

CABINET

Budget and Policy Framework Update 2015/16 – General Fund Revenue Budget and Capital Programme 20 January 2015

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 2015/16.			
Key Decision	<input checked="" type="checkbox"/>	Non-Key Decision	<input type="checkbox"/>
Date of notice of forthcoming key decision		19 December 2014	
This report is public.			

RECOMMENDATIONS OF COUNCILLOR BRYNING:

1. That allowing for Cabinet's decision regarding The Grand's funding request included elsewhere on the agenda, the resulting 2014/15 Revised Budget be referred on to Budget Council for approval, with the net underspending transferring into Balances.
2. That Cabinet makes recommendations to Council regarding City Council tax increases for 2015/16 and targets for future years, subject to local referendum thresholds.
3. That Cabinet considers the provisional growth items listed at Appendix A, in context of the information contained within this report, and confirms which are to be taken forward as part of its budget proposals.
4. That the resulting budget position for 2015/16 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 in future.

1.2 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.

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 2015/16 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**.

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000
Net Spending / draft budget forecasts as reported in December:	17,764	17,066	18,399	18,823
Further Base Budget Changes:				
Increase in staff turnover target	-	(100)	(100)	(100)
Fees and Charges (<i>various: elsewhere on agenda</i>)	(133)	106	106	106
Capital Financing Changes (<i>see section 6</i>)	(3)	(64)	(30)	(77)
Increase in Use of Balances (back to £1M)		(148)	-	
Reassessment of Reserves & Provisions (<i>see section 5</i>)	81	-	-	-
Other Net Changes	-	(76)	(102)	(126)
Sub-total	(55)	(282)	(126)	(197)
Savings Proposals (<i>elsewhere on the agenda</i>)		(87)	(23)	(13)
Growth Proposals for Consideration by Cabinet (<i>see Appendix A and section 8</i>)	15	355	56	22
Updated Draft Forecasts	17,724	17,052	18,306	18,635
Resulting in:				
Underspending for Year, or	816	-	-	-
Budget Shortfall (Savings Requirement)		-	1,563	2,041

2.2 A number of key points are highlighted:

- The staff turnover target has been increased provisionally by £100K each year to reflect recent years' experience; the final increase will be confirmed in

February. It should be noted that no vacant posts have been deleted at this point.

- Additional planning application fees of £150K have been received this year from a small number of unexpected speculative housing development applications. The trend in income is not currently expected to continue in future years, but this will be kept under review.
- Other income from fees and charges has been allowed for as appropriate, in line with the separate report elsewhere on the agenda.
- The draft capital programme has been updated to include additional schemes and changes in profiled spend and financing. This has resulted in savings to the revenue budget in all years. (More details of the changes are provided in section 6.)
- General inflation has been reviewed in light of the Bank of England November Inflation report and as a result inflation for next year has been reduced by 0.1% to 1.5%, and estimated at 2% for future years. The net impact on the budget is negligible at around £2K.
- Net budgetary savings from the Information Governance and Assurance and Resident Parking proposals are included, subject to Cabinet's separate consideration.
- Known growth proposals are also included. More information is included in section 8.
- In 2015/16, the use of Balances has been increased back up to the original approved level of £1M.

2.3 For the current year, the Revised Budget now stands at £17.724M, giving a net underspending of £816K or 4.4%. Final figures are subject to Cabinet's decision regarding The Grand's funding request, which is included elsewhere on the agenda. Cabinet is requested to refer the resulting Revised Budget to Budget Council for approval, with the underspending transferring into General Fund Balances.

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 2015/16 stands at £17.052M. For now this balances with the assumed council tax increase, after allowing for all known potential growth proposals still to be considered by Cabinet, but after using £1M of Balances as also provided for within current financial strategy. As stated earlier, figures may well change again though, either way.

2.6 For subsequent years, despite the continuing progress in identifying savings and refining budget projections, there is still a huge budget shortfall of almost £1.6M in 2016/17, rising to over £2M in 2017/18.

2.7 The current expectation is that the budget shortfall will rise massively in 2018/19 and beyond, allowing for factors such as the end of the waste recycling cost sharing agreement. Clearly there will be a General Election in the interim and Government priorities and policies could change, but nonetheless the need to reduce services,

be more efficient and generate more income is expected to increase, and not go away.

3 LOCAL GOVERNMENT FINANCE SETTLEMENT

3.1 Further to the Chancellor's Autumn Statement published on 03 December, the provisional Local Government Finance Settlement was announced on 18 December 2014 for consultation until 15 January. Detailed information and briefings are available on the various websites (www.gov.uk or www.lga.gov.uk).

