

CABINET

Budget and Planning Process 2016/17 Onwards 01 September 2015

Report of Chief Officer (Resources)

PURPOSE OF REPORT					
To agree a process for reviewing the Council's Budget and Policy Framework for 2016/19 onwards and to update Cabinet on various policy and planning matters.					
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	N/A				
This report is public.					

OFFICER RECOMMENDATIONS:

1. That the report be noted and the outline budget and planning timetable set out at Appendix A be approved, recognising the work involved and its impact.
2. That Cabinet notes that the City Council will not be taking part in any Lancashire business rate pooling arrangement for 2016/17, subject to confirmation of the scheme prospectus and associated arrangements.

REPORT

1 Introduction

- 1.1 The Council's Constitution requires Cabinet to bring forward each year recommendations for updating the Budget and Policy Framework. This report proposes an outline timetable for doing so and it covers the main aspects, namely:
 - an update on the financial context
 - corporate planning and priority setting, together with supporting arrangements
 - other more specific budget setting matters.
- 1.2 The full draft timetable is set out at **Appendix A**, reflecting the proposals outlined in the following sections. In broad terms, some arrangements follow those adopted during the last budget as it is considered that on the whole, they worked reasonably well for the situation that the Council was in then.

- 1.3 Circumstances this year are very different, however, in that following last May's national and local elections, there is a pressing need to establish clear, manageable and affordable priorities for the medium term, to inform the future allocation of resources and associated budget decisions.
- 1.4 Accordingly, the forthcoming budget requires the consideration of different policy and budget options to reflect the fact that in future, the Council will have significantly less public funding to deliver its services.
- 1.5 In short, the timetable makes provision for considering and responding to the following:
- priority setting, including external facilitation
 - identification and consideration of wide-ranging budget options, to help inform priorities and associated policy setting
 - legislative and regulatory changes
 - national policy changes and funding prospects
 - changing needs of the district and its residents and visitors
 - local views and perceptions
 - policy and budget decisions of other key stakeholders, including local authorities
 - recent performance and experience.

2 **Financial Context**

- 2.1 The new Government's Spending Review 2015, due to be announced on 25 November, is central to the financial context for the Council's future financial strategy. Through the review, Government plans to deliver a further £20BN of public sector savings in order to eliminate the national deficit by 2019/20.
- 2.2 The savings are in addition to the £17BN of measures already outlined in Government's Summer Budget announced on 08 July. Those measures focused predominantly on taxation/tax avoidance measures and welfare reforms, but nonetheless they too will impact directly on the Council, and on the district's various communities.
- 2.3 Government's overriding public finance aim is clear, and it is also clear that the City Council, along with other local authorities, will experience further deep and far reaching reductions in Government funding. The exact size and timing of such reductions are still uncertain, and there are various different commentaries on what may happen. There are also many other complexities around business rates, emerging/as yet unknown changes in Government policy and other specific funding streams that make it impossible to give any firm updates. Nonetheless, 'austerity' is set to deepen for local authorities for pretty much the duration of this parliament.
- 2.4 There are some specific cost pressures coming forward too. The most significant are:
- The impact of the withdrawal of the cost-sharing agreement on waste recycling, estimated to cost the City Council's General Fund around £1M from 2018/19 onwards. Discussions between the County Council and districts are continuing.
 - National Insurance increases from next year to help fund the changes to the state pension. These are estimated to cost over £300K for General Fund and £30K for

the Housing Revenue Account (HRA), with no compensating funding coming through from the Government's 'New Burdens' doctrine.

