

**Budget and Policy Framework Update 2011/12  
02 February 2011**

**Report of Cabinet**

**PURPOSE OF REPORT**

To update Council on the latest position regarding the development of the Council's budget and policy framework for 2011/12 onwards and in that context, to approve the level of Council Tax increase for 2011/12 and also the Housing Revenue Account (Council Housing) revenue and capital budgets.

**This report is public.**

**RECOMMENDATIONS:**

*In respect of the Policy Framework:*

1. That the following priorities be used to develop the policy framework for the three year period from 2011 to 2014:
  - Economic Regeneration – Energy Coast and Visitor Economy
  - Climate Change – prioritising reducing the Council's energy costs and increasing income
  - Statutory responsibilities – fulfilling at least our minimum statutory duties - focus on keeping the streets clean and safe
  - Partnership working and Community Leadership – working with partners to reduce costs, make efficiencies and create resilience within the district;

and that the intention to protect the most vulnerable in our society should also be a thread that runs through all the above priorities.

*In respect of the General Fund Budget:*

2. That the 2010/11 Revised Budget of £23.616M be approved, with the net underspending of £1.124M being transferred into Balances.
3. That City Council Tax rates be frozen for 2011/12, subject to Government confirming Council Tax Freeze Grant entitlement (equivalent to a 2.5% tax increase).
4. That Council considers the supporting draft budget information and proposals to date, as set out in this report.

*In respect of the Housing Revenue Account (Council Housing):*

5. That the Housing Revenue Account budgets and future years' projections as set out at Appendix D be approved.

**6. That the minimum level of HRA Balances be retained at £350K from 01 April 2011, and that the Statement on Reserves and Balances (as set out at Appendix E) be noted.**

**7. That the Capital Programme as set out at Appendix F be approved.**

## **1 INTRODUCTION AND STRATEGIC CONTEXT**

1.1 Under the Constitution, Cabinet has responsibility for making proposals to Council each year in respect of the Budget and Policy Framework. Over the last few months, Members have developed and approved various proposals as well as undertaking public consultation to inform its strategic planning and resource allocation. Approval is now sought to adopt updated corporate priorities to develop further the Policy Framework for the next three years. This then sets the context within which budget proposals (and any further budget changes) should be considered.

1.2 In terms of the Budget, as in previous years this report's recommendations seek formal approval for the level of City Council Tax increase in 2011/12, but the detailed General Fund budget proposals are presented only for Council's initial consideration at this stage. Council may therefore indicate whether it supports the proposals, whether it wishes to amend or to substitute any, or refer any issues back to Cabinet.

1.3 In due course Council will be requested to approve the full Revenue Budget and the full 2011/12 Council Tax at its meeting on 02 March, once Cabinet's budget proposals are completed and details of all other precepts have been received. Subsequent to that, full corporate and financial planning proposals for the period 2011-14 will be presented to the April Council meeting.

1.4 To assist Council in its deliberations, the main points associated with the budget and policy framework position to date and associated underlying assumptions are outlined below; the related resolutions of the January Cabinet meeting are included elsewhere on the agenda. For more detail, Members may also find it helpful to refer back to the actual Cabinet reports.

## **2 POLICY FRAMEWORK**

2.1 Back in June 2010 the City Council published its Corporate Plan for the period 2010-13. At that time, however, it was already recognised that the City Council faced a number of enormous challenges, with the very real prospect of a reduction in the funding the authority received from Government to help deliver services. Given that context, the Corporate Plan was intended to focus on those areas which the Council believed were of the greatest benefit to the community.

2.2 The challenge facing the Council has been and continues to be to ensure that it is structured in the right way to deliver its agreed priorities, whilst responding to the financial difficulties it continues to face.

- 2.3 In November 2010, Cabinet first set out its updated draft priorities, changing the emphasis in certain areas, and it is now proposed that these be used to develop the policy framework for the next three years:
- Economic Regeneration – Energy Coast and Visitor Economy
  - Climate Change – prioritising reducing the council's energy costs and increasing income
  - Statutory responsibilities – fulfilling at least our minimum statutory duties - focus on keeping the streets clean and safe
  - Partnership working and Community Leadership – working with partners to reduce costs, make efficiencies and create resilience within the district
- 2.4 Furthermore, it is intended that protecting the most vulnerable in our society should also be a thread that runs through all of the above.
- 2.5 In line with the above, Cabinet requested officers to bring forward proposals for generating additional income from services, reducing expenditure on services which do not meet the updated draft priorities, or for meeting the draft priorities more efficiently. Information on such savings is included later in this report, together with outline information on areas of growth.
- 2.6 As well as considering specific proposals, however, there is also the need for Council to understand the Council's current financial position and its overall expectations for future years, and these elements are covered in the sections below.

