

<b>CABINET</b>
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**Budget and Policy Framework Update 2017 to 2021 –  
General Fund Revenue Budget and Capital Programme  
17 January 2017**

**Report of Chief Officer (Resources)**

<b>PURPOSE OF REPORT</b>			
To provide information on the latest budget position for current and future years, to inform Cabinet's budget and policy framework proposals and to allow it to make final recommendations to Council regarding council tax levels for 2017/18.			
<b>Key Decision</b>	<b>X</b>	<b>Non-Key Decision</b>	<b>Referral</b>
<b>Date of notice of forthcoming key decision</b>	19 December 2016		
<b>This report is public.</b>			

**OFFICER RECOMMENDATIONS:**

1. That the 2016/17 Revised Budget be referred on to Budget Council for approval, with the net overspending of £39K being met by reducing the in-year contribution to Balances from £56K to £17K.
2. That Cabinet makes recommendations to Council regarding City Council tax increases for 2017/18 and targets for future years, subject to local referendum thresholds.
3. That Cabinet makes recommendations regarding its initial budget proposals for the period from 2017/18 onwards, in line with its budget strategy.
4. That the resulting budget position for 2017/18 onwards, together with Cabinet's detailed proposals, 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 it needs to innovate and modernise, if it is to minimise the impact on future service provision for communities.

1.2 This report covers the financial implications of that work to date and the recent announcement of the provisional Local Government Finance Settlement, 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 latest draft budget position, allowing for various base budget changes and other matters as outlined in sections 3 to 6 of this report. Figures for future years are still subject to change. A more comprehensive summary is included at **Appendix A**.

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
<b>Net Spending / draft budget forecasts as reported in December:</b>	<b>16,563</b>	<b>14,873</b>	<b>16,621</b>	<b>17,101</b>	<b>17,819</b>
<b>Further Base Budget Changes:</b>					
New Homes Bonus Grant (Increases) or Reductions	-	84	(200)	(192)	276
Housing Benefit Administration Grant Reductions	-	77	75	73	104
Net (Savings)/ Increases in Pension Costs (Triennial Review)		(59)	(51)	(50)	295
Capital Financing Savings		(65)	(29)	(21)	(22)
Investment Interest Increases		(90)	(66)	(253)	(313)
Reduction in Contribution to Balances (down from £56K to £29K)	(39)	-	-	-	
Other Net Changes	(1)	47	(51)	(67)	(90)
<b>Updated Draft Budget Forecasts (Prior to any savings or growth proposals)</b>	<b>16,523</b>	<b>14,867</b>	<b>16,299</b>	<b>16,591</b>	<b>18,069</b>
<b>Resulting in:</b>					
<b>Estimated Budget (Surplus) or Deficit/Savings Requirement</b>	<b>-</b>	<b>(991)</b>	<b>598</b>	<b>1,098</b>	<b>2,314</b>

2.2 A number of key points are highlighted:

- The projections take account of the latest information or assumptions on various Government funding streams, such as Housing Benefit administration grant and New Homes Bonus. The main issues arising are expanded on later in section 3 of this report. From around 2020 onwards, changes to local authority responsibilities and various specific funding streams are expected as part of the overhaul of the local Government Finance system, but the development of options

is still in its early stages and therefore it is not clear what the potential impact might be, or when any changes might be implemented by Government.

- The forecasts take account of the recent triennial review of the Pension Fund. Through this, the contribution rates for the next three years are set; the Fund has very recently issued its Future Funding Strategy for consultation. Whilst future service contribution rates are expected to increase from 13% of salary costs to 15.5%, deficit contributions can reduce as the recovery period can be rolled forward to remain at 19 years, rather than it reducing to 16. In addition, by paying contributions up-front rather than spreading them over the next three years, the Council can make budget savings. Beyond 2019/20, it is assumed that the future service rate will remain at 15.5% and the deficit recovery period will again be rolled forward as 19 years, but that the Council's cash flow will not support up-front payment. There are clearly risks as longer term pensions funding strategy cannot be accurately predicted. The affordability of pensions continues to be contentious, with more reforms expected at some point in the future. In summary, the budgeted General Fund contributions are as follows.

