commitment to including the necessary funding to deliver the project in its draft budget proposals for 2016/17 and beyond.**

The appointment of Alliance Leisure as the council’s development partner to deliver the planned improvements is supported by a robust business case which shows a reduction in subsidy whilst greatly improving the sport, leisure and visitor attraction offer. The financial appraisal has been extremely thorough and officers have scrutinised Alliance Leisure’s finance projections and undertaken our own financial projections.

Although projects as significant as this cannot be risk free, officers have been conservative in projecting costs and income so as to minimise the risk to the council. Officers have visited several councils and trusts where similar developments have taken place and made extensive enquiries about the robustness of income targets and costs. Alliance Leisure have an excellent track record of working with clients, project managing capital works, delivering high specification facilities and keeping within budget and delivering on time.

**5.0 Details of Consultation**

5.1 None at present, there would be consultation with customers and potential customers prior to any projects starting.

**6.0 Options and Options Analysis (including risk assessment)**

	<b>Option 1:</b> Continue to invest in line with current budgets with replacement and repair as necessary but with no major	<b>Option 2:</b> Appoint Alliance Leisure as the development partner and confirm Cabinet’s commitment to including the
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	improvements.	necessary funding to deliver the project in its draft budget proposals for 2016/17 and beyond
Advantages	None	<p>Provide a more secure future for the continuation of Salt Ayre by reducing the ongoing net operating cost.</p> <p>Provides a planned programme of works over a period of years as summarised in 2.6.</p> <p>Provides facilities which meet current customer expectations as well as all H&amp;S standards.</p> <p>Would position SASC as a premier sport and leisure facility in the North West providing a diverse range of activities on one site whilst retaining a community hub for continuation of active health and other targeted health programmes for more vulnerable citizens.</p> <p>Position the council well for delivery of public health commissioned activities that cut across a range of council delivered services such as leisure, housing and environmental health.</p> <p>Is a good example of the municipal entrepreneurialism theme of the ensuring council ethos enabling the council to translate its policy objectives into practice.</p>
Disadvantages	<p>Opportunity to reduce operating subsidy as well as refurbishing an outdated facility are missed.</p> <p>Ultimately the financial viability of the centre would need to be reconsidered.</p>	<p>Upfront investment is required to facilitate these improvements.</p> <p>Officer capacity to oversee the programme is required.</p>
Risks	Operating costs increase to such a point that the facility becomes no longer viable to subsidise in the context of	Failure to secure a suitable development partner and establish a successful working relationship – this risk is

	<p>reducing resources. This could lead to decisions about closure.</p> <p>Lack of investment in new facilities will increase the repair costs and potentially lead to unforeseen costs due to meeting health and safety standards.</p> <p>Increasingly poor equipment and buildings could lead to unsafe conditions and risk of injury to staff and public.</p>	<p>mitigated by the fact that our soft market testing has shown there are a few experienced companies with a track record of success. In addition, the procurement process has determined the most suitable partner.</p> <p>Income projections do not materialise and savings targets are not achieved. This is mitigated by the fact that a robust procurement exercise has been carried out to select a development partner who has suitable experience and expertise. In addition, income projections have been robustly assessed by officers.</p> <p>The investment required is substantial and a return on this isn't generated until year 2 onwards.</p> <p>Officer capacity to oversee the programme may be insufficient – this risk is mitigated by the fact that the sport and leisure restructure built in some capacity to progress projects such as this as well as day to day management. In addition, the council adopts a cross service project team approach to large scale projects such as this similar to the solar PV project. Costs for additional capacity required have been included in the project costs.</p>
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**7.0 Officer Preferred Option (and comments)**

7.1 Option 2 is the officer preferred option. Subject to Budget Council approving the financial proposals, the appointment of a development partner, and delivery of the improvements will give the council the opportunity to significantly reduce operating costs (see financial implications). In addition, it will provide a building asset management plan for the future and generate considerably more use of the facility thus increasing people's participation in leading healthy lifestyles. Improving the offer will further enhance the district as a place to live and visit whilst remaining entirely well placed to deliver on our health and wellbeing objectives particularly still providing for our more vulnerable citizens. The council will retain responsibility for programming of the facilities and setting the associated pricing policy. The existing 'Go Card'

scheme offering reduced rates to local residents in receipt of various benefits will continue.

**8.0 Conclusion**

8.1 There is a clear requirement to address the medium and long term future of SASC. This report recommends the award of contract for the provision of sport and leisure development partner to Alliance Leisure as the most economically advantageous tender submitted.

8.2 The financial return to the council that this project provides at a time when identifying savings and protecting services is of paramount importance would seem a prudent and sensible way forward. Taking this route does not preclude any future option of considering transferring to a Not for Profit Distributing Organisation (NPDO or Trust).

**RELATIONSHIP TO POLICY FRAMEWORK**

This report supports the council's ensuring council ethos, particularly relating to municipal entrepreneurialism. In addition, it is directly related to the health & wellbeing corporate plan priority and aligns with the council's key objective of ensuring value for money in delivering services. It also meets the council's ethos of collaboration – working with a range of service providers on a collaborative basis rather than through competition and social justice – ensuring the values of local government are founded on equality and meeting community needs.

**CONCLUSION OF IMPACT ASSESSMENT**

**(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)**

None arising as a direct result of this report, however, the impact of any improvements will be fully assessed at the time.

**LEGAL IMPLICATIONS**

The contractual documentation has been based on the Sport England's Procurement Toolkit document for a design, build and maintain contract. Local Authorities are encouraged to use this Toolkit as the templates have been based on best practice in relation to projects of this nature. The contract will need to be modified by legal so it is fit for purpose for the successful bidder's specific proposal.

**FINANCIAL IMPLICATIONS**

As set out in the report.

**OTHER RESOURCE IMPLICATIONS**

**Human Resources:** Officer capacity to oversee the project has been accounted for within the project costings or existing resources, however, the improvements may require a different staffing structure and/or a change in skillsets for staff which will need to be addressed at the time.

**Information Services:** There are considerable implications for IT which have been assessed as far as possible during the procurement phase, however, further IT support will

be necessary to deliver the project.

**Property:** As the project involves alterations and improvements to the council's assets, property services will be involved in the delivery phase of the project.

**Open Spaces:** No specific impact identified.

**SECTION 151 OFFICER'S COMMENTS**

Cabinet is advised to consider carefully the financial implications of the options, in context of the budget update elsewhere on the agenda, its proposed priorities, the need to make savings and other competing spending/investment.

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

none

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**CABINET**

**Budget and Policy Framework Update 2016 to 2020 –  
General Fund Revenue Budget and Capital Programme  
19 January 2016**

**Report of Chief Officer (Resources)**

PURPOSE OF REPORT			
To provide information on the latest budget position for current and future years, to inform Cabinet's budget and policy framework proposals and to allow it to make final recommendations to Council regarding council tax levels for 2016/17.			
Key Decision	<b>X</b>	Non-Key Decision	Referral
Date of notice of forthcoming key decision	18 December 2015		
This report is public.			

**OFFICER RECOMMENDATIONS:**

1. That the 2015/16 Revised Budget be referred on to Budget Council for approval, with the net underspending of £503K reducing the in-year call on Balances from £1M to £497K.
2. That Cabinet makes recommendations to Council regarding City Council tax increases for 2016/17 and targets for future years, subject to local referendum thresholds.
3. That Cabinet makes recommendations regarding its initial budget proposals for the period from 2016/17 to 2019/20.
4. That the resulting budget position for 2016/17 onwards, together with Cabinet's detailed proposals, be referred on to Council for initial consideration as well as being presented for scrutiny by Budget and Performance Panel, in order that any feedback can be provided to Cabinet at its February meeting.

**1 INTRODUCTION AND STRATEGIC CONTEXT**

- 1.1 In strategic terms, the main challenge of budget setting is to match priorities and corporate planning objectives against what is affordable financially. Local Government continues to face major funding reductions year on year, meaning that a lesser range of services will be provided in future.

- 1.2 This report picks up on the financial implications of that work to date and the recent announcement of the provisional Local Government Finance Settlement, and gives an update on other key elements of budget setting in order that Cabinet can develop further its budget proposals.

## 2 GENERAL FUND BUDGET: SUMMARY POSITION

- 2.1 The table below pulls together the draft budget position, allowing for various base budget changes, inflation assumptions and expectations for 2016/17 and beyond, as outlined in sections 3 to 7 of this report. Figures for future years are still subject to change. A more comprehensive budget summary is included at **Appendix A**.

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
<b>Net Spending / draft budget forecasts as reported in December:</b>	<b>16,444</b>	<b>17,035</b>	<b>17,209</b>	<b>18,659</b>	<b>18,790</b>
<b>Further Base Budget Changes:</b>					
Flood Recovery: estimated unfunded costs	35	-	-	-	-
Housing Benefit Administration Grant Reductions	-	125	162	198	231
New Homes Bonus Assumed Grant (Increases) or Reductions	-	(20)	243	1,122	1,291
Reduction in Contribution from Balances (down from £1M to £497K)	503	-	-	-	-
Other Net Changes	70	30	(57)	(84)	(100)
<b>Updated Draft Budget Forecasts (Prior to any savings or growth proposals)</b>	<b>17,052</b>	<b>17,170</b>	<b>17,557</b>	<b>19,895</b>	<b>20,212</b>
<b>Resulting in:</b>					
<b>Estimated Budget Deficits (or Savings Requirements)</b>	<b>-</b>	<b>949</b>	<b>2,449</b>	<b>5,005</b>	<b>5,592</b>

- 2.2 A number of key points are highlighted:

- The projections take account of the latest information or assumptions on various Government funding streams, such as Housing Benefit administration grant and New Homes Bonus. The latter is expanded on later in section 3.2 below. Housing benefit administration grant continues to fall each year, but as yet there is little reduction in workload from the implementation of Universal Credit, as an example.
- With regard to the recent floods, Government operates a Bellwin Scheme, to provide additional funding to cover relevant additional costs incurred by councils (in addition to the various funding packages available for giving support to affected residents and businesses). A threshold applies to the Bellwin Scheme, however, and an estimate of this has been allowed for above. That said, actual guidance

for the operation of the scheme has not yet been announced and therefore there is a risk that by outturn, the financial consequences of the flooding are somewhat different.

