

# CABINET

## Budget and Policy Framework Update 2014/15 – General Fund Revenue Budget and Capital Programme 21 January 2014

### Report of Chief Officer (Resources)

<b>PURPOSE OF REPORT</b>					
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 2014/15.					
<b>Key Decision</b>		<b>Non-Key Decision</b>		<b>Referral</b>	<b>X</b>
<b>Date of notice of forthcoming key decision</b>		18 December 2013. (This made provision for exempt information to be included, but this is not required.)			
<b>This report is public.</b>					

**OFFICER RECOMMENDATIONS:**

1. That the 2013/14 Revised Budget be referred on to Budget Council for approval, with the net underspending of £363K transferring into Balances.
2. That Cabinet indicates whether it wishes, at this stage, to include one-off growth for Police Community Support Officers (PCSOs) in its budget proposals for 2014/15.
3. That Cabinet makes recommendations to Council regarding City Council tax increases for 2014/15 and targets for future years, subject to local referendum thresholds.
4. That the resulting budget position for 2014/15 onwards, as updated for items elsewhere on the agenda, 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 at some point in the future.

- 1.2 At the December meeting Cabinet resolved to consider retaining the four existing corporate priorities in some form, but that the outcomes be redefined and the actions be reduced as the budget process develops. Work is underway to progress this.
- 1.3 This report picks up on the financial implications of that work to date and gives an update on other key elements of budget setting, in order that Cabinet can develop further its budget proposals.
- 1.4 Alongside this, a separate report seeks Cabinet's consideration of future ethos to inform development of the Corporate Plan.

## 2 GENERAL FUND BUDGET: SUMMARY POSITION

- 2.1 The table below pulls together the draft budget position, allowing for various changes, assumptions and expectations for 2014/15 and beyond, as outlined in sections 3 to 8 of this report. Figures for future years are still subject to change. A more comprehensive budget summary is included at **Appendix A**.

	2013/14 £'000	2014/15 £'000	2015/16 £'000	2016/17 £'000
<b>Draft budget as reported to Cabinet on 03 December 2013</b>	<b>18,973</b>	<b>18,513</b>	<b>19,531</b>	<b>20,148</b>
<b>Further Base Budget Changes:</b>				
ICT- Additional security costs (net of £117K one-off use of Renewals Reserve)	32	16	16	16
New Homes Bonus – Revised forecasts	-	(142)	(469)	(710)
Icelandic Investments - Reassessment	48	-	-	-
Capital Financing Changes	-	(72)	(54)	(86)
Reassessment of Reserves (See Section 6)	440	-	-	-
Other Net Changes	22	(28)	58	(33)
<b>Sub-total</b>	<b>483</b>	<b>(226)</b>	<b>(449)</b>	<b>(813)</b>
Approvals: Joint Committee	-	(104)	(211)	(215)
Assumptions: January & February Cabinet	-	539	(34)	(39)
<b>Updated Draft Revenue Budget</b>	<b>19,456</b>	<b>18,722</b>	<b>18,837</b>	<b>19,081</b>
<b>Underspending</b>	<b>363</b>			
<b>Budget Shortfall (Savings Requirement)</b>		<b>183</b>	<b>1,962</b>	<b>2,452</b>

- 2.2 For the current year, the Revised Budget now stands at £19.456M, giving a net underspending of £363K or 1.8%. Cabinet is requested to refer the Revised Budget to Budget Council for approval, with the underspending transferring into General Fund Balances.

- 2.3 In terms of council tax, a 2% year on year increase is assumed in line with current approved strategy. Options for council tax are set out in section 9 of this report.
- 2.4 The draft budget for 2014/15 stands at £18.722M with a savings requirement of £183K, but this allows for all known potential growth needs and various other assumptions on savings.
- 2.5 For subsequent years, despite the huge amount of progress in identifying savings and refining budget projections, there is still a challenging budget shortfall of almost £2M in 2015/16, with the expectation that this would rise further in 2016/17 and beyond. The need to reduce services has not gone away.