### **3 GENERAL FUND REVENUE BUDGET**

#### **3.1 2010/11 Revised Budget**

- 3.1.1 Following an in-depth review, the City Council's draft revised budget for the current year stands at £23.616M, representing a net underspending of £1.124M or 4.5%. This includes some fairly large specific variances although many of these have arisen as a result of proactive management, as well as drawing on the previous year's outturn. In particular:
- around £410K underspending is forecast across environmental services, with the largest savings arising through efficiency measures on waste collection;
  - around £215K underspending is expected on concessionary travel, based on recent monitoring information;
  - senior management restructuring has resulted in in-year savings of £191K;
  - some areas of spend have been delayed until next year and the draft budgets reflect this. In particular, a total of around £120K in connection with the Local Development Framework and Morecambe Area Action Plan is proposed to slip into 2011/12. Capital financing costs are also under budget by £76K, because of associated capital spend and financing being later than planned, and these cost pressures will also slip into next year.

- Investment interest is around £103K under budget, primarily because of the changes made at outturn regarding Icelandic investments.

3.1.2 Council is now recommended to approve this revised position, with the underspending transferring into Balances. This would result in them reaching £2.356M as at 31 March 2011, should the outturn prove in line with the revised budget. Importantly, it would mean that the Council has increased flexibility to help manage its financial position and this is reflected in Cabinet's budget proposals for future years.

## 3.2 **2011/12 Council Tax and Provisional Local Government Settlement**

3.2.1 For 2011/12 Council is recommended to approve a 0% increase in the basic City Council Tax, subject to receiving confirmation of Council Tax Compensation Grant entitlement. This would result in a Band D City Council Tax of £192.25, as shown at **Appendix A**.

3.2.2 The Council's Tax Base for 2011/12 has been set at 43,450 Band D properties, which represents a year on year increase of 50 (or 0.1%).

3.2.3 In terms of the provisional Settlement, this was announced on 14 December. For the City Council, funding levels are around £1.2M better than recently thought, predominantly because the Council will not lose as much grant as was expected in relation to the transfer of concessionary travel responsibilities. Nonetheless, the Council is still faced with major year on year reductions in its funding levels:

- For 2011/12, the provisional amount of Government support that the Council will receive is £13.037M. After adjusting for concessionary travel, this represents a year on year cash reduction of £2.087K or 13.8%.
- For 2012/13, support of £11.620M is expected, representing a further year on year reduction of £1.417M or 10.9%.

3.2.4 The Government has introduced various changes in the way in which support is distributed across local authorities and it has removed most ring-fenced or specific grant funding streams, but it has also made it clear that it considers the existing distribution system unworkable in the longer term. For this reason, the Settlement only covers two years and the Government has committed to undertake a further review of Local Government Finance in due course.

3.2.5 With regard to capping, for 2011/12 "the Government will take capping action against councils that propose excessive rises". This is an interim measure, pending the introduction of powers for residents to veto excessive council tax increases through local referendums, as was consulted on last autumn.

3.2.6 There is one change for next year, however, in that capping principles for 2011/12 are to be set out when the final Settlement is to be announced. This is much earlier than in the past, and should at least allow councils to have a clear understanding of capping criteria prior to finally setting their full council tax rates.

### 3.3 Draft Base Budgets 2011/12 Onwards

- 3.3.1 The first draft of the 2011/12 budget has also now been completed and currently it stands at £21.215M, as shown in **Appendices A and B**. This takes account of various decisions made at the January Cabinet meeting, subject to call-in, including proposed increases for fees and charges relating to parking and environmental health services. It also takes account of the decision to continue managing the three Community Pools.
- 3.3.2 With regard to the Pools, in support of the 2010/11 budget and policy framework, back in February 2010 Cabinet took the decision to give notice to Lancashire County Council of the intention to withdraw from managing the Community Pools on the County's behalf. Subsequent to that, the City and County Councils agreed to work together to explore options with a view to finding a way to ensure that the Community Pools could remain open, for the benefit of local residents under the management of the City Council.
- 3.3.3 In line with this, the two Councils have been working together to develop local shared services and various other joint initiatives. The vacation of Palatine Hall and its subsequent occupation by the County, as well as the delivery of County services through the City Council's Customer Service Centres coupled with other related efficiency savings already built into the draft budget, have meant that sufficient funding has been identified to enable the Community Pools to remain under the management of the City Council. Accordingly, at its meeting in January Cabinet resolved that its earlier decision to withdraw from managing the Community Pools be rescinded.
- 3.3.4 If no further changes were made, the draft budget as it stands, based on a Council Tax freeze for next year, would allow a contribution to Balances of £176K, though this is before consideration of any further savings or growth.
- 3.4 For subsequent years, however, the draft budget projections present far greater challenges. Initial savings requirements are shown below; again these are before consideration of savings or growth but they do provide for a 2% year on year increase in Council Tax from 2012/13, this being the maximum target supported by Council back in December.