- Various other base budget adjustments have been made, to reflect the estimated costs and income for current operations and policies.
- No assumptions have been made regarding Cabinet's proposals for balancing the budget.
- In the current year, the use of Balances has been reduced by £503K (down from £1M to £497K) as a result of the forecast net underspending. No use of Balances is provided for in years 2016/17 onwards.

2.3 Cabinet is requested to refer the resulting Revised Budget to Budget Council for approval, with the underspending reducing the call on General Fund Balances. The net underspending of £503K represents 2.9% of the overall net revenue budget of £17.052M.

2.4 In terms of council tax, a 1.99% year on year increase is assumed in line with current approved strategy. Options for council tax are set out in section 7 of this report.

2.5 The draft budget for 2016/17 currently stands at £17.170M, which requires estimated savings of £949K to be identified.

2.6 There is a four year focus for this budget strategy, however; it is not simply about balancing next year. Despite the continuing progress in identifying savings and refining budget projections, as a result of the provisional Local Government Settlement the budget shortfalls in subsequent years are now even higher. In 2017/18 there is a still a huge estimated budget shortfall of over £2.4M, rising to an enormous £5.6M by 2019/20.

2.7 Budget deficits of that magnitude will not be addressed simply through efficiencies and trimming of services. Fundamental changes and very difficult decisions are needed, focusing on what really is of high priority - and what isn't.

2.8 Whilst the Council does currently have a number of significant reserves and Balances available to it, these can only help during the period of transition and they do not provide a medium term or permanent solution. The Balances position is outlined later in section 5.3.1 of this report.

## 3 LOCAL GOVERNMENT FINANCE SETTLEMENT

### 3.1 General Matters

3.1.1 Further to the Chancellor's Autumn Statement published on 25 November, the provisional Local Government Finance Settlement was announced on 17 December 2015 for consultation until 15 January. Detailed information and briefings are available on the various websites ([www.gov.uk](http://www.gov.uk) or [www.lga.gov.uk](http://www.lga.gov.uk)).

3.1.2 The Settlement provides provisional funding figures for 2016/17. It also provides provisional figures for the next three years up to 2019/20, for those authorities who wish to take up Government's offer of a multi-year Settlement. The exact details of this offer (and the implications of not accepting it) are not yet clear. It is expected to



involve the production of an efficiency plan of some sort; the Government Minister has indicated a light touch approach and there is some speculation as to whether Councils' existing financial strategies will be sufficient or not. Further information is awaited.

3.1.3 Nonetheless, the offer covers the longest Settlement period ever. This move back to multi-year Settlements fits with the Council's own financial planning horizons and in principle it is very much welcomed as it should give much greater certainty with which to plan.

3.1.4 The combined total funding from baseline Business Rates and Revenue Support Grant is known as the Settlement Funding Assessment (SFA). The following table provides a comparison of the Settlement with the Council's most recent forecasts:

<b>Funding Assumptions</b>	<b>2015/16 £000's</b>	<b>2016/17 £000's</b>	<b>2017/18 £000's</b>	<b>2018/19 £000's</b>	<b>2019/20 £000's</b>
<b>Provisional Settlement:</b>					
Revenue Support Grant (RSG)	3,861	2,652	1,605	941	200
Business Rates (Baseline Funding)	5,207	5,250	5,353	5,511	5,688
<b>Settlement Funding Assessment</b>	<b>9,068</b>	<b>7,902</b>	<b>6,958</b>	<b>6,452</b>	<b>5,888</b>
<b>As Compared To:</b>					
<b>Updated MTFS (September 2015)</b>	<b>9,068</b>	<b>8,220</b>	<b>7,824</b>	<b>7,733</b>	<b>7,895</b>
<b>Year on Year Reductions in SFA (per Settlement):</b>		<b>£1.166M</b> <b>12.9%</b>	<b>£944K</b> <b>11.9%</b>	<b>£506K</b> <b>7.3%</b>	<b>£564K</b> <b>8.7%</b>
<b>Total Reduction over the Review Period:</b>					<b>£3.180M</b> <b>35.1%</b>

3.1.5 It is clear that Government has sought to redirect funding into social care and as a result, shire districts such as the City Council have been adversely affected; they will experience the greatest reductions (proportionately) over the next four years.

3.1.6 With regard to any additional income becoming available through the local retention of business rates, this will be addressed prior to February Cabinet, in line with statutory requirements. There are still significant risks around appeals and power station rating income over the next few years, however. For this reason, from 2017/18 onwards the budget projections currently assume that business rate income will fall to safety net levels (the minimum that the Council could receive in any year), rather than using the higher baseline figures announced through the Settlement.

3.1.7 Acknowledging the current retention scheme, there is nothing to indicate that the Council could (prudently) assume that its business rate yield will experience any net growth over the medium term. To highlight this, Heysham 1 Power Station is currently scheduled to be decommissioned in 2019. If so, this is expected to wipe out other growth coming through from other opportunities, such as the opening of the M6 link road and the proposed Innovation Campus at Lancaster University.

3.1.8 On a slightly more positive note though, Government has committed to engage and consult with local authorities on developing new arrangements for implementing 100% business rates retention in 2020. This presents the best opportunity to address complexities linked to the power stations and other distorting factors. The 100% rates retention proposals should not be viewed as a panacea however. They are to be 'revenue neutral' overall, in that local government will have to take on new powers, and alongside the business rate proposals Revenue Support Grant will disappear

completely - Cabinet will see from the table above that very little RSG is expected by 2019/20 in any event.

3.1.9 As a final point to highlight, developing a national distribution mechanism that balances local authorities' relative spending needs, as well as their tax raising capacity, poses an almighty headache. Inevitably there will be winners and losers.

### 3.2 New Homes Bonus

3.2.1 In terms of other Government grant funding, alongside the main Settlement Government has announced the 2016/17 New Homes Bonus provisional allocations, as well as a consultation on reforms to the New Homes Bonus (NHB) Scheme from 2017/18 onwards. It is good news that the scheme is to continue, as there was no absolute certainty over this. Rather than the future Scheme working on a six-year award cycle, however, it would work on a four-year cycle.

3.2.2 Government is also seeking to redirect into social care around £800M of the total NHB funding currently available. This is not good news for district councils.

3.2.3 The consultation involves various options, with a strong message that the Government is considering linking the award of NHB to a council's progress in submitting a Local Plan. The consultation states that 'given the importance of a Local Plan in identifying housing needs in an area and setting the options for decisions on individual planning applications, the Government is considering options for withholding some or all of the bonus from authorities that have not yet produced a Local Plan'.

3.2.4 There are various other matters covered in the consultation, which runs until 10 March. Given its nature, it is not possible to do any detailed modelling but the Government has provided indicative authority allocations from 2017/18 onwards, as well as the firmer figures for next year. These are shown below and the draft budgets have been updated accordingly.

	<b>NHB Estimate per MTFS £000's</b>	<b>NHB Provisional Settlement £000's</b>	<b>Difference £000's</b>
<b>2016/17</b>	1,896	1,916	(20)
<b>2017/18</b>	2,143	1,900	243
<b>2018/19</b>	2,322	1,200	1,122
<b>2019/20</b>	2,491	1,200	1,291

3.3 **Core Spending Power**

3.3.1 Members may have noticed that Government has once again retained the concept of ‘spending power’, but it has changed the calculation and now calls it ‘core spending power’. Essentially this gives an annual comparison of the combined total of general Government funding and assumed income from council tax. Given that the measure includes council tax income, which is forecast to increase, the headline year on year reductions are lower overall, than those for Settlement funding and New Homes Bonus. The City Council’s figures as produced by Government are as follows:

<b>Core Spending Power</b>	<b>2015/16 £M</b>	<b>2016/17 £M</b>	<b>2017/18 £M</b>	<b>2018/19 £M</b>	<b>2019/20 £M</b>
Settlement Funding Assessment	9.2	7.9	7.0	6.5	5.9
Assumed Council Tax Income (Allowing for estimated tax base growth and inflationary tax rate increases)	7.9	8.1	8.4	8.7	9.1
Assumed New Home Bonus Grant	1.3	1.9	1.9	1.2	1.2
<b>Total: Core Spending Power</b>	<b>18.3</b>	<b>17.9</b>	<b>17.3</b>	<b>16.4</b>	<b>16.1</b>
<b>Reduction over the Review Period:</b>					<b>£2.2M</b>
					<b>11.9%</b>

4 **COLLECTION FUND POSITION**

- 4.1 The Collection Fund is the account into which all council tax and business rate income is payable, and from which precepts and other relevant payments are made to the County, Police, Fire and the City Council’s own General Fund, as well as to Government for its share of business rates.
- 4.2 Legislation now requires that separate estimates of any surpluses or deficits on the Collection Fund are made each year for council tax (15 January) and business rates (by 31 January).
- 4.3 In respect of council tax, the review of the Collection Fund’s financial position is still expected to result in a surplus of £460K being declared. This surplus will be shared with major precepting authorities, with the City Council’s share being £60K. This is already built into the draft budget.
- 4.4 It is well documented that for business rates, the calculation of any surplus or deficit is more complicated primarily because of the impact of appeals. The final position will be determined in line with the 31 January deadline for reporting to Cabinet in February.
- 4.5 At this stage, therefore, Cabinet is asked simply to note the position, acknowledging that further budget changes may be needed in due course, particularly as a result of the business rates position.

## 5 PROVISIONS AND RESERVES (INCLUDING UNALLOCATED BALANCES)

- 5.1 Provisions and reserves (as set out at **Appendix B**) help the Council to deliver against its corporate priorities and manage the many financial risks it faces. A summary of these funds is shown below.

	31 March 15 £'000	Net Movements £000's	31 March 16 £'000	Net Movements £000's	31 March 17 £'000
General Fund Balances	4,625	-497	4,128	-	4,128
Earmarked Reserves	6,160	-161	5,999	-260	5,739
<b>TOTAL</b>	<b>10,785</b>	<b>-658</b>	<b>10,127</b>	<b>-260</b>	<b>9,897</b>

- 5.2 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and balances. This will be formalised in February, once full budget proposals are known. This will allow the s151 Officer to consider fully whether there are any major shifts in financial risk attached.

- 5.3 In terms of the budget position to date, key points are as follows.