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Deficit Recovery Contribution	788	788	788	900
Future Service Contributions	1,656	1,673	1,692	1,965
<b>Total Budgeted Contributions</b>	<b>2,444</b>	<b>2,461</b>	<b>2,480</b>	<b>2,865</b>

- Investment Interest and capital financing costs have been reviewed, drawing on the latest advice on future interest rate expectations, cash flow and also on the latest review of the capital programme. The budget assumes that interest rates will start to increase during 2019/20, with the average interest rate being around 0.75% by 2020/21. More information on expectations will be presented to Cabinet in February, as part of the 2017/18 treasury management strategy.
- Various other base budget adjustments have been made, to reflect the estimated costs and income for current operations and policies.
- In the current year, the contribution to Balances has been reduced by £39K (down from £56K to £17K) as a result of the forecast minor net overspending. All significant variances within that figure have been reported previously. It is pleasing that overall, the revised budget is now broadly in line with original expectations.
- Finally, as yet no assumptions have been made regarding Cabinet's proposals for balancing the budget, or for the review of provisions and reserves more generally.

2.3 Cabinet is requested to refer the resulting 2016/17 Revised Budget to Budget Council for approval. The net overspending of £39K represents only 0.2% of the original net revenue budget. In recent years, the Council has typically experienced net underspending overall and so this year's experience goes against that trend.

2.4 Looking forward, in terms of council tax the budget forecasts assume a £5 year on year increase in line with current approved strategy. Options for council tax are set out in section 6 of this report.

- 2.5 The draft budget for 2017/18 currently stands at £14.867M, which gives one-off headroom estimated at £991K for helping to support Cabinet's budget proposals. That said, it is already known that significant cost pressures will come through if the Council is to take forward various known plans and commitments, such as Canal Corridor and the outstanding pay and grading review, aside from Cabinet's budget proposals more generally. Such pressures will involve upfront, one-off costs and for this reason, it is expected that the budget surplus currently forecast will be more than offset by the need to bolster specific earmarked reserves.
- 2.6 Thereafter, financial forecasts deteriorate. A savings requirement of £598K is forecast for 2018/19, rising to £2.314M by 2020/21.
- 2.7 To help tackle that outlook, there is a four-year focus for this budget strategy, phased in two parts; it is not simply about balancing next year. Despite the continuing progress in identifying savings and refining budget projections, a savings target well in excess of £2M, coupled with the huge uncertainties around future local government finance reforms, still represents a massive challenge for the authority.
- 2.8 As was reported last year, budget deficits of that magnitude will not be addressed simply through efficiencies, income generation and trimming of services. Fundamental changes and very difficult decisions are needed, focusing on what really is of high priority - and what isn't.
- 2.9 Whilst the Council does currently have a number of significant reserves and Balances available to it, these can only help during the period of transition and they do not provide a medium term or permanent solution. The Balances position is outlined later in section 4 of this report.

### **3 LOCAL GOVERNMENT FINANCE SETTLEMENT**

#### **3.1 General Matters**

- 3.1.1 Further to the Chancellor's Autumn Statement published on 23 November, the provisional Local Government Finance Settlement was announced on 15 December 2016 for consultation until 13 January. Detailed information and briefings are available on the various websites ([www.gov.uk](http://www.gov.uk) or [www.lga.gov.uk](http://www.lga.gov.uk)). This section provides an overview of Government funding matters for Members' information.
- 3.1.2 As expected, the provisional Settlement sets out figures for Revenue Support Grant (RSG) and baseline Business Rates to 2019/20, in line with the multi-year Settlement offer recently confirmed by Government. That helps to give some certainty going forward, at least in the medium term. Nonetheless, the significant ongoing funding reductions built in should not be overlooked.
- 3.1.3 To recap, the headline Settlement figures to 2019/20 are provided overleaf, together with the assumptions made for 2020/21. It is not yet clear in what year Government is intending on introducing its major reforms to local government finance, including 100% business rates retention. Development of proposals is underway but as reported previously, it is a massively complex task, especially when factoring in the review of local government responsibilities and needs/funding redistribution. Government's aim is for the reforms to be 'fiscally neutral' with implementation 'by the end of this Parliament'. This could mean 2019/20 or 2020/21, but the risk of slippage should be acknowledged given Government's work programme for the period - including Brexit.

