COUNCIL

Budget Framework 2016 to 2020
02 March 2016

Report of Cabinet

PURPOSE OF REPORT
To present Cabinet's budget framework proposals in order that the City Council can complete its budget setting for 2016/17 and update its financial strategy to 2020.
This report is public.

RECOMMENDATIONS:

(1) That in light of the extra flexibility in 2016/17 council tax referendum thresholds now provided by the Government through the final Finance Settlement, a City Council basic Band D tax increase of £5 be approved for 2016/17, together with a year on year Band D target increase of £5 for future years, subject to future local referendum thresholds.

(2) That the General Fund Revenue Budget of £16.258M for 2016/17 be approved, resulting in a Council Tax Requirement of £8.296M excluding parish precepts, and a Band D basic City Council tax rate of £208.97.

(3) That the Medium Term Financial Strategy (MTFS) be approved as set out at Appendix A, subject to Council agreeing the following:

- **(a) That the supporting General Fund revenue budget proposals be approved, as summarised at Annexes 1 and 9.**
- **(b) That the Housing Revenue Account budgets and future years' projections be approved, as set out at Annex 2.**
- **(c) That the Policy and Statement on Provisions and Reserves be approved, as set out at Annexes 3 and 4.**
- **(d) That the General Fund Capital Programme be approved, as set out at Annex 5.**
- **(e) That the Council Housing Capital Programme be approved, as set out at Annex 6.**
- **(f) That the budget transfer (virements and carry forwards) limits be approved, as set out at Annex 7.**

(4) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances and the affordability of borrowing.

1 INTRODUCTION

1.1 At its meeting on 16 February Cabinet finalised its budget framework proposals and these are now reflected in the recommendations of this report.

1.2 Supporting information in connection with Cabinet's proposals is outlined in the following sections. Members are requested to refer to earlier Cabinet reports for further background information.

1.3 The associated update of the Corporate Plan will follow and is due to be presented to Council at its April meeting.

2 STRATEGIC CONTEXT

2.1 As reported previously, in strategic terms the main challenge of budget setting is to match priorities and corporate planning objectives against what is affordable financially. To achieve this, in recent times Cabinet has sought to redefine the outcomes and reduce many of the actions supporting the Council's existing four priorities of:

- Health and Wellbeing
- Clean, Green and Safe Places
- Community Leadership
- Sustainable Economic Growth

2.2 Whilst some limited growth is proposed to help maintain Council activity and strengthen service provision in priority areas and to allow development of more innovative ways of working, the focus of this budget has been to reduce, substantially, the Council's net spending over the medium term to 2020. This is through:

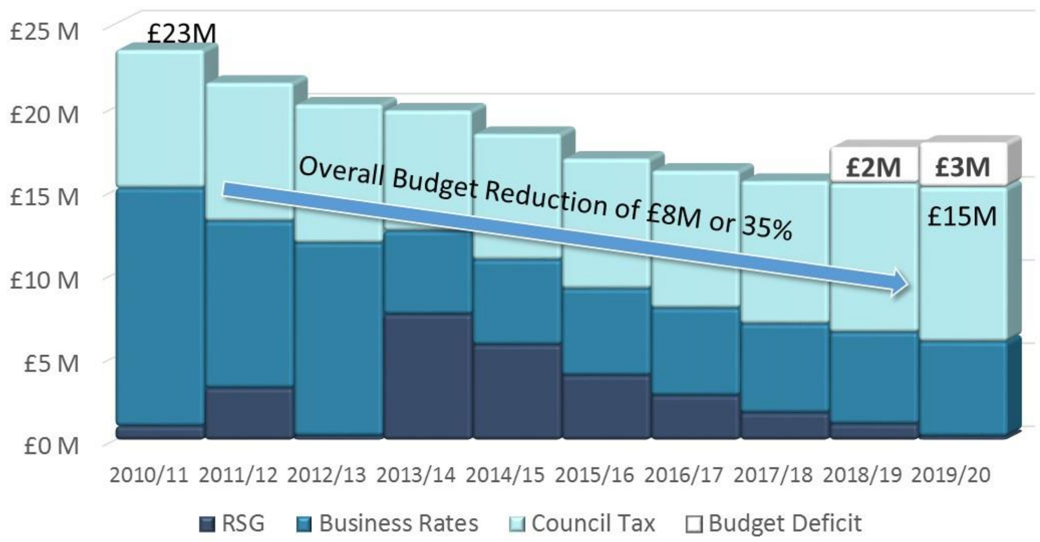
- securing significant ongoing budget savings through service reviews and other measures, including continued trimming of services as well as efficiencies, innovation, income generation and service reductions;