- 2.5 On the upside, it is expected that some of the favourable budget variances identified at outturn will continue and provisionally these have been estimated at around £400K per year.
- 2.6 In terms of local taxation, whilst there are prospects for the council tax base to grow further, these are outweighed by the lost opportunity to benefit sizeably (by well over £1M per year) from business rate growth, unless Government makes some changes to the current rating system.
- 2.7 Not only that, but as from the current year the Council's business rate income is expected to fall to safety net levels or thereabouts. This adds back almost £400K of pressure annually to the General Fund budget. The hit in the current year can be met from the Business Rates Reserve but thereafter, it cannot be funded and so it adds to the ongoing budget deficit. Inevitably there is a linkage to power station ratings; nuclear power station billing authorities are sharing information on their respective positions and some have already made representations to Government. There may be opportunities for joint working on this issue and if possible, an update will be fed into the meeting.
- 2.8 With regard to New Homes Bonus, currently it is assumed that the scheme will continue in its current form but this is by no means definite.
- 2.9 Pulling these knowns and uncertainties together, the financial prospects for General Fund have been updated, as set out at **Appendix B**. This compares existing Medium Term Financial Strategy (MTFS) projected budget deficits (reported at Budget Council back in March) with an updated position simply allowing for known pressures and expected underspendings, as well as other scenarios reflecting a 'Better Case' and a 'Worse Case'. These latter two scenarios also draw on various external views on what may happen regarding general Government funding. At this stage though, there is no such thing as a "best" case or "worst" case.

Year	Indicative General Fund Budget Deficits or Saving Requirements (Cumulative, Rounded)			
	Existing MTFS Projections	Updated MTFS Projections	Better Case	Worse Case
2016/17	£1.5M	£1.9M	£1.8M	£2.3M
2017/18	£2M	£2.4M	£2.2M	£3.1M
2018/19	N/A	£3.3M	£2.9M	£4.5M
2019/20	N/A	£3.2M	£2.7M	£4.6M

- 2.10 To summarise, the modelling indicates that the General Fund budget deficit is much more likely to be higher than as indicated by the existing MTFS. Overall the Council should expect to have to reduce its current net revenue spending (prior to the use of Balances) by between 15-25% over the next four years.
- 2.11 It is not just the General Fund that is being adversely affected though. The Housing Revenue Account (HRA), covering Council Housing Services, stands to be severely affected if Government plans are implemented. For example, Government's proposal to reduce social housing rents by 1% year on year for the next four years would cost around £90M over the life of the 30-year business plan, if enacted. This raises questions over the viability of any new-build plans and it also would require a major efficiency-drive from the service; as a broad indication, indicative annual savings of around £500K would be needed. Furthermore, other Government social housing proposals could add significantly to this challenge, in order to secure the HRA's long-term viability.
- 2.12 In short, and even without knowing the detail, financial prospects right across Council services have never looked tougher. The proposed budget strategy reflects this.

3 Corporate Planning, Priority Setting and the Policy Framework

- 3.1 The Corporate Plan sets out the role of the Council, in terms of its core purpose and vision for the district. It brings together the Council's strategic priorities, outcomes and success measures to deliver against in the medium term, alongside its ethos.
- 3.2 The Corporate Plan is the key document of the Council's Policy Framework and ultimately therefore, it is a matter that requires full Council approval. The only other documents currently forming part of that Framework are the Local Plan, the Community Safety Agreement and various Licensing Act policies.
- 3.3 In setting the budget for the current year, the Council chose simply to redefine and reduce its activities against existing priorities. This was on the basis that any fundamental changes to the Council's vision, strategic objectives and outcomes would be considered during the 2016/17 budget after the elections had taken place, with the Council being in a stronger place to tackle its financial challenges.
- 3.4 The need for a fundamental overhaul has been reiterated more recently in the external Corporate Peer Challenge undertaken in June. This highlighted the need for the Council to "*move quickly over the coming months to review and set out what kind of council Lancaster wishes to be over the next few years*". Whilst the challenge team acknowledged that discussions had begun on determining a set of priorities for the organisation, it also went on to say that:
- 3.5 "*This debate needs to take place at pace and the Council needs to move quickly, resulting a clear set of manageable priorities which will inform the 2016/17 budget setting process. Officers should support Members by working alongside them to produce a series of clearly appraised policy options to inform this debate.....*"
- "Time is an issue. The Council does not have the luxury of discussing priorities and exploring ideas for a long time."*
- 3.6 In effect, the Peer Challenge confirmed what the Council already knew. It is sometimes

the case, however, that an external assessment makes it easier and more pressing to focus minds on making progress.