### 3 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 3.1 Further to the Chancellor's Autumn Statement published on 05 December, the provisional Local Government Finance Settlement was announced on 18 December 2013 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)).
- 3.2 The Settlement provides provisional funding figures for 2014/15 and illustrative figures for 2015/16.
- 3.3 Drawing on the Chancellor's Autumn Statement, there are no *additional* funding reductions for Local Government in 2014/15, on top of those already expected.
- 3.4 Government has confirmed that it will meet in full the business rate changes that were also announced in the Autumn Statement. Although there is a commitment to clearing the backlog of rating appeals, this will be far from easy. As yet, there is still considerable uncertainty in forecasting future business rate income and more fundamentally, there are other wider challenges to be tackled regarding the longer term sustainability of the business rates system.
- 3.5 The combined total funding from Business Rates and Revenue Support Grant is now known as the Settlement Funding Assessment. The total is in line with the Council's most recent expectations, as demonstrated in the following table.

Year	Settlement Funding	Year on Year Reduction (In Cash Terms)		Funding Projections:	
		£'000	£'000	%	Approved MTFS
	£'000	£'000	%	£'000	£'000
2013/14 (Actual)	12,545	533	4.5	n/a	n/a
2014/15 (Provisional)	10,808	1,737	13.8	10,918	10,802
2015/16 (Government Illustration)	9,082	1,726	16.0	10,179	9,094
2016/17 (Estimate)	8,628	454	5.0	n/a	n/a

- 3.6 For 2016/17, the indicative estimate of a 5% year on year cash reduction (or say around 3% in real terms) allows for some continuation of annual funding reductions, as referenced in previous Government and other bodies' funding outlooks, but there are no clear plans or data available on which to make any firm projections. The Local Government Association (LGA) is due to launch a refresh of its future funding modelling later in 2014 and this may provide a useful basis for reviewing mid to longer term expectations. That said, there will be a General Election prior to 2016/17 and this adds to the inherent uncertainties.
- 3.7 In terms of other Government revenue grant allocations, various notifications have now been received. The main allocations and their uses are as follows.

<b>Grant</b>	<b>2014/15</b>	<b>Comment</b>
<b>New Homes Bonus (NHB) provisional allocation</b>	<b>£'000</b> 1,028	General grant, used to support service provision generally. The Government is not now going ahead with the countrywide proposal to topslice around a third of NHB to Local Enterprise Partnerships (LEPs). Future years' estimates for NHB have increased to £1.277M in 2015/16 and £1.575M in 2016/17, assuming 250 and 300 new homes built year on year.
<b>Housing Benefit and Council Tax Support Admin. Subsidy</b>	816	Specific grant, with no alternative use. Further years assumed to continue for now at similar levels, subject to roll out of Universal Credit. Any transitional costs for welfare reforms are expected to be covered by Government's 'new burdens doctrine'.

- 3.8 For information Members may have noticed that Government has once again retained the concept of 'spending power'. Essentially this gives an annual comparison of the combined total of Government funding and assumed income from council tax, allowing for minor adjustments. The City Council's figures as produced by Government are:

	<b>£'000</b>
2013/14 Adjusted Spending Power	21,539
2014/15 Spending Power	<u>21,151</u>
Year on Year Reduction	1,388 or 6.4%.

#### **4 2014/15 COUNCIL TAX BASE**

- 4.1 The tax base has now been set, taking account of Council's recent decision on its Localised Council Tax Support Scheme and the continuation of charging policy for second and empty homes.
- 4.2 The adjusted tax base for 2014/15 stands at 38,000 Band D properties, representing a year on year increase of 900 or 2.4%. In simple terms the movement can be accounted for as follows:

	<b>Band D Properties</b>
2013/14 Tax Base	37,100
More Chargeable Empty/ Second Homes than forecast	+173
Lower Localised Council Tax Support (LCTS) than forecast	+ 263
Estimated New Properties	+ 431
Other General Changes	<u>+ 33</u>
	<b><u>38,000</u></b>

- 4.3 Similarly with New Homes Bonus, higher growth in new homes is anticipated for years 2015/16 and beyond. Year on year increases of 200 and 250 Band D properties are now assumed, drawing on planning expectations but making allowances for banding, discount/exemption and timing differences.