### 5.3.1 General Fund Balances

After allowing for this year's forecast net underspending, balances would amount to £4.128M by 31 March 2016. If the existing minimum balance of £1M remained unchanged and the current year's outturn is as expected, surplus balances of just over £3.1M would be available to support future years' budgets. It should be expected, however, that given the extent of savings needed over the next four years and the increased level of risk inherent in delivering major changes to balance the budget, the s151 Officer is likely to advise an increase in minimum Balances, to some degree. She cannot finalise her advice until Cabinet has presented its budget proposals, however.

These matters will be explored further in the coming weeks. As a recap and drawing on the Council's existing Medium Term Financial Strategy (MTFS), in broad terms the working principle is that surplus Balances would be used to help manage the risks, lead-in times and up-front investment costs associated with implementing savings measures.

### 5.3.2 Earmarked Reserves

Various changes have been made to the transfers to and from these reserves in line with their current authorised use and as such, they are budget neutral. More substantial changes may be made in February. In particular, the Authority continues to hold substantial balances in the Invest to Save (£1.461M) and Restructuring (£603K). Advice and the adequacy and use of such reserves will also be influenced by Cabinet's budget proposals.

## 6 GENERAL FUND CAPITAL PROGRAMME

- 6.1 Since December Cabinet, the only change to the gross capital programme relates to a funding adjustment for the Lancaster Square Routes scheme. This has reduced the underlying need to borrow slightly.
- 6.2 The resulting draft capital position is summarised as follows and a more detailed statement is included at **Appendix C**, for Cabinet's consideration.
- 6.3 In due course, there will be other changes to consider with regard to the capital programme, linked to the consideration and development of potential budget proposals (for example, Salt Ayre redevelopment). Some such proposals may be incorporated prior to Budget Council, but some may well be for consideration and updating during the next financial year.

	Gross Programme	Change in Underlying Borrowing Need: CFR
	£000	£000
<b>Original Approved Programme (2015/16 to 2019/20)</b>	<b>29,786</b>	<b>+13,049</b>
Changes report to Cabinet 01 December	+4,159	+2,057
Further Changes: Lancaster Square Routes – Additional External Funding	--	-11
<b>Resulting Draft Capital Programme (to 2019/20)</b>	<b>33,945</b>	<b>+15,095</b>

## 7 COUNCIL TAX: OPTIONS

- 7.1 Under the Localism Act, if an authority's council tax increase exceeds the principles set by the Secretary of State, then it must hold a local referendum.
- 7.2 Government has announced as part of the provisional Settlement that a general threshold of 2% will still apply for most local authorities. For those shire districts whose council tax currently falls within the lowest quartile, they may increase their Band D tax rate by £5 – slightly more than the standard threshold. Furthermore, those authorities that have social care responsibilities may increase their council tax rate by a further 2%. Neither of these conditions apply to the City Council, however. This means that provisionally the Council's maximum permissible increase without needing to hold a referendum remains at 1.99%, which fits with approved strategy.
- 7.3 This assumed increase of 1.99% would increase the City Council's tax rate of £203.97 to £208.03 for a Band D property. The increase amounts to around £4.06 per year or 8 pence per week.
- 7.4 Government has not continued with its previous offer of compensation grant if Councils choose to freeze their council tax rates next year. Alongside the changes outlined on referendum thresholds, this marks a significant change in Government policy with regard to council tax. Whilst local authorities do not have complete autonomy in terms of tax setting, there is now apparent recognition by Government

that increasing tax to some degree may be a reasonable way to help protect service delivery.

7.5 Drawing on the above factors, two basic options for council tax are presented, to demonstrate the impact of tax changes. A 1% change in council tax would generally have around an £81K impact on the budget.

Council Tax Scenarios	Estimated Budget Impact			
	2016/17	2017/18	2018/19	2019/20
<p><b>Option 1:</b> Retain existing strategy: maintain a steady increase to help protect service delivery, taking account of referendum thresholds</p> <p><b>1.99% assumed in all years, subject to local referendum thresholds</b></p>	£949K net savings requirement	£2.449M net savings requirement	£5.005M net savings requirement	£5.592M net savings requirement
<p><b>Option 2:</b> Freeze council tax year on year, increasing the pressure to make savings on service delivery.</p> <p><b>0% change year on year</b></p>	£1.110M net savings requirement	£2.779M net savings requirement	£5.513M net savings requirement	£6.287M net savings requirement
<b>Net Impact on Savings Requirement between the two options</b>	<b>£161K</b>	<b>£330K</b>	<b>£508K</b>	<b>£695K</b>

7.6 In reality there are numerous other targets that may be considered for the period, but for simplicity the options presented just include the current MTFS assumptions of an annual 1.99% increase, and the impact of freezing council tax year on year.

7.7 The table shows that an additional savings requirement of £161K in 2016/17 would need to be met if council tax was frozen, and this is estimated to rise to almost £700K by 2019/20.

7.8 Cabinet is now requested to decide what level of council tax increase to recommend for next year and what targets to propose for 2017/18 onwards. In doing so, Cabinet is advised to consider:

- the council tax threshold, above which a local referendum must be held;
- subsequent years' general Government funding reductions and the need to make huge savings in future;
- financial sustainability. In short, it is not possible to keep tax increases lower than planned, without increasing the budget shortfalls in 2016/17 and beyond. More savings cannot be delivered without having greater adverse impact on services and communities.

- 7.9 Cabinet is reminded that its council tax recommendation for 2016/17 will be final (subject to the threshold), for subsequent consideration by Council. Targets for 2017/18 and beyond will be reviewed in future years, in accordance with the Medium Term Financial Strategy (MTFS).

## 8 **BALANCING THE BUDGET: CABINET'S BUDGET PROPOSALS**

- 8.1 Alongside council tax, Cabinet is also requested to make recommendations regarding its supporting budget proposals for initial consideration by Council. Officers were tasked by Cabinet Members to identify savings options; this has been achieved and they have been presented informally to the Leader's Briefings. Whilst the provisional Settlement has resulted in an even higher level of savings being needed by 2019/20, Officers have identified other areas in which savings can be made, on top of the savings options already quantified and these will be developed for further consideration as appropriate, in due course.
- 8.2 Ideally Cabinet's budget proposals should seek to balance the medium term budget as far as possible, but there will be another opportunity at the February meeting to make some further changes. Importantly, the Council has a statutory obligation to set a balanced budget for 2016/17, and its proposals for the years up to 2019/20 could well influence the Council's ability to take up the Government's offer of a multi-year Settlement.
- 8.3 It is also important to appreciate that any decisions taken during this budget on recurring items will have a bearing in future years; emphasis should be on securing recurring annual savings, rather than one-off measures. This is reflected in the current financial strategy, as is the Council's position on growth, which is quoted below. Cabinet is advised to take account of this in deciding on whether to consider any growth requests.

### ***Growth (Redirection of Resources)***

*Growth in a particular area will only be considered if it meets either of the following conditions:*

- *it is needed to meet statutory service standards; or*
- *it is essential to meet a key objective within Corporate Plan proposals, for which there are no alternative providers or sources of funding available **and** sufficient progress has been made in adopting plans for addressing the medium term budget deficit, so as to consider any growth proposal affordable and sustainable in the medium to long term. This applies particularly to any recurring or high cost one-off growth proposals.*

- 8.4 Taking account of current strategy and the enormous financial challenges ahead, at present the s151 Officer's provisional advice is that any recurring discretionary growth is unaffordable and unsustainable in the medium to longer term, but there may be some limited scope for some one-off redirection of resources, taking account of priorities and subject to enough savings being identified to balance the medium term budget.
- 8.5 Once Cabinet's budget proposals are determined they will be reflected in the draft Corporate Plan as well as the draft budget framework, for Council's due consideration. Similarly the s151 Officer's formal advice will be finalised.

**9 DETAILS OF CONSULTATION**

9.1 Cabinet's budget proposals are due to be considered by Budget and Performance Panel at its meeting on 26 January, prior to February Council.

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

10.1 Options are dependent very much on Members' views on spending priorities balanced against council tax levels. As such, a full options analysis could only be undertaken once any alternative proposals are known and it should be noted that Officers may require more time to do this. Outline options are highlighted below, however.

- Regarding council tax, two options are set out at section 7 of the report.
- With regard to including savings and growth options to produce a budget in line with preferred council tax levels, any proposals put forward by Cabinet should be considered affordable, alongside the development of priorities. Emphasis should be very much on the medium to longer-term position.

10.2 Under the Constitution, Cabinet is required to put forward budget proposals for Council's consideration, in time for them to be referred back as appropriate. This is why recommendations are required to feed into the Council meeting in early February, prior to the actual Budget Council in March.

**11 OFFICER PREFERRED OPTION AND COMMENTS**

11.1 Generally Officer preferred options are reflected in the recommendations, with the exception of council tax.

11.2 In view of the level of savings still needed in future years, the ongoing impact that council tax freezes have, the Council's current financial strategy and the fact that the Council is not yet clear about how and when it will achieve a financially sustainable budget, the Officer preferred option for council tax is to retain the existing 1.99% year on year increase, subject to confirmation of local referendum thresholds. This preferred option would change only if the Council fundamentally reduces its ambitions regarding service delivery, evidenced through the adoption of a clear statement and strategy for doing so.

**12 CONCLUSION AND IMPLICATIONS FOR THE FUTURE**

12.1 The Council's financial challenges continue to escalate and in order to protect its future viability, it has no real choice other than to focus on balancing its budget for the medium term.



**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)**

There are no other implications 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 AND OTHER RESOURCE IMPLICATIONS**

As set out in the report.

**SECTION 151 OFFICER'S COMMENTS**

The section 151 Officer has prepared this report, and her comments and advice are reflected accordingly. Attention is drawn to two specific areas in the report, in which the s151 Officer has set out some provisional advice.

In section 5.3.1, it is highlighted that the s151 Officer is likely to advise an increase in minimum Balances, to some degree.

In section 8.4, it is highlighted that at present the s151 Officer's provisional advice is that any recurring discretionary growth is unaffordable and unsustainable in the medium to longer term, but there may be some limited scope for some one-off redirection of resources, taking account of priorities and subject to enough savings being identified to balance the medium term budget.

Her advice on all relevant matters will be expanded upon once Cabinet's budget proposals are known.

**LEGAL IMPLICATIONS**

Legal Services have been consulted and have no further comments to add.

**MONITORING OFFICER'S COMMENTS**

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

**BACKGROUND PAPERS**

None. Any public background information is already available through previous reports or the Government website.

