

CABINET

Budget and Policy Framework Update – General Fund Revenue Budget and Capital Programme 11 February 2014

Report of Chief Officer (Resources)

PURPOSE OF REPORT					
To inform Cabinet of the latest position following Council's initial consideration of the Budget and Policy Framework, and to make recommendations back to Council in order to complete the budget setting process for 2014/15.					
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>	Referral from Officer	<input checked="" type="checkbox"/>
Date of notice of forthcoming key decision	13 January 2014				
This report is public, with the exception of Appendix C, which is exempt by virtue paragraph 3, of Schedule 12a of the Local Government Act 1972.					

OFFICER RECOMMENDATIONS:

- (1) That subject to confirmation of the Local Government Finance Settlement (including associated matters) and any budget amendments arising in the Cabinet meeting, Council be recommended to approve:
 - a General Fund Revenue Budget of £19.585M for 2014/15, resulting in a Council Tax Requirement of £7.600M excluding parish precepts;
 - the budget proposals as summarised at Appendix B;
 - the resulting policy on provisions and reserves as included at Appendix D; and
 - the resulting Capital Programme as set out at Appendix E.
- (2) That should any minor changes arise as part of Government approving the Settlement, the Leader and Finance Portfolio Holder be given delegated authority to update the budget proposals accordingly.
- (3) That the Leader and Finance Portfolio Holder be given delegated authority to update the Medium Term Financial Strategy as outlined in section 8 of this report, for referral on to Budget Council.

1 INTRODUCTION

1.1 Cabinet's initial proposals regarding the Budget and Policy Framework were considered at Budget and Performance Panel on 28 January and at Council on 05 February. No specific feedback was received from the Panel, but it did thank Cabinet for the work done so far. The key points arising from Council are as follows:

- During the meeting, confirmation was received that Government had announced a 2% local referendum threshold.
- Accordingly a 2% (rounded) increase in the 2014/15 City Council tax rate was approved together with target increases of 2% for subsequent years, subject to local referendum thresholds.
- Council noted Cabinet's intention, in principle, to use surplus Balances to help maintain services to the public for a period, recognising that current Balances are healthy and can support this.
- No other specific feedback or resolutions were made by Council.

1.2 This report builds on these points and on other updated information in order that final budget recommendations can be made to Council on 26 February. Proposals for updating the Corporate Plan will be presented at a subsequent meeting, drawing on the approved budget and financial strategy to ensure a reasonable fit.

2 LOCAL GOVERNMENT SETTLEMENT AND COUNCIL TAX THRESHOLDS

2.1 Government has now announced the final Settlement for 2014/15, which is substantially unchanged from the provisional position. Similarly, the local referendum threshold for next year remains at 2%; council tax increases must be below this, to avoid the need to hold a local referendum.

2.2 Government has also confirmed the illustrative Settlement for 2015/16, which still forecasts a baseline funding reduction of almost £1.7M or 16% for that year.

2.3 These matters have been laid before the House of Commons and they are due to be considered on 12 February. It is highly unlikely that any adjustments will arise, but nonetheless provision for dealing with this situation is reflected in the recommendations.

2.4 Given the timing of the Settlement, there is insufficient time to provide any detailed meaningful analysis but the following is brought to Cabinet's attention:

- Government has made provision for building tax freeze compensation entitlement (for most years) into the spending review baseline. The exact impact of this is impossible to predict, especially in view of the many changes being made to the Local Government finance distribution system from one year to the next. The inference is though that authorities who freeze council tax will not see such a drop in funding once compensation grant ends. Nonetheless, and everything else remaining equal, authorities who have increased council tax will still be in a better position than they would otherwise

have been. This is because generally compensation is based on a fixed percentage, rather than it being in full (so for example, currently compensation is based broadly on 1%, as compared with a council tax increase of 2%).

- The referendum principles have been amended to include the impact of levies. This does not affect the City Council, but Cabinet may recall that it has been a contentious issue in the past.
- Government has not set referendum thresholds for parishes and town councils, but it has put on notice that if necessary, it is prepared to apply thresholds to larger local councils from 2015/16 onwards. Alongside this, the Minister has reiterated Government's expectation that billing authorities (such as the City Council) will continue to pass funding on to local councils, to help offset the impact of localised council tax reduction schemes. Cabinet may recall that this was covered in the report to December Council. The budgetary position provides for no continuation of the one-off funding given to parishes in the current year.