3.2 The Settlement provides provisional funding figures for 2015/16 only, which are £14K less than previously expected.

3.3 The combined total funding from Business Rates and Revenue Support Grant is 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	%	Approved MTFS £'000
2014/15 (Actual)	10,810	1,735	13.8	n/a
2015/16 (Provisional)	9,068	1,742	16.1	9,082
2016/17 (Estimate)	8,609	459	5.1	8,628
2017/18 (Estimate)	8,171	438	5.1	n/a

3.4 For 2016/17 and 2017/18, the indicative estimates of just over 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 General Election in May this year inevitably adds to the inherent uncertainties.

3.5 With regard to business rates specifically, there is the chance that income prospects may become much clearer over the next month or so. Cabinet will be aware that although, potentially, additional income of around £1.4M may become available over that currently budgeted, there is also the chance that this apparent growth in income could disappear, depending on what happens with major outstanding rating appeals within the district. A full update will be provided in February, taking account of statutory requirements.

- 3.6 In terms of other Government revenue grant allocations, various notifications have now been received. The main allocations and their uses are as follows.

Grant	2015/16	Comment
New Homes Bonus (NHB)	£'000 1,280	General grant, used to support service provision generally. Future years' estimates for NHB have increased to £1.562M in 2016/17 and £1.671M in 2017/18.
Housing Benefit and Council Tax Support Admin. Subsidy	755	Specific grant, with no alternative use. Future years (from 2016/17) will be affected by anti-fraud arrangements, and in time, the roll out of Universal Credit.

- 3.7 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 various adjustments. The City Council's figures as produced by Government are:

	£'000	
2014/15 Adjusted Spending Power	20,357	
2015/16 Spending Power	<u>19,054</u>	
Year on Year Reduction	1,303	or 6.4%.

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 £1M being declared, as highlighted at December Cabinet. This surplus will be shared with major precepting authorities, with the City Council's share being £131K. This is already built into the 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. No changes have been to the provisional position presented at December Cabinet.
- 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 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 14 £'000	Net Movements £000's	31 March 15 £'000	Net Movements £000's	31 March 16 £'000
General Fund Balances	3,713	358	4,071	(984)	3,087
Earmarked Reserves	7,662	(352)	7,310	1,744	9,054
Reserves held in Perpetuity	70	-	70	-	70
TOTAL	11,445	6	11,451	760	12,211

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 transferring in this year's forecast net underspending, balances would amount to £4.071M by 31 March 2015 but of this amount, £1M has already been allocated to support the 2015/16 budget. Therefore, if the existing minimum balance of £1M remains unchanged and the current year's outturn is as expected, surplus balances of just under £2.1M would be available to support future years' budgets.

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. Only a very small number of other changes have been made as a result of the review completed so far:

- **City Lab / Performance Reward Grant**

These reserves are no longer required and therefore the remaining monies available totalling £19K have been transferred into Balances in the current year.

More changes may be made in February. In particular, the Authority continues to hold substantial balances in the Invest to Save (£1.5M) and Renewals (£690K). The use of these reserves will be considered further in future Cabinet reports.

5.3.3 Provisions

Following a reassessment of the bad debts provision a further contribution of £100K has been made in 2014/15. This has resulted from higher than expected write offs in respect of Housing Benefit overpayment recoveries. Debts in relation to these account for 66% of the total £2M sundry debts that are over 3 months old. Further details will be included in the Quarter 3 monitoring report, as usual.

6 GENERAL FUND CAPITAL PROGRAMME

- 6.1 Since December Cabinet, the only increase to the gross capital programme relates to additional ICT infrastructure and software costs (£45K). This covers the cost of some network and wi-fi upgrades, and corporate security software requirements.
- 6.2 Importantly, there has been a further reduction in the underlying need to borrow of £212K, which has resulted from using more earmarked reserves to finance the programme (including the ICT costs referred to above). This helps to reduce future financing pressures on the revenue budget.
- 6.3 In addition, there has been a change in the financing of vehicle renewals and corporate property works, for which there is no net impact on the programme. However, the change does spread the cost of unsupported borrowing charged to revenue over a longer period and this too results in revenue savings, as mentioned earlier.
- 6.4 The resulting draft capital position is summarised as follows and a more detailed statement is included at **Appendix C**, for Cabinet's consideration.

	Gross Programme	Underlying Borrowing Need: CFR
	£000	£000
6 Year Programme (to 2019/20) as reported to December	36,877	14,549
Key Changes:		
ICT Infrastructure additions	+45	(212)
Vehicle Renewals – financing change	-	(188)
Corporate Property Works – financing change	-	+188
Total Changes	+45	(212)
Resulting Draft 6 Year Capital Programme	36,922	14,337

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 have announced as part of the provisional Settlement that a threshold of 2% will still apply. This would mean that the maximum permissible increase without needing to hold a referendum would remain 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 £199.99 to £203.97 for a Band D property. The increase amounts to around £3.98 per year or 8 pence per week.
- 7.4 Government has once again extended the offer of a compensation grant if Councils choose to freeze their council tax rates in 2015/16:
- Compensation of £95K, broadly based on a 1% increase, would be receivable in 2015/16. Note that the compensation grant is calculated on the tax base *before*

any Local Council Tax Scheme reductions, therefore the grant is higher than an actual 1% change.