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# GENERAL FUND REVENUE BUDGET 2015/16 TO 2019/20

For Consideration by Cabinet 19 January 2016

	2015/16	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000	£000
<b>Original Revenue Budget &amp; Projections</b>	<b>17,052</b>	<b>18,218</b>	<b>18,590</b>	<b>0</b>	<b>0</b>
<i>Allowing for budgeted use of Balances</i>	<i>(1,000)</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>
Changes to Budget Projections - <i>Cabinet 01 December</i>	(608)	(1,183)	(1,381)	18,659	18,790
<b>Base Budget Changes after Cabinet 01 December</b>					
Emergency Flood Recovery (unfunded costs)	35	0	0	0	0
HB Admin Grant reduction	0	125	162	198	231
VAT on Search Fees	5	31	32	32	33
Employees / Consultancy / Living Wage Increase	67	74	10	(9)	(9)
Income Projections Updated	8	(49)	(58)	(66)	(73)
Other Minor Net Changes	(10)	(26)	(41)	(41)	(51)
<b>New Homes Bonus changes</b> (subject to consultation)	<b>0</b>	<b>(20)</b>	<b>243</b>	<b>1,122</b>	<b>1,291</b>
Reduced Contribution from Balances	503	0	0	0	0
<b>Latest Net Revenue Budget Forecast</b>	<b>17,052</b>	<b>17,170</b>	<b>17,557</b>	<b>19,895</b>	<b>20,212</b>
<b>Provisional Finance Settlement:</b>					
<b>Revenue Support Grant</b>	<b>(3,861)</b>	<b>(2,652)</b>	<b>(1,605)</b>	<b>(941)</b>	<b>(200)</b>
<b>Retained Business Rates</b>	<b>(5,207)</b>	<b>(5,250)</b>	<b>(5,353)</b>	<b>(5,511)</b>	<b>(5,688)</b>
Business Rates - Safety Net Adjustment			401	413	427
<b>Estimated Collection Fund Surplus</b>	<b>(131)</b>	<b>(60)</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Current Council Tax Funding Requirement</b>	<b>7,853</b>	<b>9,208</b>	<b>11,000</b>	<b>13,856</b>	<b>14,751</b>
Target Council Tax Requirement <i>(To fit with a council tax increase of 1.99% per year)</i>	7,853	8,259	8,551	8,851	9,159
<b>Estimated Budget Deficit / Savings Requirement</b>	<b>0</b>	<b>949</b>	<b>2,449</b>	<b>5,005</b>	<b>5,592</b>

## Comparison of Indicative Funding Shortfalls (i.e. Savings Requirements)

Updated MTFS (Sept 2015)	496	836	2,076	1,736
Projected Worse Case	898	1,533	3,307	3,146
Provisional Settlement	949	2,449	5,005	5,592

	2015/16	2016/17	2017/18	2018/19	2019/20
	<b>Impact on Council Tax</b>				
<i>Tax Base Projections</i>	38,500	39,700	40,300	40,900	41,500
<b>Band D City Council Tax Rate - MTFS Targets</b>	<b>£203.97</b>	<b>£208.03</b>	<b>£212.17</b>	<b>£216.39</b>	<b>£220.70</b>
<i>Percentage Increase Year on Year</i>	1.99%	1.99%	1.99%	1.99%	1.99%
<b>Current Council Tax Projections</b>	<b>£203.97</b>	<b>£231.94</b>	<b>£272.94</b>	<b>£338.76</b>	<b>£355.46</b>
<i>Percentage Increase Year on Year</i>	1.99%	12%	15%	19%	5%

	£M
	<b>General Fund Unallocated Balances</b>
<i>Budgeted Position</i>	
<b>Original projected balance as at 31 March 2015</b>	<b>4.071</b>
Add: 2014/15 Underspend	0.554
Less: Budgeted Contribution for 2015/16	(1.000)
Add: Current Projected Underspend for 2015/16	0.503
<b>Latest Projected Balance as at 31 March 2016</b>	<b>4.128</b>
Less: Current Minimum Level	(1.000)
<b>Amount Available to Support Budgets 2016/17 onwards</b>	<b>3.128</b>

# RESERVES AND PROVISIONS STATEMENT (INCLUDING BALANCES)

For consideration by Cabinet 19 January 2016

GENERAL FUND	2015/16				2016/17				2017/18				2018/19				2019/20			
	Balance ast at 31/03/15 £	Contributions to Reserve		Balance ast at 31/03/16 £	Contributions to Reserve		Balance ast at 31/03/17 £	Contributions to Reserve		Balance ast at 31/03/18 £	Contributions to Reserve		Balance ast at 31/03/19 £	Contributions to Reserve		Balance ast at 31/03/20 £				
		From Revenue £	To Capital £		To Revenue £	From Revenue £		To Capital £	To Revenue £		From Revenue £	To Capital £		To Revenue £	From Revenue £		To Capital £	To Revenue £		
<b>General Fund Balance</b>	4,625,207	(497,000)			4,128,207				4,128,207				4,128,207				4,128,207			
<b>Earmarked Reserves:</b>																				
Apprenticeships	38,054	21,200		(19,600)	39,654			39,654		39,654		39,654		39,654			39,654			
Business Rates Retention	381,458	To be confirmed			381,458			381,458		381,458		381,458		381,458			381,458			
Capital Support	298,767				298,767			298,767		298,767		298,767		298,767			298,767			
Elections	0				0	40,000		40,000	40,000	80,000	40,000	120,000	40,000	160,000			0			
Highways	279,390				279,390			279,390		279,390		279,390		279,390			279,390			
Homelessness Support	16,285			(1,200)	15,085		(10,200)	4,885		4,885		4,885		4,885			4,885			
Invest to Save	1,501,412			(10,000)	1,491,412		(30,000)	1,461,412		1,461,412		1,461,412		1,461,412			1,461,412			
Local Plan	42,167	12,800			54,967		(16,400)	38,567		(38,600)	(33)	(33)		(33)			(33)			
Markets	59,599			(5,000)	54,599			54,599		54,599		54,599		54,599			54,599			
Morecambe Area Action Plan (MAAP)	223,803		(90,000)	(37,900)	95,903			95,903		95,903		95,903		95,903			95,903			
Corporate Property	342,585		(59,300)		283,285			283,285		283,285		283,285		283,285			283,285			
Open Spaces Commuted Sums	128,448			(24,400)	104,048		(22,500)	81,548		(20,900)	60,648	(16,600)	44,048		(15,600)		28,448			
Performance Reward Grant	19,000			(19,000)	0			0		0		0		0			0			
Renewals (all services)	707,601	605,400	(271,000)	(295,100)	746,901	402,800	(477,000)	(69,500)	603,201	402,300	(230,000)	(43,100)	732,401	402,300	(280,000)	(48,300)	806,401			
Restructuring	602,922				602,922			602,922		602,922		602,922		602,922			602,922			
S106 Commuted Sums - Affordable Housing	614,632	184,100	(130,000)		668,732		(93,000)	575,732		575,732		575,732		575,732			575,732			
S106 Commuted Sums - Highways, crossing & cycle paths	504,729			(117,000)	387,729			387,729		387,729		387,729		387,729			387,729			
Welfare Reforms	307,996	102,700		(18,900)	391,796			391,796		391,796		391,796		391,796			391,796			
Youth Games	21,514	15,000		(3,600)	32,914	15,000		47,914	15,000	(41,800)	21,114	15,000	36,114	15,000			51,114			
<b>Reserves Held in Perpetuity:</b>																				
Graves Maintenance	22,201				22,201			22,201		22,201		22,201		22,201			22,201			
Marsh Capital	47,677				47,677			47,677		47,677		47,677		47,677			47,677			
<b>Total Earmarked Reserves</b>	<b>6,160,241</b>	<b>941,200</b>	<b>(667,300)</b>	<b>(434,700)</b>	<b>5,999,441</b>	<b>457,800</b>	<b>(600,000)</b>	<b>(118,600)</b>	<b>5,738,641</b>	<b>457,300</b>	<b>(230,000)</b>	<b>(144,400)</b>	<b>5,821,541</b>	<b>457,300</b>	<b>(280,000)</b>	<b>(64,900)</b>	<b>5,933,941</b>			

Note - For various provisions and reserves, not all spending needs are reflected and so over the period their balances will reduce from the levels shown above, as and when spending commitments and their timing are confirmed.

Provisions	Balance ast at 31/03/15 £
Bad Debts	1,174,523
Legal	175,000
Insurance	359,608
<b>Total Provisions</b>	<b>1,709,131</b>