- maintaining steady increases in council tax, broadly following existing principles; and

- retaining a clear policy for the use of surplus Balances and other reserves, to help tackle the challenges still remaining in achieving a sustainable balanced budget.

2.3 The scale of the financial challenges still facing the Council, and the progress it has made to date, must both be appreciated and these aspects are demonstrated in the following diagram and table. The forecasts allow for the newly proposed Band D council tax increase of £5 year on year, using the flexibility now granted by Government to all shire districts, in recognition of their circumstances.

City Council's Budget: Past, Present and Future



City Council's Budget: Proposed Future Targets (General Fund Services)

Target	2016/17	2017/18	2018/19	2019/20
Target Budget Requirement	£16.258M	£15.180M	£14.995M	£14.756M
Target Council Tax Requirement	£8.296M	£8.623M	£8.956M	£9.295M
Target Council Tax Increase (Band D)	£5.00 2.45%	£5.00 2.39%	£5.00 2.34%	£5.00 2.28%
Target Council Tax Rate (Band D)	£208.97	£213.97	£218.97	£223.97
Year on Year Net Savings Requirement (assumes recurring savings achieved)	**-**	**-**	**£2.226M**	**£2.671M**
Cumulative Net Savings Requirement	**-**	**-**	**£2.226M**	**£4.897M**

2.4 In essence, despite all the good progress being made it is still anticipated that the Council will have to reduce its annual net spending on services by £2.7M or so by 2020. In cash terms, over the 10 years this will amount to cuts of around £8M or 35%. This would be much higher if the impact of inflation was taken into account.

2.5 Full details are provided in the updated Medium Term Financial Strategy (MTFS), which is set out in ***Appendix A*** for Council's consideration. This incorporates all of Cabinet's budget proposals. In addition, the detail behind specific savings and growth is attached at ***Appendix B***.

2.6 Importantly, the thrust of the MTFS remains much the same. It still states clearly the expectation that future budgets will not be balanced without reducing the overall range and quality of services provided, as well and increasing income and becoming more innovative in line with the Council's ethos. Prioritisation of services remains crucial, as does the need to share expectations with communities.

2.7 On a more positive note, the Budget put forward by Cabinet achieves for the first time (as far as can be remembered) a balanced budget for the next two years. This gives the Council an even better positon to plan for the future beyond and achieve a financially sustainable budget. That remains the whole point of Cabinet's proposed financial strategy.

2.8 Council is requested to consider the budget proposals in this context. The key points and main changes since last Council are outlined below.

3 FINAL LOCAL GOVERNMERNT FINANCE SETTLEMENT AND COUNCIL TAX

3.1 Government announced the final Settlement for 2016/17 on 08 February.

3.2 In doing so, the Government issued a deadline of 14 October 2016 for those authorities wishing to take up the Government's offer of a multi-year Settlement. The exact details of this offer (and the implications of not accepting it) are not yet clear, however, and so it will be addressed later this year.

3.3 Whilst the City Council did not generally benefit from the various new or increased grant funding streams announced as part of the final Settlement, it does now have the opportunity to increase its council tax rate slightly more.

3.4 For 2016/17, all shire districts can now increase their Band D council tax rates by the greater of 1.99% or £5, without having to hold a referendum. Indications are that this will continue to apply up to 2020. In the provisional Settlement, only those districts whose rates were in the lowest quartile had the £5 flexibility.