## 5 COLLECTION FUND POSITION

- 5.1 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.
- 5.2 Legislation now requires that separate estimates of any surpluses or deficits on the Collection Fund are made each year for council tax (by 15 January) and business rates (by 31 January).
- 5.3 In respect of council tax, the review of the Collection Fund's financial position has resulted in a surplus of £1M being declared. This is in line with the expectations reported to December Cabinet. This surplus will be shared with major precepting authorities, with the City Council's share being £131K.
- 5.4 For business rates, the calculation of any surplus or deficit is new and more complicated. At the time of writing this report, updated regulations and guidance were expected from Government; these are needed to complete the calculations. The difficulties and complexities link to the earlier comments made regarding the business rates system.
- 5.5 At this stage, therefore, Cabinet is asked simply to note the position, acknowledging that further budget changes may be needed in due course as a result of the business rates position.

## 6 PROVISIONS AND RESERVES

- 6.1 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.
- 6.2 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.

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

#### 6.4 **General Fund Balances**

6.4.1 After transferring in this year's forecast net underspending, balances would amount to £3.811M by 31 March 2014, which gives considerable flexibility to help manage future financial strategy in support of corporate priorities. If the existing minimum of £1M remains unchanged and the current year's outturn is as expected, surplus balances of £2.8M would be available.

#### 6.5 **Earmarked Reserves**

6.5.1 For other earmarked reserves, net transfers of £440K are included in the revised budget for 2013/14, made up as follows:

	<b>£'000</b>
Restructuring Reserve	+570
Job Evaluation Reserve	- 4
Capital Support Reserve	<u>-126</u>
<b>Net Transfer</b>	<b>440</b>

##### **Restructuring / Job Evaluation**

These reserves have been combined, with the balance increasing by a net £566K to £1M, to make greater provision for the costs of taking forward future staff reductions and completing the pay and grading review.

##### **Capital Support**

Given that the south Lancaster receipt has now been secured, this reserve has reduced by £126K, in recognition that capital financing risks have reduced.

6.5.2 The Authority continues to hold other substantial reserves, such as the Renewals and Invest to Save Reserves. These help bolster the Council's current financial standing and its capacity to overcome the challenges it faces.

## 7 **BALANCING THE BUDGET: PROGRESS AND IMPLICATIONS**

7.1 Budget changes are currently being analysed over key headings (Efficiencies, Income Generation, Service Reductions, Growth, etc.) and this will take account of Cabinet's decisions at this meeting.

7.2 Reports on Information Governance and the Morecambe Area Action Plan are now scheduled for February Cabinet. Both will involve growth proposals, indicative estimates being £100K and £12K respectively. At this stage these have been allowed for in the draft budget projections, simply to recognise the potential extra cost pressures.

7.3 In addition there are other specific matters to highlight:

##### **Revenue and Benefits Savings**

At the Joint Committee held on 10 December, Members approved the service business plan for next year, as well as a number of efficiency savings measures phased over two years.

### **Police Community Support Officers (PCSOs)**

Members will be aware that the budget approved back in February 2013 made no provision for the £99K contribution to PCSOs continuing beyond the current year. Clarification is sought on whether, at this stage, a growth item is to be considered for 2014/15. Provisionally, this has been allowed for in the draft budget figures but it is subject to Cabinet's views.

### **Renewable Energy Strategy**

In line with the resolutions of Cabinet in January 2013, work is well underway to draft the strategy, although it will not be ready for presentation to Cabinet prior to Budget Council. In terms of the budget, the existing Invest to Save Reserve would be available to help progress schemes, subject to the financing of Lancaster Market leasehold surrender being confirmed. Furthermore, unless Cabinet indicates otherwise, it is intended to update the draft MTFs to give Cabinet some flexibility for increasing borrowing need to progress Invest to Save schemes, subject to there being a robust business case and due diligence being followed.

- 7.4 Although efforts have been made to present as complete a picture as possible regarding budget options, it is still possible that other items may come forward prior to Budget Council linked to the ongoing service reviews. These reviews form the basis to tackle the medium to longer term budget funding gap, and they are included on **Appendix C**.