# GENERAL FUND CAPITAL PROGRAMME

## For Consideration by Cabinet 19 January 2016

Service / Scheme	2015/16			2016/17			2017/18			2018/19			2019/20			5 YEAR PROGRAMME		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
<b>Environmental Services</b>	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Allotments	5,000		5,000			0			0			0			0	5,000	0	5,000
Vehicle Renewals	697,000		697,000	1,160,000		1,160,000	1,584,000		1,584,000	994,000		994,000	926,000		926,000	5,361,000	0	5,361,000
Vehicle Tracking System	24,000		24,000			0			0			0			0	24,000	0	24,000
Bins & Boxes Scheduled Buy-Outs	21,000		21,000	74,000		74,000	50,000		50,000			0			0	145,000	0	145,000
Car Parks Improvement Programme	92,000		92,000	72,000		72,000			0			0			0	164,000	0	164,000
Middleton Solar Farm Feasibility Study			0	30,000		30,000			0			0			0	30,000	0	30,000
Happy Mount Park - Pathway Replacements			0	43,000		43,000	23,000		23,000	23,000		23,000	23,000		23,000	112,000	0	112,000
Williamson Park Improvements & Enhancements	107,000	30,000	77,000			0			0			0			0	107,000	30,000	77,000
<b>Health and Housing</b>																		
Disabled Facilities Grants	600,000	600,000	0	1,168,000	1,168,000	0	783,000	783,000	0	783,000	783,000	0	783,000	783,000	0	4,117,000	4,117,000	0
Warmer Homes Scheme	6,000		6,000			0			0			0			0	6,000	0	6,000
Salt Ayre Sports Centre - Replacements & Refurbishments			0	30,000		30,000			0			0			0	30,000	0	30,000
<b>Regeneration and Planning</b>																		
Toucan Crossing - King Street	3,000		3,000			0			0			0			0	3,000	0	3,000
Dalton Square Christmas Lights (Renewal)	29,000		29,000			0			0			0			0	29,000	0	29,000
Sea & River Defence Works & Studies	1,396,000	1,393,000	3,000	3,255,000	3,255,000	0	2,125,000	2,125,000	0	2,125,000	2,125,000	0	1,082,000	1,082,000	0	9,983,000	9,980,000	3,000
Amenity Improvements (Morecambe Promenade)	22,000	3,000	19,000	9,000		9,000			0			0			0	31,000	3,000	28,000
Luneside East	50,000		50,000			0			0			0			0	50,000	0	50,000
Lancaster Square Routes	106,000	106,000	0	19,000		19,000			0			0			0	125,000	106,000	19,000
Morecambe THI2: A View for Eric	429,000	324,000	105,000	647,000	489,000	158,000			0			0			0	1,076,000	813,000	263,000
MAAP Improving Morecambe's Main Streets	132,000	5,000	127,000	263,000		263,000	1,000		1,000			0			0	396,000	5,000	391,000
MAAP Connecting Eric	158,000		158,000			0			0			0			0	158,000	0	158,000
Albion Mills Affordable Housing s106 scheme	40,000		40,000			0			0			0			0	40,000	0	40,000
King St/Wellington Terrace Affordable Housing s106 Scheme	90,000		90,000			0			0			0			0	90,000	0	90,000
Middleton Nature Reserve s106 Scheme	17,000		17,000	4,000		4,000			0			0			0	21,000	0	21,000
Pedestrian/cycle links Sainsbury's Morecambe s106 scheme	59,000		59,000			0			0			0			0	59,000	0	59,000
Bold Street Housing Regeneration Site Works	24,000		24,000			0			0			0			0	24,000	0	24,000
Chatsworth Gardens	1,878,000		1,878,000			0			0			0			0	1,878,000	0	1,878,000
Lancaster District Empty Homes Partnership	100,000		100,000	100,000		100,000			0			0			0	200,000	0	200,000
AONB Vehicle Replacement	25,000		25,000			0			0			0			0	25,000	0	25,000
<b>Resources</b>																		
ICT Systems, Infrastructure & Equipment	376,000		376,000	352,000		352,000	510,000		510,000	310,000		310,000	100,000		100,000	1,648,000	0	1,648,000
Corporate Property Works	2,057,000	10,000	2,047,000	2,564,000		2,564,000	1,905,000		1,905,000	1,482,000		1,482,000			0	8,008,000	10,000	7,998,000
<b>GENERAL FUND CAPITAL PROGRAMME</b>	<b>8,543,000</b>	<b>2,471,000</b>	<b>6,072,000</b>	<b>9,790,000</b>	<b>4,912,000</b>	<b>4,878,000</b>	<b>6,981,000</b>	<b>2,908,000</b>	<b>4,073,000</b>	<b>5,717,000</b>	<b>2,908,000</b>	<b>2,809,000</b>	<b>2,914,000</b>	<b>1,865,000</b>	<b>1,049,000</b>	<b>33,945,000</b>	<b>15,064,000</b>	<b>18,881,000</b>
<b>Financing :</b>																		
Specific Grants and Contributions	2,471,000			4,912,000			2,908,000			2,908,000			1,865,000			15,064,000		
General Capital Grants	6,000			0			0			0			0			6,000		
Capital Receipts	641,000			370,000			370,000			0			0			1,381,000		
Direct Revenue Financing	234,000			204,000			50,000			0			0			488,000		
Earmarked Reserves	681,000			600,000			230,000			280,000			120,000			1,911,000		
	4,033,000			6,086,000			3,558,000			3,188,000			1,985,000			18,850,000		
<b>Increase / Reduction (-) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)</b>	<b>4,510,000</b>			<b>3,704,000</b>			<b>3,423,000</b>			<b>2,529,000</b>			<b>929,000</b>			<b>15,095,000</b>		
<b>TOTAL FINANCING</b>	<b>8,543,000</b>			<b>9,790,000</b>			<b>6,981,000</b>			<b>5,717,000</b>			<b>2,914,000</b>			<b>33,945,000</b>		

<b>CABINET</b>
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**Budget and Policy Framework Update 2016/20 –  
Housing Revenue Account and Capital Programme  
19 January 2016**

**Joint Report of Chief Officer (Health and Housing)  
and Chief Officer (Resources)**

<b>PURPOSE OF REPORT</b>			
This report provides an update on the council housing budgetary position and seeks Cabinet's decisions on council housing rent levels for 2016/17 and targets for future years. It also seeks approval of Cabinet's supporting revenue budget and capital programme proposals for referral on to Budget Council, in order to complete the HRA budget setting process for 2016/17.			
<b>Key Decision</b>	<b>X</b>	<b>Non-Key Decision</b>	<b>Referral from Cabinet Member</b>
<b>Date of Notice of Forthcoming Key Decision</b>	18 December 2015		
<b>This report is public.</b>			

**RECOMMENDATIONS OF COUNCILLOR LEYTHAM:**

- 1 That the Housing Revenue Account Revised Budget for 2015/16, as set out at Appendix A, be referred on to Council for approval.
- 2 That the minimum level of HRA unallocated balances be retained at £350,000 from 01 April 2016, and that the full Statement on Reserves and Balances be endorsed and referred on to Budget Council for approval.
- 3 That subject to the enactment of the Welfare Reform and Work Bill currently passing through Parliament, council housing rents be set in accordance with draft statutory requirements as follows:
  - For properties let as at 01 April 2016, average rent be set at £70.60 for 2016/17, representing a reduction of 1% from the previous year, and
  - for 2017/18 to 2019/20 further average rent reductions be set at 1% year on year.
  - That following any property becoming void, it be re-let at 'formula rent' less the relevant cumulative year on year % reduction applicable (i.e. 1% for 2016/17 rising to 4% in 2019/20).
- 4 That beyond 2019/20, it be noted that the HRA Business Plan forecasts assume that council housing rents revert to increasing by 2% year on year, but this is

subject to annual review and any future determinations that may be issued by Government from time to time.

- 5 That Cabinet approves charging a flat rate of £7.95 for all garages for 2016/17, with this being increased to cover estimated Consumer Price Index (CPI) inflation each year thereafter.
- 6 That the resulting Housing Revenue Account budget for 2016/17 onwards (as set out in Appendix A, subject to the recommendations above) be referred on to Budget Council for approval.
- 7 That the Capital Programme as set out at Appendix D be referred on to Budget Council for approval.
- 8 That the above recommendations for the Housing Revenue Account be reflected within the Council's draft Medium Term Financial Strategy as appropriate.
- 9 That Cabinet notes that actions arising from the ongoing review of how council houses are to be repaired and maintained in the future are likely to have resource implications and once quantified, they will be reported on for consideration as necessary and fed into the Business Plan.

## 1 INTRODUCTION

- 1.1 The Council is required under statutory provisions to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account (HRA). This covers the maintenance and management of the Council's housing stock.
- 1.2 As reflected in the MTFs, Cabinet's current rent policy for council housing is based on:
  - an average rent of £71.31 for 2015/16, representing a 2% increase on the previous year; and
  - target average rent increases of 3% year on year thereafter.
- 1.3 The aim of the policy was to strike a balance between keeping rents affordable, managing financial risks, and increasing and improving council housing provision. For information a 1% change in rent equates to approaching £140K.
- 1.4 In recent months, however, Government has made various announcements and issued draft legislation that, if enacted, would undermine the Council's current rent policy. Although clarity is still needed on various Government proposals, the main working assumption for the future is that:
  - For most properties, rent will have to reduce 1% year on year for the next four years, except where properties become vacant and their rents have not yet reached convergence with other social housing providers (i.e. they are below what is referred to as 'formula rent'). In these circumstances, then the rents to be charged for new tenancies can increase up to the formula rent level, less the 1% year on year reduction.

- 1.5 In line with that context, Cabinet is now required to set the level of housing rents in sufficient time for the statutory notice of rent variations to be issued to tenants by 01 March, and make recommendations to Budget Council regarding the HRA's budget.
- 1.6 The draft MTFs will also be updated to reflect Cabinet's HRA budget proposals, for consideration at Budget Council.

**2 2015/16 REVISED BUDGET**

- 2.1 A review of the current HRA budget has been undertaken and during the year, a net surplus of £303K is forecast, which is £350K higher than originally forecast. A summary statement is set out at **Appendix A** and the main variations are shown below. This focuses on the 'cash' or bottom-line variances, excluding any notional charges:

<b>SUMMARY OF MAIN 'CASH' VARIANCES ON HRA</b>	<b>£'000</b>
<b>Operational Variances: (+)Adverse / (-)Favourable</b>	
Reduced spend on Repairs and Maintenance	-113
Decrease in Bad Debt Provision	-46
Net Decrease in Revenue Financing of Capital Programme (either directly or from Reserves)	-139
Other minor variances (net)	+68
<b>Sub-total</b>	<b>-230</b>
<b>Review of Reserves (see section 3)</b>	
Net Reduction in transfer to Major Repairs Reserve	-153
Net Reduction in transfers to other Earmarked Reserves	-41
Net Increase in Capital Receipts	+74
<b>Net Surplus Forecast for Year</b>	<b>-350</b>

- 2.2 A number of key points are highlighted:
  - An initial review of Repairs and Maintenance has determined that ongoing annual efficiencies can be made and consequently these have been built into both current and future years' expenditure forecasts. There is a more in depth review currently being undertaken, however, which will look how in future we ensure that repair and maintenance of our housing stock is delivered in the most efficient, effective and economical way.
  - Average capital receipts from annual Right to Buys have increased in the previous and current year, thereby reducing the call on revenue to finance the Capital Programme
- 2.3 Taking account of the overall revised budget outlined above, HRA Balances at the end of this year are expected to be around £886K higher than originally forecast, as shown in the following table:

	2015/16 Original Budget £'000	2015/16 Revised Budget £'000
Original Estimated Balances as at 31 March 2016	458	458
<b>Add:</b> Underspending in 2014/15, at outturn	--	536
<b>Add:</b> Forecast surplus in current year	--	350
<b>Forecast Balances as at 31 March 2016</b>	<b>458</b>	<b>1344</b>
<b>Of which:</b>		
<b>Surplus Balances (above minimum £350K)</b>		<b>994</b>

- 2.4 Cabinet is recommended to refer the HRA Revised Budget for 2015/16 to Council as set out at **Appendix A** for approval.