3.5 Whilst Council has already passed a resolution regarding the level of council increase for 2016/17 onwards, it was subject to local referendum thresholds and as they have now changed, it is open to Council to change that decision.

3.6 Recognising that the Council has already chosen to retain its strategy of maintaining steady increases to help protect service delivery, the three most obvious options were considered by Cabinet, as summarised in the following table.

	2016/17	2017/18	2018/19	2019/20
Option 1 Retain Approved Increases:	**1.99%**	**1.99%**	**1.99%**	**1.99%**
Band D Equivalent	£208.02	£212.16	£216.38	£220.69
Net Savings Requirement	***£0M***	***£0M***	***£2.332M***	***£2.807M***
Alternative Option 2 Increases:	**1.99%**	**£5.00**	**£5.00**	**£5.00**
Band D Equivalent	£208.02	£213.02	£218.02	£223.02
Reduction on Net Savings Requirement	***£0K***	***£35K***	***£67K***	***£97K***
Total Value over Period				***£199K***
Alternative Option 3 Increases:	**£5.00**	**£5.00**	**£5.00**	**£5.00**
Band D Equivalent	£208.97	£213.97	£218.97	£223.97
Reduction on Net Savings Requirement	***£38K***	***£73K***	***£106K***	***£136K***
Total Value over Period				***£353K***

3.7 Cabinet now recommends Option 3, giving a £5 increase in Band D council tax year on year. This would not require a local referendum to be held. It would generate extra funds estimated at £353K over the period, to help protect services. The difference between a 1.99% and a £5 increase starts off at 95 pence per year (or 2 pence per week) for a Band D property.

4 GENERAL FUND REVENUE BUDGET

4.1 Taking account of the proposed £5 increase in Band D council tax and the final Settlement, the resulting General Fund Revenue Budget would need to be set at £16.258M. This translates into a 7.7% year on year reduction in net spending, discounting the use of Balances.

4.2 Setting the Revenue Budget at £16.258M would result in a 2.45% increase in the basic City Council tax rate for the district. The actual basic Band D City Council tax payable (excluding parish precepts) would be £208.97, which would raise income of £8.296M for City Council services. Increases for other bandings are included in the attached MTFS.

4.3 To fit with this budget requirement, Council is recommended to approve updated revenue proposals as summarised at ***Annexes 1 (i and ii) and 9*** to the MTFS. In finalising its budget proposals, Cabinet has given due consideration to the various points fed back from the February Council meeting, the responses to which are set out overleaf:

- **Amend the Medium Term Financial Strategy to allow a zero based budgeting approach:**

  Response: Adopting a zero-based budgeting approach may be considered at some point in the medium to longer term, as already allowed for under current financial strategy (likely to be for 2018/19 at the earliest).

  As background, the attached MTFS explains the Council's current approach to budgeting. It now notes likely timescales for considering any alternatives.

- **Grant fund the Marsh Community Centre from the Housing Revenue Account (HRA) budget instead of the General Fund:**

  Response: One year funding of £13,700 for the Marsh Community Centre is now included in Cabinet's Housing Revenue Account budget proposals, subject to a modified Service Level Agreement (SLA) to reflect the benefit to council housing tenants.

- **Fund the £100K for ICT (digital workplace) from the invest to save reserve to allow PCSO funding for another year**

  Response: Salt Ayre redevelopment takes priority in the future use of the Invest to Save Reserve, to help reduce capital financing costs.

  As background, it may be useful to outline more on what 'digital workplace' involves. The proposal would provide capacity for the Council to help develop plans for transforming its service provision, in ways that customers prefer, using technology to do so. Leading on from this, the use of modern technology and systems would allow the Council to gain better intelligence to inform service design, and also become more efficient and/or save money through having smarter, more streamlined processes. Assuming that the budget proposal is approved, a Cabinet report will be produced early in the new financial year, to expand on the initiative.