2.5 With regard to business rates retention, in the Settlement Government assumes that over £5M of the Council's baseline funding is attributable to business rates, although the Council's 'Safety Net' threshold is around £400K lower each year. This threshold is the minimum level of income that the Council would retain if business rate yields fell in the district. This issue features strongly in the following sections.

3 **COLLECTION FUND POSITION: BUSINESS RATES**

3.1 As was reported to Cabinet in January, legislation now requires that separate estimates of any surpluses or deficits on the Collection Fund much be made each year for council tax (15 January) and business rates (31 January).

3.2 Council tax has already been calculated and reported. For business rates, the calculation of any surplus or deficit is new and very complicated, and it is understood that the legislative framework is not yet finalised. Nonetheless, more details of the calculations are included at **Appendix A**.

3.3 In summary and when compared with previous years' average baseline position, the amount of income due from business rates in the current year has grown by £917K, but the need to put monies aside to cover potential successful appeals has increased by £13.482M. Overall therefore, the business rates element of the Collection Fund is estimated to be in deficit by £12.565M.

3.4 Most importantly, the City Council's share of this deficit is limited to £376K, taking account of the Authority's Safety Net as mentioned earlier. The bulk of the deficit will be recovered from Government. The County and Fire Authorities may be affected by their share of the deficit, depending on their own positions against their respective Safety Nets.

4 **2014/15 GENERAL FUND REVENUE BUDGET**

4.1 Updated revenue proposals are set out at **Appendix B**. Aside from any minor changes, the key points to note are listed below:

- A report elsewhere on the agenda sets out updated revenue growth proposals in connection with Morecambe Area Action Plan, and these are now included within the draft budget.
- **Appendix C** (exempt) outlines provisional investment needs in connection with ICT security and Information Governance. Much work is ongoing in respect of the former. This involves significant one-off expenditure, which will be covered by a combination of existing revenue and capital budget provisions, as well as the Renewals Reserve. Much more consideration needs to be given to ongoing service needs and how these should be addressed, but there is insufficient time to complete this prior to Budget Council. To allow progress during next year, annual growth of £120K is proposed but the use of this would be subject to a future report to Cabinet. This reporting would also include an update on one-off spending.
- The future of the Assembly Rooms and also any warmth related works (i.e. automatic doors) to the Festival Market are yet to be decided. To ensure that some resources are in place to progress any such new developments, it is proposed to increase the Markets Reserve by £50K.
- Some queries have been made regarding the condition of playgrounds. Renewal / refurbishment of existing sites would be funded from the existing Renewals Reserve, without the need for budgetary growth.
- Savings proposals in connection with Sports and Leisure are currently out to consultation, in line with the report considered by Cabinet at its November meeting (minute 54 refers). The savings being considered relate primarily to efficiency measures and some trimming of activities that would not have a marked impact on service delivery to the public. As such, a specific report to Cabinet is not planned, but the staffing implications are due to be considered by Personnel Committee in due course. Although not yet finalised, a cautious indicative estimate of the annual savings achievable is £150K per year, and so this has been built into the budget.
- Similarly, savings within Environmental Services are also due to be considered by Personnel Committee later this month, covering wider service restructuring as well as Parks, Open Spaces and Public Realm, in line with the review outlined to Cabinet in November (minute 53 refers). Indicative annual savings of around £160K from this phase are now included in Cabinet's budget proposals; again, these are driven by efficiency and trimming of services. There is one aspect that is brought to Cabinet's attention, however. For bulky waste collections, in future the function will be provided by Furniture Matters using one team, rather than two. Alongside other proposals, it is expected that the service impact to the public will be minimal.
- The Licensing Regulatory Committee is due to consider licensing fees at its meeting on 13 February and this could result in further minor changes to the budget.
- Drawing on the business rates information provided at Appendix A, the budget projections now have some very large items incorporated. In summary, the draft budget for next year allows for Retained Business Rates income at a level of £6.154M. After allowing for Small Business Rate Relief funding

adjustments, the net income position is some £1.122M higher than last reported and £1.505M higher than next year's Safety Net. Actual income to be retained will only be finalised in summer 2015, however, and the Authority could well see it fall to Safety Net levels as a result of successful rating appeals. To provide cover for this position, monies have now been set aside in a new Business Rate Retention (BRR) Reserve. The impact of this is summarised later in section 5.2, but in essence it worsens the 2014/15 budget position by £383K.