### 3 PROVISIONS, RESERVES AND BALANCES

- 3.1 The Section 151 Officer is required to undertake a formal review of general reserve levels. In assessing the adequacy of such balances, the Chief Officer (Resources) takes account of the strategic, operational and financial risks facing the authority. The effectiveness of internal financial and other controls are also taken into account; assurance on these can be taken from the respective formal Statements and external assessments. Consideration has also been given to the specific risks and assumptions underlying the HRA as set out in **Appendix B**.
- 3.2 After reviewing the Housing Revenue Account and General Fund in comparative terms and considering the key issues, assumptions and risks underlying the budget projections, the Section 151 Officer advises retaining the minimum level of HRA Balances at £350K for now to support the budget forecasts, as part of the overall medium term financial planning for the HRA. This level has presented no difficulties in previous years and furthermore, the HRA still has other substantial reserves available, to support the condition of the housing stock and manage other current service risks. It should be recognised, however, that there is more uncertainty going forward than there has been in previous years and so this level will need to be reviewed again at outturn, once there is a clearer understanding of the legal framework being proposed / implemented by Government and the impact on the Business Plan.
- 3.3 The Business Support Reserve (BSR) has a current unallocated balance of £8.3M. The impact of Government changes to the future financing of the HRA are significant and as a result, the first call on the BSR will be required to support existing commitments over the lifetime of the 30-year business plan as can be seen at **Appendix C (i)**. At this point in time consideration of future plans for increasing the stock of one bedroom accommodation is still on hold, therefore. It should be noted that officers have been moving some schemes forward but until the impact of all the legislative and policy changes being introduced by Government are properly understood followed by a full financial appraisal, it is recommended that only the two schemes at Carnforth are taken to full planning approval, alongside progressing the scheme for additional sheltered housing bungalows together with the conversion of the ex-scheme manager's house into two sheltered flats at Parkside Court, Westgate, and that work on all other schemes ceases for now. No schemes will be progressed to build stage without approval by Cabinet.



- 3.4 It should be noted that there has been less call on the Major Repairs Reserve in the current year than originally assumed, mainly due to reduced capital expenditure on various schemes and increased average capital receipts being received and applied as a result of Right to Buys.
- 3.5 An interim review of other earmarked reserves for next year has again identified that not all in year contributions are needed for the forthcoming year, although it is likely that they will still be required over the 30 year period. A more detailed review is still needed, however, and will be undertaken during 2016/17 to inform future levels.
- 3.6 In terms of provisions, the annual contribution to the bad debts provision has reduced from those planned a year ago based on current activity, noting that the full impact of welfare reforms has not yet hit the HRA budget and so will need to continue to be closely monitored.
- 3.7 A draft Statement on all reserves is attached at **Appendix C (i)** and **Appendix C (ii)**. The latter details the purpose and application of each reserve together with relevant recommendations on current use. These reserves are viewed as adequate for the period covered, but will need to be reviewed in more detail as highlighted above. Cabinet is asked to endorse this information, with the Statement being referred on to Council as part of the HRA budget proposals.

#### 4 **2016/17 BASE BUDGET AND FUTURE YEARS' PROJECTIONS**

- 4.1 The draft budget has now been prepared for 2016/17 together with projections for 2017/18, 2018/19 and 2019/20, noting that the revenue projection now covers four years, rather than the previous three year horizon. The budgets are set out in line with Accounting Requirements and they take account of the usual pay and price inflation assumptions. Specific aspects of the budget are outlined in more detail below.
- Provision continues to be made for repayment of the self-financing debt over the next 27 year period. No provision has been made as yet in respect of the £15.3M HRA share of earlier years' debt, but this is the same approach that applied under the former subsidy system.
  - With regard to financing investment needs for the existing housing stock, the budget has been prepared on the basis that if there is a shortfall arising in the funding required to support the capital programme, then ultimately this would be covered by using the Business Support Reserve, over the lifetime of the current Business Plan.
  - As referred to in the Budget & Policy Framework update presented to Members at December's meeting, Government's emerging policy for social housing rent has massive implications for the viability of Council Housing's 30-year Business Plan. Initial estimates indicated a shortfall of around £90M over the period, as was reported in September.
  - In response to this, an annual savings target of £500K was set for the HRA at the beginning of the budget process. This is now built into the draft budgets and has mainly been achieved as follows:
    - £260K (average per year) – revenue financing of capital programme. Following a review of the capital programme asset lives have been extended

(where possible) drawing on past experience of existing stock requirements, e.g. pebble dashing, re-rendering, replacement gutters and other external refurbishment works. Effectively this will spread the cost of such works over a longer period and therefore reduces the annual financing requirement.

- £40K – reduced call on revenue to fund the capital programme, as a result of increased estimated annual capital receipts from Right to Buys (i.e. there being more capital funds expected to help with financing).
- £100K – more focus on essential planned maintenance and less on desirable works.
- £50K – other general revenue efficiencies.
- £50K additional income – based on the draft statutory requirement that all void properties will move onto formula rent upon being re-let, noting that the relevant cumulative year on year reduction will still need to be applied (i.e. 1% for 2016/17 rising to 4% in 2019/20).

4.2 Whilst there will be some comparatively minor service and tenant impact arising from the proposals, the bulk of the changes are financing matters and as such, they should have no direct impact.

4.3 Cabinet should note also that actions arising from the ongoing review of how council houses are repaired and maintained are likely to have resource implications. Once these have been quantified, they will be reported through for consideration as necessary, and fed into the next update of the HRA Business Plan.

## 5 CAPITAL PROGRAMME 2015/16 TO 2019/20

5.1 The Council has a statutory duty to ensure that all of its council housing stock meets the Decent Homes Standard.

5.2 In capital investment terms, the aim is to establish a sound long-term investment programme, which identifies the indicative investment needed to maintain the housing stock over the 30-year business planning period, taking account of the required housing standards. The financing of this investment is then incorporated back into the HRA business plan, to establish (and address) its affordability and viability.

5.3 **Appendix D** sets out the overall capital programme for consideration by Cabinet and referral on to Council. To keep revenue and capital planning horizons the same (in line with General Fund), the programme still covers the period to 2019/20. More details are provided in the sections below.

### 5.4 2015/16 Revised Capital Programme

5.4.1 The 2015/16 Council Housing Capital Programme was set at £4.950M by Council on 4 March 2015. This programme has since been updated for known changes to date to give a revised programme of £4.831M.

## 5.5 2016/17 to 2019/20 Capital Programme

- 5.5.1 Future years' programmes are set in line with the HRA Business Plan wherever possible. In support of this, work is currently taking place to assess the requirement needs of the existing council housing stock and the initial results of this have been fed into the 30-year Business Plan (including Mainway and Ridge Square). Drawing on information from this and the Stock Condition Survey undertaken during 2014 and allowing for revenue funded maintenance, the draft programme included at Appendix D should enable the housing stock to continue to be maintained to the appropriate standards.
- 5.5.2 In terms of future investment, due to current uncertainty surrounding further Government proposals, e.g. compulsory sale of high value council housing when it becomes vacant and the introduction of Local Housing Allowance caps on social housing, no assumptions on future new build have been included in the current programme. See also comments provided under section 3.3.
- 5.5.3 The total draft five year programme for 2015/16 onwards now stands at £23.319M, the majority of which will be financed from revenue sources. There is no prudential borrowing requirement. The HRA is therefore still in a reasonable position financially (in the short to medium term, at least), subject to further Government announcements and noting that consideration of further investment must still ensure that long-term financial sustainability is not compromised.

## 6 RENT SETTING POLICY

- 6.1 In September 2012, Cabinet adopted a HRA medium term financial strategy and rent policy that supported the future needs of the HRA housing stock, whilst enabling the Council to consider using HRA funding in a wider regeneration context.
- 6.2 Subsequent to that at its meeting on 12 February 2013, Cabinet approved a rent setting policy for the medium term for years 2014/15 to 2016/17 of 1%, 2% and 3% respectively.
- 6.3 Cabinet further re-affirmed its rent setting policy for the medium term with a rent increase of 2% for 2015/16 and 3% per annum from 2016/17 onwards on 17 February 2015.
- 6.4 Since then, Members will be aware that Government has made several announcements which impact on council housing finances, and in particular rent setting. Through the Welfare Reform and Work Bill currently going through parliament the Government is imposing a reduction of 1% per year for the next four years from 1 April 2016. This statutorily removes the freedom to set local rent levels and will have a significant impact on the viability of the Council's 30-year Business Plan.
- 6.5 Whilst this rent reduction may be seen as good news for existing tenants in the short term, there are longer term consequences for the Council as provider of affordable housing.
- 6.6 The provisions in the Bill have greatly reduced potential (and previously budgeted for) income for not just existing services and maintenance needs but also any new build aspirations. Furthermore, other government social housing proposals, the compulsory sale of high value council housing when it becomes vacant, and the

introduction of local housing allowance caps on social housing will add significantly to the challenges ahead, in terms of maintaining the viability of the Business Plan.

- 6.7 The table below (in line with the decision made in February 2013) also shows the impact of the 1% reduction over the next four years in line with Government's draft legislation. For now, it is assumed that rents will increase by 2% per annum thereafter, but this is by no means certain.

<b>30 Year Business Plan – Business Support Reserve &amp; Unallocated Balances</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>30 Year Cumulative Total</b>
Projections as at February 2015	£9.008M	£9.140M	£9.324M	£10.131M	£10.829M	<b>£8.434M</b>
Projections as per draft Government Legislation (including savings requirement)	£9.740M	£9.903M	£9.902M	£9.486M	£8.121M	<b>£5.472M</b>

- 6.8 For information, 2016/17 will be a 52 week rent year, which will be collected over the standard 48 weeks with 4 non-collection weeks.
- 6.9 The Council also manages just over 400 garages within the HRA. Currently, garage rents charged across the district are inconsistent. For 2015/16 the average weekly rent is £7.09 (48 week basis) and currently varies between £6.08 and £10.49 depending on location.
- 6.10 There is an additional budget option to be reviewed at a local level, i.e. it is proposed that from 1 April 2016 all garage rents are set at a weekly rent of £7.95 (48 week basis) and in subsequent years increased by general inflation (currently 2%), thereby setting a consistent 'base' for all garages across the district. This will achieve an additional income of £17K (plus inflation) per annum and is for Members' consideration. It is not currently built into the base budget.