- 3.7 Whilst the Peer Challenge drew out other points, essentially the need to prioritise and to develop and agree policy and budget options to help inform that priority setting, are arguably the most fundamental and important aspects to tackle. Alongside this, putting in place the necessary capacity to deliver - be it through leadership and management, staff time and skills, culture and behavioural change, or risk appetite – will be equally if not more challenging.
- 3.8 These points are also provided for in the attached draft timetable, albeit at a high level. Addressing the capacity to deliver will be reflected as far as possible in the presentation of budget options but in view of the time available, it will not be an exact science and there are risks attached.

4 Supporting Strategies, Policies, and Plans

- 4.1 In order to be able to prioritise effectively and take informed budget decisions, it is imperative that Members have an understanding of what the Council currently does, especially given the extent of new membership and the changes in roles since the local elections.
- 4.2 For this reason, as Cabinet considers policy and budget options to inform priorities, supporting information will also be provided. It is envisaged that outline information and options on the following key strategies, policies or similar plans will be presented and challenged as the budget and corporate planning process develops:
- Lancaster District Housing Strategy and Action Plan (review of existing)
 - Regeneration Strategy (new strategy to be developed, with options, see agenda item)
 - Local Plan (land allocations)
 - Cultural Heritage / Arts Strategy (review of existing)
 - Corporate Property and Accommodation Strategies (based on rationalisation)
 - Digital Proposals, covering ICT & Customer Services especially (new options)
 - Income and Charging (update of existing)
 - Procurement and Commissioning Strategy (review & development of existing)
 - Commercialism and trading (new options)
 - Risk management (review of appetite in particular)
 - HR & workforce planning matters (combination of reviewing existing & new options)
 - Community Safety (review of existing agreement/support provided, eg. CCTV, PCSOs)
 - Waste Management (County-wide waste collection review, and local arrangements)
 - Public Realm (further review of management and delivery arrangements)
 - Car Parking Strategy (options that further support relevant aims)
 - Health and Wellbeing (further review of delivery and consider future strategy)
 - Council Tax: charging policy (review of existing policy)
 - Localised Council Tax Support (see later: steer to be sought at October Council)
 - Other welfare / community support (review of existing provisions)
 - Licensing and Gambling Act Policies (as appropriate, subject to legal requirements)
- 4.3 This list is not exhaustive and other more general efficiency options will be progressed also. The Council's agreed position is that efficiency savings still take priority over other forms of saving, but Members should be under no illusion that the Council's budget can

be balanced through efficiencies or budget underspendings alone. This is acknowledged nationally and the City Council is no different. Indeed spending decisions taken by other publicly funded bodies (e.g. County Council, Police, Fire and Rescue) are also likely to have both direct and indirect consequences that will add further pressure on the City Council's services and budgets.

- 4.4 In real terms even more pressure is created, as there is little evidence that public expectation or demand for Council services is decreasing; in some areas the opposite is the case. This was highlighted in the LGA peer review-

“Demand for many services such as street cleansing, litter collection, grounds maintenance and waste collection has remained the same despite significant reductions in the Council's capacity over the last couple of years. This is putting a strain on some services trying to maintain their previous level of performance (or trying to improve their performance). There is a need to consider how to manage the expectations of residents and elected members with smaller service capacity, including how this is communicated to the public.”

- 4.5 Ahead of the main budget development work, there are two policy matters brought to Cabinet's attention now:

Business Rate Pooling

Proposals are being developed to introduce a pooling arrangement for Lancashire. Subject to Government issuing the pooling prospectus for 2016/17, the pool would operate on the basis that each member authority benefits from its own scope to retain more business rate growth, but also stands its own risk – and every member of a pooling arrangement loses the protection of the safety net, meaning that there is no limit to the exposure to reductions in annual income, through successful rating appeals and other downward pressures. It is known that not all Lancashire authorities expect to be in a position to join. For the City Council, it is still exposed to many appeals (including one in relation to outage at the power station) and as such, at this time the risk of joining the pool is simply too great – for no actual benefit.