- 4.2 If the budget proposals were taken forward as listed, then this would now require a £458K contribution from Balances in next year, as shown at Appendix A. The movement from January's position is down to business rate changes, partly offset by additional service review savings coming through. Nonetheless, such a contribution is in line with Cabinet's stated intentions of using Balances to help protect key services for a period.
- 4.3 In order to fit with Council's approved council tax rate increase and the final Settlement, the General Fund Revenue Budget is expected to be £19.585M for 2014/15, excluding parish precepts, and Cabinet is requested to refer this on to Council for approval. The apparent increase in budget when compared with the January position is purely down to business rates income presentation, and it is possible that this presentation may change between now and Budget Council. The bottom line impact on council tax will remain constant, however.
- 4.4 Cabinet is now required to finalise its full savings and growth proposals and make recommendations to Council for a balanced budget.
- 4.5 Setting the Revenue Budget at £19.585M will result in a 2% increase in the basic City Council tax rate for the district, or 1.99% to be more accurate. The actual basic Band D City Council tax payable (excluding parish precepts) is expected to be £199.99, which will raise income of £7.600M for City Council services. It is stressed, however, that all these figures are subject to rounding adjustments, prior to them being finalised for Budget Council.

5 GENERAL FUND PROVISIONS, RESERVES AND BALANCES

- 5.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and Balances.
- 5.2 For earmarked Reserves, some additional changes have been actioned by the Chief Officer (Resources) as s151 Officer, over and above those included in Cabinet's growth proposals:

Performance Reward Grant

The use of this Reserve has been amended to allow for approximately £15K to be used to support initiatives linked to the voluntary sector. This is in line with the Leader's decision taken back in December.

Elections

Looking forward, in 2016/17 an Elections Reserve has been created to smooth the future budget impact of local elections. An indicative contribution of £30K is provided for.

Business Rates Retention (BRR) Reserve

Whilst the Council's budget needs to account for a higher level of retained business rate income than previously assumed, there are enormous risks and uncertainties over whether, indeed, that additional income will materialise. Accordingly, a Reserve equal to the Council's exposure has now been provided for within the budget projections, demonstrated as follows. (Note that the current year position also has a bearing on Balances):

Changes Since January Cabinet	Revenue Budget £000	BRR Reserve £000
2013/14:		
Net Reduction in Retained Business Rates Income (Difference between Budget and lower Safety Net)	376	
Call on Revenue Balances	(376)	
Net Impact on Revenue Budget	0	
2014/15:		
Net Increase in Retained Business Rates Income (after levy payments etc)	(1,122)	
Contribution to BRR Reserve	1,505	(1,505)
Net Impact on Revenue Budget	383	
Total BRR Reserve Balance		(1,505)
Representing:		
2014/15 Budget Exposure (above Safety Net)		1,505

5.3 In terms of Balances, the s151 Officer will finalise her advice once Cabinet's full budget proposals are known. Her interim advice and comments are as follows:

- Balances are now expected to amount to around £3.4M by 31 March 2014. Based on Cabinet's budget proposals to date, Balances would fall to around £3.0M by 31 March 2015.
- Cabinet's intentions are to use surplus Balances to help maintain services to the public for a period, recognising that current Balances are healthy and can support this.
- This is an acceptable stance to take in the shorter term, alongside Council's approved approach for increasing council tax, and Cabinet's commitment to continue with the service review programme to make savings and develop the proposed ethos of an 'Ensuring Council'.
- In the longer term, it is apparent that there is some general acceptance of the more fundamental need to rethink, reshape and reduce services by 2016/17 at the latest, based on current forecasts.