## 7 DETAILS OF CONSULTATION

- 7.1 The draft Revenue Budget and Capital Programme will have been presented to the District Wide Tenants' Forum prior to the Cabinet meeting, with the outcome being reported in verbally. If, as expected, Government proposals go through Parliament and become legislation, then this effectively removes the freedom for councils to set their own housing rent levels. In effect, therefore, the sharing of information on this aspect is for information purposes only.

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

- 8.1 With regard to the revenue budget generally, Cabinet could consider other proposals that may influence spending in current and future years, as long their financing is considered and addressed.

- 8.2 The options available in respect of the minimum level of HRA balances are to set the level at £350,000 in line with the advice of the Section 151 Officer, or to adopt a different level. Should Members choose not to accept the advice on the level of balances, then this should be recorded formally in the minutes of the meeting and it could have implications for the Council's financial standing, as assessed by its external auditors.
- 8.3 There is currently no other alternative available in respect of the 2016/17 housing rent setting other than implementing Government draft legislation and this is set out in section 6 of the report. If the draft legislation appears not to be progressing through Parliament in a timely fashion, this will be addressed at Cabinet's February meeting.
- 8.4 In terms of garage rents, an option is presented to gain consistency and Cabinet may either choose to support his, or retain existing rents but this would not address the inconsistencies.
- 8.5 The options available in respect of the Capital Programme are:
- i) To approve the programme in full, with the financing as set out;
  - ii) To incorporate other increases or reductions to the programme, with appropriate sources of funding being identified.
- 8.6 Any risks attached to the above would depend very much on what measures Members proposed, and their impact on the council housing service and its tenants. As such, a full options analysis could only be undertaken once any alternative proposals are known, and Officers may require more time in order to do this.

## 9 OFFICER PREFERRED OPTION AND COMMENTS

- 9.1 The Officer preferred options are to:
- Approve / refer on the provisions, reserves and balances position as set out.
  - Set housing rent levels in line with Government's draft proposals, noting that this statutorily removes any freedom to set rent levels locally and that further savings may still be required to ensure that current stock levels continue to be maintained to required standards and that any detrimental impact associated with any future accounting / regulatory / welfare reform changes / actions associated with the high level review of RMS will need to be addressed at that time.
  - Approve the changes to garage rents to gain consistency.
  - Note that if future investment opportunities are to be considered, then as referred to in sections 3.3 and 5.5.2, these can only really be properly assessed once there is a better understanding of Government's plans post implementation and in particular their impact on the viability of the 30-year Business Plan.
  - Approve / refer on the revenue and capital budget proposals as set out.

<b>RELATIONSHIP TO POLICY FRAMEWORK</b> The budget represents, in financial terms, what the Council is seeking to achieve through its approved Housing Strategy in relation to council housing.	
<b>CONCLUSION OF IMPACT ASSESSMENT</b> (including Diversity, Human Rights, Community Safety, Sustainability etc) No significant implications directly arising.	
<b>FINANCIAL IMPLICATIONS</b> As set out in the report.	
<b>SECTION 151 OFFICER'S COMMENTS</b> The s151 Officer has contributed to this report, which is in her name in part (in her capacity as Chief Officer (Resources)).	
<b>LEGAL IMPLICATIONS</b> There are no legal implications arising from this report.	
<b>MONITORING OFFICER'S COMMENTS</b> The Monitoring Officer has been consulted and has no further comments.	
<b>BACKGROUND PAPERS</b> None	<b>Contact Officer: Nadine Muschamp/Suzanne Lodge</b> Telephone: 01524 582117 / 582701 E-mail: <a href="mailto:nmuschamp@lancaster.gov.uk">nmuschamp@lancaster.gov.uk</a>

## HOUSING REVENUE ACCOUNT DRAFT BUDGET

For Consideration by Cabinet on 19 January 2016

	2015/16 Budget £	2015/16 Revised £	2016/17 Budget £	2017/18 Forecast £	2018/19 Forecast £	2019/20 Forecast £
<b>INCOME</b>						
Rental Income - Council Housing (Gross)	(13,707,200)	(13,681,200)	(13,554,900)	(13,397,800)	(13,238,100)	(13,076,100)
Rental Income - Other (Gross)	(203,600)	(213,100)	(211,700)	(210,400)	(209,000)	(207,700)
Charges for Services & Facilities	(1,866,900)	(1,810,400)	(1,808,800)	(1,844,300)	(1,876,900)	(1,911,500)
Grant Income	(7,700)	(7,700)	(7,700)	(7,700)	(7,700)	(7,700)
Contributions from General Fund	(80,700)	(88,100)	(95,800)	(95,900)	(96,500)	(97,500)
<b>Total Income</b>	<b>(15,866,100)</b>	<b>(15,800,500)</b>	<b>(15,678,900)</b>	<b>(15,556,100)</b>	<b>(15,428,200)</b>	<b>(15,300,500)</b>
<b>EXPENDITURE</b>						
Repairs & Maintenance	4,697,000	4,736,800	4,519,000	4,650,000	4,742,800	4,864,400
Supervision & Management	3,208,100	3,175,200	3,182,300	3,227,000	3,278,300	3,332,000
Rents, Rates, Taxes & Other Charges	170,500	175,100	191,500	208,000	224,500	241,000
Increase in Provision for Bad and Doubtful Debts	190,400	144,800	145,100	145,100	145,100	145,100
Depreciation & Impairment of Fixed Assets	1,984,000	2,015,300	2,006,000	2,005,900	2,005,900	2,005,900
Debt Management Costs	1,100	1,100	1,100	1,100	1,100	1,100
<b>Total Expenditure</b>	<b>10,251,100</b>	<b>10,248,300</b>	<b>10,045,000</b>	<b>10,237,100</b>	<b>10,397,700</b>	<b>10,589,500</b>
<b>NET COST OF HRA SERVICES</b>	<b>(5,615,000)</b>	<b>(5,552,200)</b>	<b>(5,633,900)</b>	<b>(5,319,000)</b>	<b>(5,030,500)</b>	<b>(4,711,000)</b>
Interest Payable & Similar Charges	2,006,600	2,006,600	1,967,000	1,931,100	1,931,100	1,931,100
Amortisation of Premiums & Discounts	(600)	(600)	(600)	0	0	0
Interest & Investment Income	(33,300)	(63,600)	(80,300)	(46,800)	(42,900)	(13,600)
Past Service Pension Cost	178,000	178,000	185,300	185,300	185,300	185,300
Self Financing Debt Repayment	1,041,400	1,041,400	1,041,400	1,041,400	1,041,400	1,041,400
<b>(-)SURPLUS OR DEFICIT FOR THE YEAR</b>	<b>(2,422,900)</b>	<b>(2,390,400)</b>	<b>(2,521,100)</b>	<b>(2,208,000)</b>	<b>(1,915,600)</b>	<b>(1,566,800)</b>
Adjustments to reverse out Notional Charges included above	(27,500)	(27,600)	(18,300)	(18,100)	(18,100)	(18,100)
Transfers to/(from) Major Repairs Reserve	2,517,500	2,333,500	2,146,600	1,982,600	2,165,400	2,756,400
Transfers to/(from) Earmarked Reserves	(386,600)	(544,300)	(26,400)	(50,400)	(15,300)	(6,700)
Capital Expenditure funded from Revenue Reserves	366,500	325,400	217,000	255,000	200,000	200,000
<b>TOTAL (-)SURPLUS / DEFICIT FOR THE YEAR</b>	<b>47,000</b>	<b>(303,400)</b>	<b>(202,200)</b>	<b>(38,900)</b>	<b>416,400</b>	<b>1,364,800</b>
Transfer from Business Support Reserve (see note)	0	0	0	0	0	(545,700)
Housing Revenue Account Balance brought forward	(504,596)	(1,041,017)	(1,344,417)	(1,546,617)	(1,585,517)	(1,169,117)
<b>HRA BALANCE CARRIED FORWARD</b>	<b>(457,596)</b>	<b>(1,344,417)</b>	<b>(1,546,617)</b>	<b>(1,585,517)</b>	<b>(1,169,117)</b>	<b>(350,017)</b>

Note: The transfer from the Business Support Reserve is required to maintain the HRA Balance at the minimum level of £350K.



**2016/17 BUDGET**  
**HOUSING REVENUE ACCOUNT – RISK & ASSUMPTIONS**  
**FOR CONSIDERATION BY CABINET 19 JANUARY 2016**



RISK AREA	NOTES/DETAILS
Self financing	<p>Under Part VI of the Local Government and Housing Act 1989 a local authority has duty to keep a HRA as a ring fenced account and has a duty to ensure that it does not go into deficit.</p> <p>Sufficient funds need to be set aside within the Revenue Budget / Major Repairs Reserve in order to ensure that the 30 Year HRA Capital Programme can continue to be financed. Sufficient funds need to be set aside within the Business Support Reserve in order to ensure that the Council's programme for new build council housing and scheme of acquisition of ex-council housing can be fulfilled.</p> <p>Recent Government policy changes within the Welfare Reform and Work Bill and the Housing and Planning Bill introduce currently unquantifiable future financial risks.</p> <p>Robust business planning arrangements will need to be maintained that take into account debt financing, stock condition, service budgetary needs, and ongoing Government policy, around rents and inflation.</p>
Rent policy	<p>The Council has adopted a medium term financial strategy and has agreed to set a rent policy that supports the future investment needs of its HRA housing stock, and will enable the Council to consider council housing in a wider regeneration context. The Council is committed to maintaining decent homes, and to building and acquiring new homes</p> <p>This was originally predicated on Government rent policy guidelines. Originally the Government assumed, in its calculation of the debt settlement for self-financing, and future financing the council would increase its rents at RPI + 1%. These policy guidelines were amended by Government for 2015 onwards to CPI (at September of the previous year) + 1% annually, for ten years.</p> <p>In May 2015 it announced that it was going to limit rents for the next 4 years commencing 2016/17 and statutorily impose rent decreases of 1% per annum. This is currently progressing through Parliament in the Welfare Reform and Work Bill. Government rent setting policy after this date is currently unknown and introduces unquantifiable future financial risks.</p>
Income recovery	<p>The Government legislation and further welfare reforms will present a higher risk to levels of rent collection and that the council may need to increase the contribution to the Bad Debts Provision to reflect future arrears trends. There will be a negative effect on the ability to sustain future years' budgets if income recovery deteriorates.</p> <p>Adequate Bad Debts Provision will be provided for within the HRA, and the level is kept under review.</p> <p>The income management team may need to be strengthened to maximise recovery of income.</p>
Void levels	<p>Management of voids remains a high priority to ensure that rent loss through voids is minimised. Should turnover increase greater allowance may need to be made within the budget for loss of rental income due to voids.</p>
Reduced demand	<p>Overall demand for council housing remain high, and is particularly high for one and two bedroom properties. This demand has informed the Council's decision to give priority to building one bedroom accommodation in any new build programme or acquisition scheme. However, again current proposed Government legislation will impact on the council's ability to meet this demand. Overall demand across the council housing stock is monitored and informs the asset management plans.</p>