- **Review the periods of discretionary discount and exemption from council tax currently provided for empty homes.**

  Subject to other work demands and priorities, council tax discretionary charging policy for empty homes will be reviewed for 2017/18.

  This is now reflected in the notes to Annex 9 of the proposed MTFS.

4.4 As a whole, Cabinet's budget proposals are based on Balances reaching £4.128M by 31 March 2016. The s151 Officer now recommends a minimum level of £1.5M for Balances, and extracts from her advice and comments as reported to February Cabinet are set out at ***Appendix C***.

4.5 Should the outturn for this year be as expected, the position would mean that the Council has around £2.6M of surplus Balances available for use over and above the newly recommended minimum level of £1.5M. Taking account of the Section 151 Officer's advice, other planned movements and use of surplus funds are as follows:

- During the course of the next two years, a total contribution of £221K to Balances is budgeted. This would result in surplus Balances reaching £2.8M (above the £1.5M minimum) by 31 March 2018 if net spending is as projected.

- If the Council is able to contribute further to Balances (for example, by achieving greater service expenditure savings and/or increasing its budgeted income) then it will do so.

- The £2.8M of forecast surplus Balances has been left available to help address the remaining fundamental budget challenges that are expected from 2018/19 onwards. This also gives scope to manage any changes in net spending patterns ahead of then.

4.6 Balances help with those big future challenges, as in due course they may be used to finance up-front costs attached to savings initiatives, or they may be used to cover budget shortfalls in the lead up to implementing agreed major service reductions, as examples. Whilst they help, however, they by no means resolve those challenges fully.

4.7 To put this point into perspective, from the figures shown in the table at section 2.3 earlier it can be deduced that in very simple terms the Council needs to make £5M of savings after 2017/18, this being the combined total of 2018/19 and 2019/20 savings requirements. This combined savings need is £2.2M more than the remaining £2.8M of forecast surplus Balances left unallocated.

4.8 A full review of other reserves and provisions has been completed as reflected in the policy and statements at ***Annexes 3 and 4*** to the MTFS. These funds will help progress a number of initiatives in line with the Council's priorities, as well as providing more flexibility to support future planning. The policy is in line with the s151 Officer's advice, which is included at the end of this report.

5 GENERAL FUND CAPITAL PROGRAMME

5.1 The proposed General Fund investment programme for the period to 2019/20 is included at ***Annex 5*** to the MTFS, for Council's consideration.

5.2 Since the last meeting the capital programme has been updated to include the following items:

  - Proposed capital growth in relation to Salt Ayre Redevelopment, Energy Efficiency Works and Morecambe Area Action Plan.
  - Significant increases in Disabled Facilities Grant provision, drawing on recent funding announcements
  - S106 Funded Highways Works

5.3 The proposed programme retains a strong focus on ensuring that the Council's infrastructure and facilities are fit for purpose, as well as providing new investment for leisure provision to help promote health and wellbeing, and public realm improvements to help promote economic growth. In terms of corporate property, £8M investment is now provided for. This is still linked with a commitment to reduce the investment need through the rationalisation of property holdings, which will be reported for consideration in the coming year.

5.4 The most significant capital proposal relates to Salt Ayre and the proposed involvement of a developer partner. The aim of this is to transform the existing non-swimming facilities into a modern, flexible operation that meets the needs of customers today but can also change, as needs and trends change. The facility would remain in Council ownership and management, but it would draw in expertise from the private sector to help ensure its success; establishing long term financial viability is a key objective.

5.5 For the 5-year period from this year onwards, the draft programme now amounts to £44.6M. This requires a £22.0M increase in the underlying need to borrow over the period, the bulk of which relates to corporate property and facilities, including Salt Ayre, and vehicle replacements. In terms of Salt Ayre, at present it is assumed that the Council would increase its underlying borrow requirement to finance the indicative capital investment of £5M, with the financing costs being met from additional income achieved through greater usage of the facilities. As detailed plans are agreed, the exact financing methods would be reappraised and as touched on earlier, it may be the case that the Invest to Save reserve is used, to help reduce the ongoing financing costs.