To put it simply, just drawing current estimates:

- Estimated value of outstanding appeals: £7.8M
- Potential additional exposure from those appeals: Unknown, but could be £millions
- Exposure from any future power station appeals: Unknown but potentially huge
- Potential Additional Growth: £nil at present. Income would need to rise by almost £400K before this comes into play.

This is a very simplified summary but it does help demonstrate why they City Council is not in a position to take part in any county-wide pooling at present and Cabinet is asked to note this position. It is so clear cut that no alternative options are presented. If circumstances do change there could be opportunities for future years, assuming pooling continues, and so arrangements will be kept under review.

Localised Council Tax Support Scheme

Regarding Localised Council Tax Support (LCTS), under the Local Government Finance Act 2012 the Council must consider, for each financial year, whether to revise

its scheme or to replace it with another scheme. The first local scheme was implemented in April 2013. This was subject to a full review two years ago, and it resulted in only one minor change being implemented to remove the 'second adult rebate'. More recently for the current year, Council decided to leave its scheme unchanged. Under the 2012 Act Government made provision for a national review to take place but there has been no recent news on this.

In terms of financial impact, the cost of the scheme continues to reduce, as highlighted in the corporate financial monitoring report elsewhere on the agenda.

Nonetheless, there are policy options around LCTS and as such, a clear steer will be sought directly from Council at its October meeting on whether to retain existing arrangements, or whether to develop and consult on alternative scheme proposals. This fits with statutory requirements and gives sufficient time should Council resolve to consider any revisions or alternatives. Depending on timing, any national review may also inform future scheme design from 2016/17 onwards. The deadline for adoption of any revised scheme is 31 January.

5 Other Budget Framework / Strategy Matters

- 5.1 The crux of the Budget Framework is the Medium Term Financial Strategy (MTFS) and the half-yearly review is scheduled for the December Cabinet meeting, to feed into December Council if appropriate. Typically it is through this review that Cabinet is requested to review council tax targets, currently set at a 1.99% increase each year subject to local referendum thresholds. There is no news as yet on whether the referendum thresholds will change, or whether Government will continue to encourage councils to freeze council tax through some form of financial incentive or other means.
- 5.2 Underpinning the MTFS is the detail of the 3-year Revenue Budget and 5-year Capital Programme. The key milestones for preparing these budgets are included in the appendix and some work is already underway, but during this budget it is intended to convert to a 4-year forecasting model for both revenue and capital.
- 5.3 Cabinet will again provide the forum for developing a full set of proposals to balance the budget. Key points to note are:
 - The aim of this year's budget exercise is to approve a programme of General Fund savings for implementation over the period up to 2019/20, informed by prioritisation and policy review. This involves balancing the budget over the medium term, not just next year. There is nothing to warrant taking a short term approach.
 - Arrangements are in hand for Cabinet to have some external facilitation (through the LGA) to help with priority setting. This is expected to take place in autumn time, to enable Cabinet's initial full draft priorities to be determined around December.
 - Whilst efforts will continue to identify efficiencies and various minor budget savings, as mentioned earlier Chief Officers will develop a full range of budget options to help inform priority setting and resource allocation. Taking account of the financial modelling summarised earlier, the provisional target is to identify £4M of recurring savings options, to give scope to balance the budget over the next three years or so. This should give Members some scope for choice – unless a

'worse case' scenario comes to fruition and in that case, additional savings options would need to be identified. This exercise is scheduled for completion by December time but where possible, savings options will be shared earlier with Cabinet Members, to feed into priority setting.