	Revenue Budget Projections (before any savings & growth proposals)			Savings Requirement (again, before considering savings and growth proposals)	
	Net Budget	Annual Increase / (Reduction)	Assumed Contrib. from Balances	£000	% of Budget
	£000	%	£000		
2012/13	21,199	(0.07)	--	1,049	4.9
2013/14	21,930	3.4	--	1,832	8.4

- 3.4.1 The importance of both considering risk and taking a longer term view when considering budget matters cannot be over-emphasised. Looked at in isolation 2011/12 may look 'easy', but as with many other councils, from 2012/13 financial prospects still look hugely challenging. Admittedly this has generally been the case for the Council, but then subsequently forecasts have

improved for a variety of reasons, both within and outside of the Council's control. It is considered, however, that a number of areas that have previously generated significant savings or budget uncertainty will no longer have the same influence or scope to change in future. These include Environmental Services and Revenues and Benefits, as well as Concessionary Travel.

3.4.2 It is with the future in mind, therefore, that Cabinet has set out its Council Tax and initial budget proposals. Council is advised to use 2011/12 as time in which to build financial and other capacity in order to meet future challenges.

### 3.5 **Savings, Growth, and Invest to Save Proposals**

3.5.1 The budget proposals both to fit with the recommended freeze in Council Tax and to make progress against proposed priorities and future years' savings targets are also set out at **Appendix B** for Council's initial consideration. It can be seen from this that some proposals are still uncertain and more work is required. The following issues and points are also highlighted:

- i. The majority of proposed savings are based on achieving efficiencies rather than reducing service levels.
- ii. There are very few savings currently proposed that would reduce service standards. This has been possible because of the improved short-term financial prospects, but there will be increasing pressure to reduce other service areas in future, as the scope for achieving efficiency savings or generating extra income diminishes.
- iii. Regarding growth, one new proposal was supported by Cabinet at its January meeting, this being to consider gap funding support if necessary for continuing some Police Community Support Officer (PCSO) provision. This service may have its funding reduced in future, primarily as a result of the withdrawal of Area Based Grant funding by Government. At this stage, the proposed growth cannot be accurately quantified but as an indication, in order to maintain existing staffing levels, the growth needed could be up to £110K per year.
- iv. Based on the proposals quantified so far, an additional contribution to Balances of £547K would be possible, resulting in total Balances estimated at £2.9M by the end of next year, i.e. £1.9M above the current minimum. The s151 Officer's formal advice on the level of Balances will be reported initially to Cabinet in February. Nonetheless, in line with earlier comments it is expected that the Council will have significant surplus balances and one of Cabinet's key budget proposals is that in principle, any such surpluses be used to support invest to save schemes. Should Council be supportive of this proposal, further details would be incorporated into the Medium Term Financial Strategy.

3.5.2 Council's initial views are now sought on the savings and growth proposals. In total, at present they amount to a net saving of just over £370K per year. To reiterate Cabinet's position, at this stage it supports consideration of all the proposals listed but they may be subject to further changes.

#### 4 GENERAL FUND CAPITAL PROGRAMME

- 4.1 As part of the Spending Review, Government made it very clear that they expected public sector capital investment to reduce over the next few years. Whilst they are planning to introduce various measures that may offer some alternative funding sources for priority areas, these will not fully offset the spending reductions overall.
- 4.2 It is in this context that a limited review of the capital programme and investment priorities has been undertaken. Taking account of information received to date, the latest capital position is summarised below and a more detailed statement is included at **Appendix C**. At present a £290K shortfall is shown for the next 5 years.