- At this stage the Chief Officer (Resources) is comfortable to advise that the level of General Fund balances can be retained at no less than £1M on the basis that other provisions and reserves remain broadly as set out in this report, but this advice covers the longer term, not just the shorter term. Given future funding pressures and enormous uncertainties, advice is that ideally an additional £1M should be earmarked or left available for addressing the more fundamental budget challenges that are expected beyond 2015/16. On that basis, around £1M of Balances would be available to support the budget in 2015/16.
- 5.4 Allowing for the ongoing work on service reviews, this should give sufficient scope to manage the 2015/16 budget position in line with Cabinet's intentions – but it must be appreciated that this assumes that there will be no significant overspending in either the current or next financial year. It also assumes that the use of Balances in next year will not increase significantly above that already allowed for.
- 5.5 The s151 Officer's advice takes account of a number of other key risk considerations:
- The Council continues to demonstrate its ability to deliver ongoing savings through efficiencies, minor reductions to services, and income generation, as part of its financial strategy. In doing so, it accepts the associated increase in its risk appetite. Its communication and monitoring arrangements and organisational development plans are key tools in helping to manage these risks.
 - The Council's decision-making regarding any fundamental service reduction proposals have not yet been tested, however. There is risk that the Council does not best use of the time available to develop, approve and implement major service reduction and reshaping measures.
 - Capital financing risk exposure is significantly reduced, given progress in disposing of Lancaster Market leasehold, securing capital receipts, and the outcome of the Luneside East Lands Tribunal.
 - Conversely, risks around future revenue funding prospects are as high as ever. These centre on future Government public spending plans and the ongoing viability and sustainability of the current Local Government finance system. It is still considered that at some point, local government may be wholly funded from local taxation. Drawing on more specific funding aspects, the Council has mainstreamed its New Home Bonus, but this scheme has a fixed life and its removal would worsen the funding outlook still further. Finally, as other public sector partners address their own budget shortfalls, this in turn may well add further pressure onto the City Council.
- 5.6 As a very simple measure, the inherent value of the risks referred to above exceeds by far the total of all General Fund reserves and balances. Whilst it is not the case that all these risks could fall due immediately, the information should help Members appreciate the need for holding Balances and reserves more generally. It is inappropriate to view simply the level of funds held, without considering the reasons as to why those funds might be needed.

5.7 The review of all Balances, provisions and reserves is reflected in the updated policy attached at **Appendix D**. As well as showing the amounts held, the appendix also sets out the decision-making for their use. Cabinet is advised to consider this aspect carefully.

6 GENERAL FUND CAPITAL INVESTMENT

6.1 The current draft programme for the period to 2018/19 is included at **Appendix E** for Cabinet's consideration.

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

- The surrender of Lancaster Market headlease is now included, in line with the report to Council last week.
- The lighting scheme for Salt Ayre cycle track is included in the current year, on the assumption that grant conditions can be met. This is in accordance with the decision taken at January Cabinet.
- Notification of future years' funding for coast protection and flood defence schemes is still awaited. Other than minor overheads, these schemes are assumed to be self financing. A Cabinet report will be produced once notification has been received, to consider any proposed updates to the capital programme.

6.3 The current year's Revised Programme now stands at £16.982M. It is estimated that there will be no capital receipts unapplied as at 31 March 2014. Over the next five years, a further £21.568M of investment is planned, giving a total 6 year programme of £38.550M.

6.4 Overall the programme is balanced, allowing for a net increase of £16.358M in the underlying need to borrow (known as the Capital Financing Requirement or CFR). This has increased by almost £10.9M when compared with the position reported to January Cabinet, but this is solely as a result of including the Lancaster Market leasehold surrender. The aim is still to reduce this underlying borrowing need, especially through property rationalisation.

6.5 Future reliance on capital receipts funding is now much more manageable, without the need to keep specific schemes on hold pending funding becoming available. Nonetheless, appropriate due diligence will be applied in progressing schemes, especially given the number of service reviews planned or underway.

7 BUDGET PROSPECTS FOR FUTURE YEARS (2015/16 AND BEYOND)

- 7.1 Indicative revenue spending and council tax forecasts for 2015/16 and 2016/17 have been reported and updated on an ongoing basis during the budget process.
- 7.2 The Council aims to keep basic City Council tax increases at no more than 2% year on year, subject to local referendum thresholds. As a consequence, the following table sets out the key financial targets that the Council will strive to work within for the next three years.