## **8 GENERAL FUND CAPITAL PROGRAMME**

- 8.1 Since December Cabinet, a number of capital matters have arisen:

- Capital investment of £30K has been needed in the current year to improve ICT security to meet Government standards, funded from the Renewals Reserve. Details of this, revenue costs and any other ICT needs will be covered in the scheduled Information Governance Report.
- As well as revenue growth being expected for the Morecambe Area Action Plan, outline capital growth proposals are anticipated although these are assumed to be addressed through Reserves and Balances.
- Recommendations elsewhere on the agenda regarding Bold Street properties and St. Leonard's House are reflected in the attached draft programme.
- For other corporate property works, cost increases of approaching £300K have been provided for to date, with the main changes being for the following schemes:
  - Cemetery Chapels (£80K, condition worse than initial surveys indicated)
  - Storey Gardens External Wall (£70K, not allowed for in original programme)
  - Lancaster Town Hall Banqueting Hall Ceilings (est. £100K, not allowed for in original programme, additional survey undertaken in September 2013)
- No specific provision has been assumed at this stage for any warmth related works (ie. automatic doors) to the Festival Market; information on the implications is awaited. Lancaster Market leasehold surrender is not yet included.
- The Council has received its notification of Disabled Facilities Grant (DFG) funding for 2014/15, amounting to £673K. Although in next year the grant is

given as general grant, it is assumed that the funding will continue to be used for DFG purposes but with no top up from other resources, unless Cabinet indicates it wishes to consider other alternatives. From 2015/16 DFG funding will form part of the Better Care Fund (BCF), administered by the County Council. Initial allocations indicate minimum funding of £783K for DFGs in 2015/16, which has been used as the basis for future years' budgeting.

- Discussions have been held with Government regarding the application of the £1.9M grant in connection with Chatsworth Gardens, which must be applied by 31 March 2014. To avoid any difficulties with this, the grant will now be applied in the current year against corporate property works, and the resulting 'freed up' Council resources of £1.9M will be used to finance Chatsworth Gardens in 2014/15. This swapping of financing is possible because the grant was awarded as general grant, rather than it being specific. This approach has been agreed with Government and it fits with relevant legislation and accounting practice.
- Regarding other capital income, so far this year receipts in the region of £8M have been received, allowing for the sales of land at South Lancaster and at Heysham Mossgate.

8.2 The resulting draft capital position is summarised as follows and a more detailed statement is included at **Appendix D**, subject to any amendments arising from items elsewhere on the agenda. Importantly, the Council's underlying borrowing need is now £1.7M lower, which will reduce future financing pressures on the revenue budget.

	<b>Gross Programme</b>	<b>Underlying Borrowing Need: CFR</b>
	<b>£000</b>	<b>£000</b>
<b>5 Year Programme (to 2017/18) as reported to December</b>	<b>27,596</b>	<b>7,200</b>
<b>Key Changes:</b>		
Net Reduction in Corporate Property Works	-1,714	-3,614
Bold Street Properties Growth Proposal	+391	-
Additions / Increases in Other Council Funded Schemes	+71	-
Net Changes in Externally Funded Schemes	+684	+1,900
<b>Total Changes</b>	<b>-568</b>	<b>-1,714</b>
<b>Resulting Draft Capital Programme (to 2018/19)</b>	<b>27,028</b>	<b>5,486</b>

## 9 COUNCIL TAX OPTIONS

- 9.1 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.
- 9.2 Currently, it is still assumed that a 2% threshold will apply, although a Government announcement is awaited. Any update will be fed into the meeting.



- 9.3 The assumed maximum increase of 2% would increase the City Council's tax rate of £196.08 to £200.00 for a Band D property. The increase amounts to around £3.92 per year or 8 pence per week.
- 9.4 Government has once again extended the offer of compensation grant if Councils choose to freeze their council tax rates in 2014/15 and 2015/16:
- For the 2014/15 scheme, compensation broadly equivalent to a 1% increase would be receivable in the next two years.
  - The 2015/16 scheme will be a separate scheme, but no details are available. A reasonable assumption may be that a similar rate of compensation would be offered, but perhaps for only one year.
- 9.5 Drawing on the above factors, if all the various savings and growth assumptions listed were accepted, the basic options for council tax would be as follows. A 1% change in council tax would normally have around a £75K impact on the budget.