- Budget options will be presented in a standard form and alongside each other as far as practical, to ensure adequate comparison and challenge of future policy. Such options will involve some fundamental choices on which activities and functions continue. Members should appreciate that the budget options will include withdrawing from various services and activities completely. The options presented will not be without contention. There will be consideration of more innovative ideas around commercialisation and income generation to help protect services but the Council would need to invest up front, just to appraise such an approach. Currently it does not have the capacity or skills base to do so.
- It is assumed that the Local Government Finance Settlement and supporting information will be announced around December time, not long after the Spending Review. It is not clear whether any indicative information will be received for years 2017/18 and beyond, although it is hoped that Government will move back to multi-year Settlements to aid planning.
- Subject to gaining the Settlement, during December all the information from the above actions can be brought together. It is at this point that a judgement can be formed on the extent to which Cabinet's priorities, policy aspirations and budget plans match up – or whether affordability is still an issue.
- Alongside General Fund budget development, options for tackling the HRA will also be developed, and clearly the amount of savings needed will be heavily influenced by Government policy and associated legislative developments
- Informal Cabinet Budget Briefings will be held, to report on progress overall and to gain direction on specific aspects of budget development. Provisionally, a number of briefings have been incorporated into the timetable, broadly on a fortnightly basis, but these may be rearranged as need be.

5.4 The time, effort and resources required to complete the budget and planning exercise cannot be overestimated and this must be appreciated. It requires focus and inevitably it means that there will be less time available to support other activities and requests.

5.5 Nonetheless a flexible approach is still required, to respond to emerging issues from Government as well as more local matters where appropriate.

6 Options and Option Analysis

6.1 The following options are available to Cabinet.

- (1) Approve the proposals and timetable set out in the report for reviewing and revising the Council's Budget and Policy Framework.
- (2) Approve an amended version of the proposals, drawing on any specific issues that Cabinet have.

7 **Details of Consultation**

- 7.1 The Council has recently commissioned a residents survey, which ran for six weeks and finished on 17 August. Whilst the survey was high level, it aims to provide some information on the services and activities that people value the most - and least. The outcome of the survey will feed into the budget and priority setting exercises.
- 7.2 Depending on Cabinet's actual budget proposals, it is to be expected that more detailed consultation will be needed on various specific proposals.
- 7.3 Provision is made for consultation with Budget and Performance Panel and other stakeholders in January, as usual.
- 7.4 Regarding the workforce, arrangements are in place to ensure that regular communication updates are provided, so that staff are kept abreast of the Council's future general direction as well as specific service proposals. As usual, specific staff consultation will be undertaken in accordance with HR policies where budget proposals require it.
- 7.5 In determining the budget and planning timetable for 2016/19, Cabinet is asked to consider whether it wishes to arrange any further consultation or other involvement, internally or externally. The Peer Challenge report also raised this issue, including whether the scrutiny function could play a stronger role in policy development.

8 **Officer Preferred Option**

- 8.1 Assuming that Cabinet has no other specific issues to address Option 1 is the Officer preferred option, as it sets out a structured but very challenging approach for Cabinet to review the existing Budget and Policy Framework and to bring forward its budget and corporate planning proposals for 2016/17 up to 2019/20, within statutory timescales. The time and effort involved will mean that less is spent on other tasks.

RELATIONSHIP TO POLICY FRAMEWORK

The plans and strategies outlined in the report together make up the Council's Budget and Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT

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

The annual review of the budget and policy framework helps ensure that the Council's plans and strategies are kept up to date, and that their impact on local communities is assessed and considered. In particular, the outline plans regarding consultation help develop the Council's understanding of the needs of its communities, in turn helping it to meet the Public Sector Equality Duty as a community leader, service provider and employer.

FINANCIAL IMPLICATIONS

As set out in the report; no other implications directly arising from this report at this time.

OTHER RESOURCE IMPLICATIONS**Human Resources/Information Services/Property/Open Spaces:**

As set out in the report; no other implications directly arising from this report at this time.

SECTION 151 OFFICER'S COMMENTS

The S151 Officer has produced this report, which is in her name (as Chief Officer (Resources)), but it has also been produced on behalf of the Chief Executive in part.

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

Summer Budget – HM Treasury
Spending Review 2015 – HM Treasury
Future Funding Outlook – Local Government
Association

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