5.6 Capital receipts of £1.381M are forecast for the period and most of these have either already been received or are contractually bound. Associated financing risks are therefore low.

5.7 Nonetheless, it is clear that the availability of capital funding impacts on the Council's planning and decision-making. Essentially capital investment decisions cannot be divorced from revenue budget setting and the challenge of balancing priorities against affordability applies to both.

6 COUNCIL HOUSING (THE HOUSING REVENUE ACCOUNT)

6.1 The Council has a legal requirement to maintain a separate ring-fenced account for the provision of local authority housing, known as the Housing Revenue Account (HRA). This covers the maintenance and management of the Council's housing stock.

6.2 At its meeting back in September 2012, Cabinet approved various key targets and principles for managing the HRA over the medium term, including rent policy, to give a strategic financial context for council housing. The HRA was well placed to invest and enhance its service provision, but the Council's opportunities in this area have now fundamentally reduced as a result of very recent Government policy changes.

6.3 In effect, Cabinet had had little choice other than to adopt the following broad principles for its future rent policy:

- For most properties, rent will reduce by 1% year on year for the next four years, except where properties become vacant.
- For sheltered and supported housing, in next year rents will increase to levels broadly comparable with other social housing providers, equating to an average rent increase of 2.8%. This is ahead of a Government report on its review of supported housing costs.

6.4 The associated HRA budget proposals are attached at ***Annex 2.*** These now incorporate the one-off funding for Marsh Community Centre in response to Council's feedback.

6.5 The restrictions on rent setting brought about by the change in Government policy are estimated to cost around £90M over the life of the 30-year business plan. This raises questions over the viability of any new-build plans and it requires a major efficiency-drive from the service. Furthermore, other Government social housing proposals could add significantly to the challenge of securing the HRA's long-term viability. These issues will be explored and appraised over the coming year.

6.6 For now though, the proposed Council Housing capital programme is included at ***Annex 6.***

6.7 A formal review of the HRA's Balances, Reserves and Provisions has been undertaken, the outcome of which is also reflected in ***Annexes 3 and 4.***

6.8 In terms of Balances, the s151 Officer has recommended that the minimum level of HRA Balances be retained at £350K and the budget proposals reflect this position. She will review her advice on minimum levels at 2015/16 outturn, once there is a clearer and more certain picture of the legal framework being implemented by Government for council housing rent policy and the impact on the Business Plan.

6.9 As at 31 March 2016 HRA Balances are forecast to be £1.344M, which is £994K above the recommended minimum level of £350K, but by 2019/20 HRA Balances are forecast to reduce back down to £350K. This helps demonstrate the shift in Council Housing's financial outlook.

6.10 All other surplus resources are held in the Business Support Reserve. As at 31 March 2016, £8.396M is expected to be available in this reserve and the first spending priority is now to support existing commitments over the lifetime of the 30-year Business Plan, with plans for increasing the stock of one-bedroom accommodation currently on hold pending assessment of scheme viability.

7 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

7.1 <u>Council Tax</u>
Three basic options are set out in section 3.

7.2 <u>Revenue Budget</u>
Council may adjust its revenue budget proposals, as long as the overall budget for 2016/17 balances and fits with its approved council tax level. The Chief Officer (Resources), as s151 Officer, continues to advise that wherever possible, emphasis should be on reducing future years' net spending.

Similarly, Council could consider alternative budget proposals for the HRA, but it cannot change rent levels.

7.3 <u>Capital Investment and Programming</u>
For capital, Council may adjust its capital investment and financing proposals taking account of spending commitments and priorities, but its proposals for 2015/16 and 2016/17 must balance.

7.4 Other Budget Framework Matters (Reserves and Provisions / MTFS)
Given known commitments, risks and council tax and housing rent restrictions there is little flexibility in financial terms, but Council could consider different budget strategies for future years, or alternative arrangements for approving the use of various reserves, or different virement and/or carry forward limits. On the whole, however, previous arrangements have worked reasonably well and so no fundamental changes are proposed.