Council Tax Scenarios	Budget Impact		
	2014/15 Estimate	2015/16 Estimate	2016/17 Indicative
<p><b>A: Objective:</b> Maintain a steady increase to help protect service delivery, taking account of referendum thresholds</p> <p><b>2% assumed in all years, subject to local referendum thresholds</b></p>	£183K net savings requirement	£1.962M net savings requirement	£2.452M net savings requirement
<p><b>B: Objective:</b> Take account of tax freeze compensation next year, but then revert to steady increase to help protect service delivery.</p> <p><b>0% in 2014/15 then 2% each year, subject to local referendum thresholds</b></p>	£245K net savings requirement	£2.028M net savings requirement	£2.609M net savings requirement
<p><b>C: Objective:</b> Take account of tax freeze compensation in both years, but then revert to steady increase to help protect service delivery.</p> <p><b>0% in next two years then 2% in 2016/17, subject to local referendum thresholds</b></p>	£245K net savings requirement	£2.091M net savings requirement	£2.763M net savings requirement

- 9.6 In reality there are numerous other targets that could be considered across the years, but more fundamentally, this table highlights the scale of the challenges still ahead for the City Council, despite all the good progress made. Members could consider reducing council tax – but given the Council's future forecasts, this is advised against.
- 9.7 Cabinet is therefore requested to decide what level of council tax increase to recommend for next year and what targets to propose for 2015/16 onwards. In doing so, Cabinet is advised to consider:

- the council tax threshold, above which a local referendum must be held;
- the tax freeze compensation grant on offer, but recognising the extra pressure this adds to the budget in subsequent years.

To highlight this, in agreeing to freeze council tax freeze in 2011/12 and 2012/13, once compensation grant has fallen out it may be viewed that the Council has foregone a cumulative tax increase of 7.25%, or around £540K income per year. In simple terms the income foregone would increase to an assumed 11.25% or £880K per year if the next two years' tax freeze offers were accepted;

- subsequent years' general Government funding reductions and the need to make big savings in future;
- financial sustainability. In short, it is not possible to keep tax increases lower than planned, without increasing the budget shortfall in 2014/15 and beyond. More savings cannot be delivered without having greater adverse impact on services and communities – and the forecasts are still very bleak.

9.8 Cabinet is reminded that its council tax recommendation for 2014/15 will be final (subject to the threshold), for subsequent consideration by Council. Targets for 2015/16 and beyond will be reviewed in future years, in accordance with the Medium Term Financial Strategy (MTFS).

## 10 DETAILS OF CONSULTATION

10.1 Cabinet's budget proposals are due to be considered by Budget and Performance Panel at its meeting on 28 January, prior to February Council. More specific consultation plans are being developed to inform budgetary decisions beyond Budget Council.

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

11.1 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, various options are set out at section 9 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 alongside the development of priorities and public engagement. Emphasis should be very much on the medium to longer term position.

11.2 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 later that month.

## 12 OFFICER PREFERRED OPTION AND COMMENTS

- 12.1 Generally Officer preferred options are reflected in the recommendations, with the exception of council tax.
- 12.2 In view of the level of savings still needed in 2015/16 onwards, the cumulative 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 2% 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.

## 13 CONCLUSION AND IMPLICATIONS FOR THE FUTURE

- 13.1 From this report, it is clear that real progress has been made in balancing next year's budget, helping to reduce future years' shortfalls, and stabilising the capital financing position. Nonetheless, there is still much more to be done and the prospects for local authorities from 2015/16 onwards remain very challenging, and very uncertain.
- 13.2 The Council is currently in a fairly strong financial position, however, with significant surplus balances and available reserves. The savings made so far have helped achieve this position, which in turn gives greater flexibility.
- 13.3 Future financial strategy will depend on how the Council wishes use those funds to support its priorities in a way that does not undermine financial standing.
- 13.4 For example:
- The Council could choose to secure early reductions on existing service levels, thereby allowing any surplus funds to be used to support more one-off growth and investment in other areas or new activities.
  - Alternatively the Council could use such funds to help maintain existing services to the public for a limited period. The need to reduce services at some point in the not too distant future would need to be accepted, although any "efficiency" type measures could still progress.
- 13.5 There is a choice, and this will be explored next month. Ideally, the approach adopted should fit with the rationale behind council tax proposals. In this way, the Council can seek to achieve affordable and deliverable policies and objectives over 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)**

With the exception of PCSOs, which would help maintain resources for community safety for a period, 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 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.

**LEGAL IMPLICATIONS**

Legal Services have been consulted and have no observations to make on this report.

**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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