Stock reductions	<p>The rate of sales in 2015/16 has increased however the numbers are still low compared with historic levels of sales. However it is anticipated that this trend is likely to continue in the medium term leading to future projected rental income levels being reduced. Low sales levels leads to lower levels of capital receipts. Sales impact on the revenue position as income is reduced but many costs are fixed.</p> <p>The Government is also introducing through legislation the enforced sale of high value council homes as they become vacant. The Council will not keep the capital receipt and there will be a loss of rental income. The financial effect of this on the HRA is currently not quantifiable.</p> <p>The Government's objective is to increase the level of owner occupation through these measures, and continues to promote the RTB Scheme. Significant increase in RTB sale would reduce rental streams that would lead to deterioration in the HRA budgetary position, and the viability of the HRA, unless measures could be taken to reduce costs within the HRA.</p>
Additional capital requirements	<p>Legislation, changes in health and safety standards or the discovery of previously unknown defects may require additional capital expenditure. This is exemplified by the need to increase expenditure on fire precaution works, asbestos management, and the managing the risk of legionella. These have been reflected in the capital programme. The Council still need to finalise the analysis of the stock condition survey to ensure the asset register and asset management plans correctly identify the investment needs and programmes. These requirements will be reviewed and reflected in the 30 year HRA Business Plan.</p>
Major disasters	<p>Major disasters are generally covered by insurance. The Government also provides support for uninsurable losses incurred by local authorities through the Bellwin scheme.</p>
Effect of Legislation /Regulation	<p>Implications of new legislation / regulation or changes to existing legislation / regulation can present significant new financial risks.</p> <p>The current legislative programme of Government, within the Welfare Reform and Work Bill and the Housing and Planning Bill, has in effect reopened the HRA self-financing debt settlement and impacts on the self-financing regime. This will present significant new financial challenges and risks to the Council's HRA, and corrective actions will need to be taken to avoid the HRA going into deficit in future years.</p>
Other events	<p>Lancashire County Council are continuing to reconfigure their commissioning strategy for older people service, and the County have indicated that they will cease funding sheltered housing support from 2017/18. Service provision and funding relating to sheltered housing is being reassessed, and reconfigured to mitigate the impact on sheltered housing tenants.</p>

## HOUSING REVENUE ACCOUNT - RESERVES AND PROVISIONS STATEMENT

For consideration by Cabinet

	31/03/15			31/03/16			31/03/17			31/03/18			31/03/19			31/03/20					
	Contributions to Reserve		Contribution from Reserve		Contributions to Reserve		Contribution from Reserve		Contributions to Reserve		Contribution from Reserve		Contributions to Reserve		Contribution from Reserve		Contributions to Reserve				
	From Revenue	To Capital	To Revenue	From Revenue	To Capital	To Revenue	From Revenue	To Capital	To Revenue	From Revenue	To Capital	To Revenue	From Revenue	To Capital	To Revenue	From Revenue	To Capital	To Revenue			
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£			
HRA General Balances	1,041,017	303,400		1,344,417		202,200		1,546,617		38,900		1,585,517		-416,400		1,169,117		-819,100		350,017	
<b>Earmarked Reserves:</b>																					
Business Support Reserve	8,612,720		-217,100	8,395,620		-39,400	8,356,220		-39,500	8,316,720		8,316,720		-545,700	7,771,020						
Major Repairs Reserve	0	4,339,300	-4,339,300	0	4,152,400	-4,152,400	0	3,988,500	-3,988,500	0	4,171,400	-4,171,400	0	4,462,300	-4,462,300	0					
Flats - Planned Maintenance	922,460		-220,400	702,060	133,000	-167,000	668,060	133,000	-200,000	601,060	133,000	-200,000	534,060	133,000	-200,000	467,060					
Central Control Equipment / Telecare	40,000		-40,000	0			0			0			0			0					
Non-Sheltered Scheme Equipment	16,260	7,740	-24,000	0			0			0			0			0					
I/T Replacement	591,195			591,195	57,000		648,195	57,000		705,195			705,195			705,195				705,195	
Office Equipment Reserve	40,271	3,000	-5,700	37,571	3,000		40,571			40,571			40,571			40,571				40,571	
Sheltered - Equipment	366,021		-132,000	234,021		-51,200	182,821		-38,000	172,821	28,100	-40,700	160,221	27,900	-31,300	156,821					
Sheltered - Planned Maintenance	224,475	81,900	-105,000	181,375	81,100	-50,000	192,475	56,100	-20,000	173,575	56,200	-20,000	209,775	55,800	-20,000	245,575					
Sheltered Support Grant Maintenance	279,299	127,300		406,599	27,100		433,699	28,000		461,699	28,100		489,799	27,900		517,699					
<b>Total Earmarked Reserves</b>	<b>11,092,701</b>	<b>4,559,240</b>	<b>-4,664,700</b>	<b>-438,800</b>	<b>10,548,441</b>	<b>4,453,600</b>	<b>-4,369,400</b>	<b>-110,600</b>	<b>10,522,041</b>	<b>4,290,600</b>	<b>-4,243,500</b>	<b>-97,500</b>	<b>10,471,641</b>	<b>4,416,800</b>	<b>-4,371,400</b>	<b>-60,700</b>	<b>10,456,341</b>	<b>4,706,900</b>	<b>-4,662,300</b>	<b>-597,000</b>	<b>9,903,941</b>

<b>Provision</b>	
Bad Debt	450,804

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
<b>Capital Reserves</b>					
<b>Major Repairs Reserve (MRR)</b>	Set up following the introduction of Resource Accounting in the HRA. Credited with the amount of depreciation charged to the HRA and topped up with additional funds required to finance the capital programme in-year.	Can be applied to capital improvements to HRA housing stock (specifically excluding demolition) and, additionally from 1 <sup>st</sup> April 2004, repayment of HRA debt and credit liabilities (including premia on early repayment of PWLB loans).	<b>Health &amp; Housing /Resources</b>	<b>Budget &amp; Outturn</b>	<b>To provide in-year funding for the capital programme as budgeted.</b>
<b>Business Support Reserve</b>	Established to provide support to additional business plan commitments and planned investment opportunities.	Use of the reserve to be approved by Cabinet.  Contributions to the reserve to be approved annually as part of the budget.	<b>Health &amp; Housing /Resources</b>	<b>Budget &amp; Outturn</b>	<b>Retain as budgeted, noting that the first call will be to support the business plan.</b>

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
<b>Revenue Reserves</b>					
<b>Flats – Planned Maintenance Reserve</b>	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest.  Reserve to be applied to major works to communal facilities in flats.	<b>Health &amp; Housing /Resources</b>	<b>Budget &amp; Outturn</b>	Retain as budgeted.

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
<b>Telecare</b>	Established to smooth the costs of renewal or replacement of Telecare Equipment.	N/A	<b>Health &amp; Housing /Resources</b>	<b>Budget &amp; Outturn</b>	<b>This reserve is no longer required under County's new commissioning arrangements.</b>
<b>Non-sheltered scheme equipment</b>	Established to fund purchases of equipment for non-sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest.  Reserve to be applied to purchases of equipment for non-sheltered schemes.	<b>Health &amp; Housing /Resources</b>	<b>Budget &amp; Outturn</b>	<b>This reserve is no longer required under County's new commissioning arrangements.</b>

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
<b>IT Replacement</b>	Established to fund future IT systems and equipment replacement.	To be applied to future replacements.	<b>Health &amp; Housing /Resources</b>	<b>Budget &amp; Outturn</b>	<b>Retain as budgeted.</b>
<b>Office Equipment Reserve</b>	Established to fund purchases of major office furnishings.	Used to fund ad-hoc purchases of major office furnishings resultant from health & safety legislation and risk assessments (desk, chairs, cabinets etc) and minor office equipment items.	<b>Health &amp; Housing /Resources</b>	<b>Budget &amp; Outturn</b>	<b>Retain as budgeted</b>
<b>Sheltered Equipment Reserve</b>	Established to fund purchases of equipment for Sheltered schemes funded from Service Charges.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to purchases of equipment for common area services for Sheltered schemes.	<b>Health &amp; Housing /Resources</b>	<b>Budget &amp; Outturn</b>	<b>Retain as budgeted.</b>
<b>Sheltered – Planned Maintenance</b>	Established to smooth the costs of major revenue and capital works to flats funded from Service Charges	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in Sheltered schemes.	<b>Health &amp; Housing /Resources</b>	<b>Budget &amp; Outturn</b>	<b>Retain as budgeted.</b>

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
<b>Sheltered – Support Grant Maintenance</b>	Established to fund purchases of equipment for Sheltered schemes funded from Service Charges, but classed as Support Costs under County Guidelines.	Contributions from Service Charges made to this reserve, together with additional appropriations in lieu of interest. Reserve to be applied to major works to communal facilities in Sheltered schemes.	<b>Health &amp; Housing /Resources</b>	<b>Budget &amp; Outturn</b>	<b>Retain as budgeted.</b>
<b>JE Reserve</b>	Established to fund the support of the pay structure. The reserve is currently empty.	Contribution to the reserve to be approved by Cabinet. Use of the reserves to be determined (and agreed) by both the Head of Governance and Head of Resources.	<b>Health &amp; Housing /Resources</b>	<b>Budget &amp; Outturn</b>	<b>Reserve still retained pending the outcome of the second job evaluation review.</b>

	Reason for/purpose	How & when it be used	Management & control	Reviewed	Recommendations
<b>Provisions</b>					
<b>Bad Debts</b>	This provision is used to write off all Housing Revenue Account bad debts that have been approved.	The provision is funded by an annual contribution based on assessment of the level of debt outstanding.	<b>Resources</b>	<b>Budget &amp; Outturn</b>	<b>To be reviewed following an assessment of the impact of Welfare Reforms.</b>