7.5 Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision-making.

8 CONCLUSION

8.1 This report addresses the actions required to complete the budget setting process for 2016/17 and to ensure financial strategy remains sound for delivering a sustainable budget to 2020. This has not been easy, however. Cabinet reiterates many of its conclusions as presented to February Cabinet:

- The Council's financial challenges continue to escalate and in order to protect its future viability, it has no real choice other than to focus on balancing its budget for the medium term. This aim has been central to Cabinet's budget strategy.

- For General Fund, by keeping with steady annual increases in council tax, and proposing £2.8M of net annual savings from a range of income generation and invest to save schemes, as well as efficiency measures and some reductions in services, Cabinet is in a position to present balanced budget proposals for the next two years – allowing too for some modest growth. Furthermore, it has also identified a number of other reviews that will help to tackle the £2.7M estimated annual savings that are still needed.

- Those savings come on top of £5M of other net spending cuts that have already been made since 2010.

- It is an almost impossible position – Council is no doubt faced with decisions that it would prefer not to have to make. But with relentless cutbacks by the Government, effectively Cabinet has been forced to propose cutting some services and bring in higher charges for others.

- Cabinet does not want to do this and whilst it has done its best to limit the impact on communities, the reality is that the Council has to find savings from somewhere.

- Over the last five years the Council has been able to make many savings by restructuring and changing the way it delivers services and by becoming more efficient. That can only be taken so far and there comes a point where there just isn't enough money to continue running all the services that communities want. The Council is at that point now.

- The outlook for Council Housing is now also similarly bleak. Without the flexibility to determine locally its rent policy, the long term viability of the HRA is undermined and it means that plans to increase council housing supply are now on hold, with real concerns over whether they can ever be achieved.

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)
No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc.

LEGAL IMPLICATIONS
Legal Services have been consulted and have no further comments.

FINANCIAL IMPLICATIONS
As set out in the report.

OTHER RESOURCE IMPLICATIONS
Human Resources / Information Services / Property / Open Spaces:
Various budget proposals have resource implications and these have been taken account of in Cabinet's consideration of budget options. Their implementation would be in accordance with council policies and procedures, as appropriate.

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; this requirement is addressed below. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far (see Appendix C for recent extracts).

Provisions, Reserves and Balances

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.
- Unallocated minimum balances of £1.5M for General Fund and £350K for the Housing Revenue are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards in place, taking a medium to longer term view.

The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific policy change indicates otherwise. It is dependent upon Council not varying substantially from the planned use of any surplus balances as outlined in this report.

As a very simple measure, the inherent value of the risks facing the Council by far exceeds the total of all reserves and balances. Whilst it is not the case that all these risks could fall due immediately, Members should appreciate the need for holding balances and reserves more generally, and using them wisely. It is inappropriate to view simply the level of funds held, without considering the reasons as to why those funds might be needed.

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. In particular, this has drawn on previous years' spending

- and income generation patterns to tighten budgets and reduce the scope for underspending;
- reviewing the Council's services and activities, making provision for expected changes;
- reviewing the Council's Financial Regulations and its 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, and the proposed MTFS presents a reasonable approach for the way forward.

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 and housing rents for Council Housing investment. 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 (and should be) taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing liabilities, service needs, commitments and planned service / priority changes
- options appraisal arrangements (including the extent to which other liabilities may be avoided, through investment decisions)
- 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

In considering and balancing these factors, the capital proposals to date are based on a substantial net increase in the Council's Capital Financing Requirement (CFR) for General Fund over the period to 2019/20, with the bulk of this relating to service infrastructure and Invest to Save initiatives. The MTFS makes provision for reducing this call through the application of receipts arising from future property rationalisation.

LEGAL IMPLICATIONS

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

MONITORING OFFICER'S COMMENTS

The Monitoring Officer reminds Council that the decisions (recommendations 1 and 2) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 of the Council Procedure Rules, and accordingly a recorded vote should be taken.

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