General Fund Programme	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	5 Year Total £'000
	£'000	£'000	£'000	£'000	£'000	£'000	
Total Provisional Programme	6,183	6,177	3,804	1,709	1,444	678	13,812
Estimated Financing	6,183	6,177	3,804	1,709	1,444	388	13,522
<b>Cumulative Shortfall</b>	--	--	--	--	--	<b>290</b>	<b>290</b>

- 4.3 An update on the main issues arising is outlined below for Council's information and consideration:
- The Head of Property Services has reviewed potential property disposals for future years, in line with the Medium Term Property Strategy and Cabinet's draft priorities. The draft programme is based on the Council generating £9M of capital receipts in next year, predominantly from the sale of land at South Lancaster and Heysham Mossgate. If these are not completed then this will add further pressure onto the revenue budget. As an indication, £1M of additional borrowing need could result in extra revenue costs of £70K per year, but exact figures would depend on various factors.
  - For regeneration, certain growth proposals have already been considered by Cabinet and the draft programme includes these.
  - Regarding climate change and energy efficiency, specific growth / invest to save proposals are currently being developed for consideration at February Cabinet so at this stage, only the original outline budgets are included.
  - In terms of housing, Government will continue to provide capital grant funding towards Disabled Facilities Grants, but it is not yet known how much the Council will receive. For now, the programme makes a broad assumption on the estimated level of funding receivable over the next five years but this will need updating in due course.
  - The other housing related matter relates to Chatsworth Gardens, but at the time of the Cabinet meeting a decision from the funder (Homes and

Communities Agency) had not been received. Currently the draft Capital Programme has no budget provision for this scheme.

- Municipal Buildings Works estimates need updating to reflect recent developments, and also, various Information Technology (IT) provisions may change in due course, in light of any further developments regarding Lancashire County Council's Strategic Partnership, or use of open source software in line with the recent Council motion.
- There are still some other aspects of the programme to consider, including potential use of the Renewals and Capital Support Reserves where appropriate, and concluding the Luneside East project.

4.4 Whilst last year's outturn and the above points change the profiling of the Council's underlying need to borrow (known as Capital Financing Requirement: CFR) to 2015/16, there are no other changes built in at this stage.

## 5 HOUSING REVENUE ACCOUNT

5.1 In respect of the Housing Revenue Account (HRA), which covers only the Council Housing Service, the recommendations complete the budget setting process for 2011/12. In considering them Council is asked to note the following:

- i. The revised budget position for 2010/11 is summarised at **Appendix D**. Whilst operationally some net savings have been achieved, surplus balances brought forward from last year have now been applied to other areas, particularly the financing of capital slippage, resulting in an overall increase in net expenditure of £173K when compared with the original budget.
- ii. Next year's proposed revenue budget (also summarised at Appendix D) takes account of Cabinet's decision to set average housing rents at £64.20 per week, which represents an increase of 6.9%. Whilst this is higher than in recent years, it fits with the various caps and limits set by Government, taking account of the long-term policy objective to achieve rent convergence, i.e. for local authority and other social housing provider rent levels to be broadly the same. It also supports the continuing need for the Council to maintain and invest in its housing stock and therefore represents the best position financially, to help sustain a good quality housing service.
- iii. For future years, Government is planning to withdraw the existing housing subsidy system but this will require legislative changes, to be taken forward under the Localism Bill. Such changes will bring about major changes to HRA budgets but for now, and until any better information is available, forecasts for 2012/13 onwards simply assume that the existing arrangements will continue. Accordingly, they assume rent increases of a little under 5% per year.
- iv. A formal review of the HRA's Balances, Reserves and Provisions has been undertaken, the outcome of which is reflected in **Appendix E**. It is recommended that the minimum level of Balances be retained at £350K.



After taking account of the proposed revised budget for the current year, HRA balances are expected to be in line with this recommendation.

- v. With regard to capital, the proposed programme is set out at **Appendix F** and it has been driven primarily by the existing 30-year Business Plan for the service. No major changes have been required in order to balance the capital position for the 5-year period. The proposed programme will enable the housing stock to continue to meet both the Decent Homes Standard and the Council's own higher Standard, using information from the most recent stock condition surveys. Again though, future capital investment plans will need to be reviewed once the Government's housing finance reforms are known.
- vi. As in previous years it is not proposed to undertake any prudential borrowing to support capital investment in Council Housing, and therefore there is no direct impact on the Council's Prudential Indicators.

## 6 DETAILS OF CONSULTATION

- 6.1 A range of consultation exercises has been undertaken to date, in accordance with the community engagement plans approved by Cabinet back in July of last year. Cabinet has considered the information arising in developing its budget and policy framework proposals.
- 6.2 In particular, Cabinet's budget proposals for Council Housing were presented to the District Wide Tenants' Forum on 25 January. Feedback from that meeting was positive; a summary is attached at **Appendix G** for Council's information.
- 6.3 Finally it should be noted as usual the Leader will outline the Cabinet's budget and policy framework proposals at an open meeting of the Budget and Performance Panel on 25 January, to which all Members of the Council, LSP Thematic Group chairmen, and business stakeholder representatives have been invited. Feedback from this meeting was not available at the time this agenda was published and so it will be circulated under separate cover as soon as practicable.