Target	2014/15	2015/16	2016/17
Budget Requirement	£19.585M	£16.480M	£16.401M
Council Tax Income	£7.600M	£7.792M	£7.999M
Council Tax Increase (subject to local referendum thresholds)	1.99%	1.99%	1.99%
Year on Year Net Savings Requirement (assumes recurring savings achieved)	-	£2.003M	£0.348M
Cumulative Net Savings Requirement	-	£2.003M	£2.351M
Forecast Balances used / available to support Budget (indicative split)	£0.4M	£1.0M	£1.0M

- 7.3 For 2015/16 and beyond, it is now assumed that Retained Business Rate income will be at Safety Net thresholds, but the position will only become clearer once key rating appeals have been processed.
- 7.4 The MTFs will be updated to reflect the above, as well Cabinet's full budget proposals. Delegated authority is sought to complete this task in order that the MTFs can be presented to Budget Council.
- 7.5 Once approved, as usual the Strategy and associated projections will continue to be reviewed and updated regularly. In this way the Council can maintain an informed view about its financial outlook and the implications for corporate priorities and service delivery.

8 DETAILS OF CONSULTATION

- 8.1 This is outlined in section 1 of the report.

9 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

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

Revenue Budget

As Council has now determined the City Council tax rate for 2014/15, there are no options to change the total net revenue budget for next year but Cabinet now needs to put forward detailed budget proposals that add back to that amount. The Chief Officer (Resources) (as s151 Officer) continues to advise that wherever possible, emphasis should be on reducing future years' net spending.

Capital Programme

Cabinet may adjust its capital investment and financing proposals to reflect spending commitments and priorities but overall its proposals for 2013/14 and 2014/15 must balance. Whilst there is no legal requirement to have a programme balanced over the full 5-year period, it is considered good practice to do so – or at least have clear plans in place to manage the financing position over that time.

In deciding its final proposals, Cabinet is asked also to take into account the relevant basic principles of the Prudential Code, which are:

- *that the capital investment plans of local authorities are affordable, prudent and sustainable, and*
- *that local strategic planning, asset management planning and proper options appraisal are supported.*

Budget Framework (Reserves and Provisions / MTFS)

Given known commitments, risks and approved council tax targets there is little flexibility in financial terms, but Cabinet could consider different arrangements for approving the use of various reserves, or consider different approaches for addressing the medium term budget deficit.

10 OFFICER PREFERRED OPTION AND COMMENTS

- 10.1 For General Fund, proposals to be put forward by Cabinet should fit with any external constraints and the budgetary framework already approved. The recommendations as set out meet these requirements; the detailed supporting budget proposals are then a matter for Members.

11 CONCLUSION

- 11.1 This report outlines the actions required to complete the budget setting process for 2014/15 and put in place plans for tackling 2015/16 and beyond.

RELATIONSHIP TO POLICY FRAMEWORK

The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.

FINANCIAL IMPLICATIONS

As set out in the report.

SECTION 151 OFFICER'S COMMENTS

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. A summary of the s151 Officer's advice to date is provided below for information, but it should be noted that some of this is provisional until Cabinet's full budget proposals are known. At Budget Council, Members will be recommended to note formally the advice of the s151 Officer.

Provisions, Reserves and Balances

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.
- Unallocated balances of £1M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed.

Robustness of Estimates

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

- producing a base budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.
- reviewing the Council's services and activities, making provision for expected changes;
- reviewing the Council's MTFs, together with other corporate monitoring information produced during the year;
- undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust.

Affordability of Spending Plans

In addition, the s151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are

reported to Council for consideration.

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having particular regard to the impact on council tax (for General Fund). Affordability is ultimately determined by judgements on what is 'acceptable' - this will be influenced by public, political and national influences.

The factors that have been taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing commitments and planned service / priority changes
- revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing
- future years' revenue budget projections, and the scope to meet borrowing costs
- the likely level of government support for revenue generally
- the extent to which other liabilities can be avoided, through investment decisions.

In considering and balancing these factors, the capital proposals to date are based on a significant net increase in "prudential borrowing" over the period to 2018/19, but much of this is offset through the removal of other liabilities through the surrender of the market headlease.

LEGAL IMPLICATIONS

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

None.

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