- For subsequent years, Government has continued to make provision for building tax freeze compensation entitlement into the spending review baseline. This was first introduced a year ago, and reported to Members then. The exact impact of this is impossible to predict, especially in view of the changes being made to the Local Government finance distribution system from one year to the next. The inference is though that those authorities who freeze council tax will not see such a drop in funding once compensation grant ends; continuing grant of £50K per year has therefore been assumed, as an indication. Irrespective of this, 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 1.99%).

7.5 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 £77K impact on the budget.

Council Tax Scenarios	Budget Impact		
	2015/16 Estimate	2016/17 Estimate	2017/18 Indicative
<p>Option 1: Retain existing strategy: maintain a steady increase to help protect service delivery, taking account of referendum thresholds</p> <p>1.99% assumed in all years, subject to local referendum thresholds</p>	No savings requirement	£1.563M net savings requirement	£2.041M net savings requirement
<p>Option 2: Take account of tax freeze compensation next year, but then revert to steady increase to help protect service delivery.</p> <p>0% in 2015/16 then 1.99% each year, subject to local referendum thresholds</p>	£58K net savings requirement	£1.672M net savings requirement	£2.155M net savings requirement
Net Impact on Savings Requirement	+£58K	+£109K	+£114K

7.6 In reality, there are numerous other targets that could be considered across the years, but the focus has simply been on the current MTFs assumptions of an annual 1.99% increase, and the impact of taking the council tax freeze grant offered.

7.7 The table shows that an additional savings requirement of £58K in 2015/16 would need to be met if council tax was frozen, and this is estimated to rise to over £100K each year thereafter.

7.8 Cabinet is therefore requested to decide what level of council tax increase to recommend for next year and what targets to propose for 2016/17 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;
- 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 2015/16 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 2015/16 will be final (subject to the threshold), for subsequent consideration by Council. Targets for 2016/17 and beyond will be reviewed in future years, in accordance with the Medium Term Financial Strategy (MTFS).

8 BUDGET OPTIONS (INCLUDING GROWTH)

8.1 Alongside council tax, Cabinet is also requested to determine its supporting budget proposals for initial consideration by Council. Ideally, these should be balanced as far as possible, but there will be another opportunity at the February meeting to make some further changes. In addition, at that meeting items on St. Leonard's House, the Renewable Energy Strategy, and potentially aspects of the Morecambe Area Action Plan are due to be considered and these may well have budgetary implications. Other significant investment pressures, such as Salt Ayre, are expected to feature in 2016/17 budget and priority setting.

8.2 Accordingly, from the schedule set out at **Appendix A** and the supporting documentation Cabinet is requested to indicate which of the growth items it wishes to support and take forward.

8.3 In doing so, it is important to appreciate that any decisions taken during this budget on recurring items will have a bearing in future years. This is reflected in the current financial strategy, which is quoted below. Cabinet is advised to take account of this in deciding on whether to support any or all of the growth requests.

Growth

Growth will only be considered if it meets either of the following conditions:

- *it is needed to meet statutory service standards;*
- *it is essential to meet a key objective within the Council's final Corporate Plan for 2015/16 onwards, for which there are no alternative providers or sources of funding available; and*

sufficient progress will need to be 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, the enormous financial challenges ahead, and the future reliance on Balances to support the budget, at present the s151 Officer's provisional advice is that:

- any recurring growth is unaffordable and unsustainable in the medium to longer term, but there may be some scope for redirection of resources, taking account of priorities and subject to more savings being identified;
- the term “growth” is really a misnomer and this will be reflected in the draft wording of future financial strategy – there is no real scope for budget growth as overall funding levels are reducing.

8.5 Once Cabinet’s position on growth and any other budget proposals is determined, this 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.

8.6 In terms of 2016/17 and beyond, Officers are still progressing the development of a proposed change programme, which will include many budget options, for consideration in the next municipal year after the local and general elections. Ideally the timing will take account of the new Government’s first Spending Review also. Based on this, it is expected that Cabinet budget proposals will focus predominantly on 2015/16.

9 DETAILS OF CONSULTATION

9.1 Cabinet’s budget proposals are due to be considered by Budget and Performance Panel at its meeting on 27 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, the reliance on use

of Balances, 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 From this report, it is clear that good progress has been made in balancing next year's budget.
- 12.2 Following the local and national elections next year, however, attention will have to focus on addressing the Council's medium to longer term financial position. This will be reflected in the review of the current medium term financial strategy, for consideration by Cabinet next month.

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 exceptions of PCSOs, which would help maintain resources for community safety for a period, and the Public Satisfaction Survey, which would assist the Council with its equality duties, 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.

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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