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

- 7.1 For General Fund, options are dependent very much on Members' views on spending priorities balanced against Council Tax levels and what is affordable. Outline options are highlighted below:
  - Regarding Council Tax, Council may consider approving a different percentage increase or decrease for next year. In essence, however, agreeing an increase anywhere between 0 and 2.5% would give no financial benefit to the Council, at least for the next four years, but it would mean taxpayers being charged more. Approving an increase above 2.5% is considered likely to risk capping action being taken by the Government, and is therefore inadvisable. Similarly a reduction in tax rate is advised against, because of the impact on future years and the already substantial savings needed.

- With regard to considering alternative corporate priorities or developing savings and growth options to produce a budget in line with preferred Council Tax levels, emphasis should be on affordability and managing expectations as well as taking account of public consultation, given that substantial reductions in revenue spending are needed in future.

7.2 With regard to the HRA the position is different, in that this report includes Cabinet’s final budget proposals for both revenue and the capital programme.

## 8 CONCLUSION

8.1 For General Fund, the provisional Settlement is much better than expected, albeit that the Council will still face significant year on year funding reductions. This highlights how much expectations have shifted in recent months. The Council has been successful in achieving major budget reductions and therefore in the short-term, the Council’s revenue prospects may be easily managed and a Council Tax freeze for next year is readily achievable, but the medium to longer term must not be overlooked; the challenge of balancing the Council’s budget beyond 2011/12 to deliver its corporate priorities still remains. With regard to capital, the key risks still centre on completing land sales and determining the way forward for stalled regeneration schemes.

8.2 For the Housing Revenue Account, in order to fit with Government constraints and policy objectives and to support the financial sustainability of council housing service provision, the budget proposals take account of relatively high year on year increases in housing rents. Recognising this position, the budget proposals are supported by the Housing Tenants’ Forum. For the future, however, the detail behind Government reforms is expected to have a major bearing on council housing finance and future planning.

<p><b>CONCLUSION OF IMPACT ASSESSMENT</b> (including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)</p>
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<p>No additional impact arising – any specific issues would be (or have been) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc.</p>
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<p><b>LEGAL IMPLICATIONS</b></p>
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<p>Legal Services have been consulted and have no further comments.</p>
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<p><b>FINANCIAL IMPLICATIONS</b></p>
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<p>As referred to in the report.</p>
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<p><b>OTHER RESOURCE IMPLICATIONS</b></p>
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<p><b>Human Resources / Information Services / Property / Open Spaces:</b></p>
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<p>Various budget proposals have resource implications and these have been taken account of in Cabinet’s consideration of budget options. Their implementation would be in accordance with council policies and procedures, as appropriate.</p>
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<p><b>SECTION 151 OFFICER’S COMMENTS</b></p>
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<p>The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council’s reserves. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far.</p>
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A summary of the s151 Officer's advice to date is provided below for information, but it some of this is provisional until such time as Cabinet's full budget proposals for General Fund are known.

#### **HRA Reserves and Provisions**

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.
- Unallocated balances of £350K for the Housing Revenue Account are reasonable levels to safeguard the Council's overall financial position.
- With regard to Housing Revenue Account balances, £350K represents approximately 2.4% of gross income. With regard to any surplus balances, the same general principles apply (as they have done in recent years), in that they would be used to support the 30-year Business Plan, taking account of housing rent increases

#### **Robustness of Estimates**

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

- Producing a continuation budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.
- Reviewing the Council's priorities and its associated service activities and spending / income generation plans. This is being supported and challenged through public consultation.
- Reviewing the Council's medium term financial strategy and planning, following its adoption last March, together with other corporate financial monitoring information produced during the year.
- Undertaking an initial review of the Council's affordable borrowing levels to support capital investment, in line with the Prudential Code, but taking account of assumptions regarding Icelandic investments.

These measures ensure that as far as is practical at this stage, the estimates and assumptions underpinning the base budget are robust, but clearly further work is required to present a final General Fund budget, as well as a balanced General Fund Capital Programme.

#### **Affordability of Spending Plans**

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration. This will be covered in the report to Budget Council, at which time Council will consider full proposals regarding the capital programme and financing for the five year period to 2015/16. There is no borrowing to be undertaken in respect of the Council Housing Capital programme included in this report.

#### **MONITORING OFFICER'S COMMENTS**

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

#### **BACKGROUND PAPERS**

Prudential Code

Local Government Finance Settlement

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