<b>Funding Forecasts</b>	<b>2017/18 £'000</b>	<b>2018/19 £'000</b>	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>
<b>Provisional Settlement:</b>				
Revenue Support Grant (RSG)	1,605	941	200	0
Business Rates (Baseline Funding)	5,065	5,223	5,400	5,510
<b>Settlement Funding Assessment</b>	<b>6,670</b>	<b>6,164</b>	<b>5,600</b>	<b>5,510</b>
<b>Year on Year Reductions in SFA (per Settlement):</b>	<b>£550K 7.6%</b>	<b>£506K 7.6%</b>	<b>£564K 9.1%</b>	<b>£90K 1.6%</b>
<b>Reduction in annual funding between 2016/17 and 2020/21: £1.710M or 23.7%</b>				

- 3.1.4 It should be noted that the Council's budget continues to be based on business rate income at safety net, rather than the higher baseline figure shown above. This is predominantly because of the impact of recent successful appeals, notably for the power stations.
- 3.1.5 On the upside however, the budget also provides for extra retained rates income in relation to various renewable energy schemes. The estimates are currently the same as those reported in December.
- 3.1.6 Any further changes to business rate income forecasts will be reported in February, following the completion of statutory estimates and returns to Government due at the end of this month. In particular Government has made changes to the system of tariffs and top-ups, to help cancel out the impact of the 2017 Revaluation. This means that in theory there should be little or no 'bottom line' general impact from this major initiative, but this can only be confirmed once the relevant detailed calculations and Government returns have been completed.
- 3.1.7 Also there could be some further implications (either favourable or adverse) arising in connection with renewable energy and/or rating appeals. In addition, there is now the potential for claims arising in respect of the rating liability for some strands of the National Health Service (NHS). Business rates continues to become more and more complex, and of greater significance, in the run up to 100% rates retention.

## 3.2 New Homes Bonus

- 3.2.1 The most significant changes arising from the Settlement relate to New Homes Bonus. Cabinet may recall that consultation on the future of the scheme was undertaken early in 2016 but there had been no response issued by Government prior to the Settlement announcement.
- 3.2.2 Whilst the NHB scheme is set to continue until around 2020/21 (at least), funding allocations will reduce in future, as a result of Government diverting resources into adult social care. To demonstrate this, in the current year £1.485BN of funding is being allocated nationally through the scheme, but by 2020/21 that amount is forecast to reduce to £900M.

- 3.2.3 Alongside the overall quantum of NHB funding reducing, the payment methodology is also changing as follows:
- A national baseline for growth in housing stock has been introduced (at 0.4% for 2017/18, with Government having the option to adjust this in future). For growth below this level, authorities will not now receive NHB.
  - The number of years for which ‘legacy’ payments will be made is to reduce from 6 years currently, to 5 years for 2017/18 and 4 years from 2018/19.
- 3.2.4 On top of these changes, from 2018/19 Government “will consider withholding NHB payments from local authorities that are not planning effectively, by making positive decisions on planning applications and delivering housing growth. To encourage more effective local planning [Government] will also consider withholding payments for homes that are built following an appeal”. In the meantime, Government has confirmed that it will not introduce measures “to withhold payments for areas without a local plan in 2017/18”.
- 3.2.5 All in all, there is much speculation about the future of NHB, with a general feeling within the local government finance profession that the scheme will cease at some point, most likely around 2020 or whenever the wider finance reforms are implemented. Also, huge demand and cost pressures still exist in functions such as adult social care and children’s services, with the chance that more funds could be diverted away into these areas. Whilst this is speculation, inevitably the future forecasting of NHB involves risk.
- 3.2.6 More information is being sought to inform modelling, but at present the Council’s budget projections are based predominantly on the provisional Settlement, with the assumption that NHB awards for housing growth up to 2019/20 will continue to flow through to the Council in some form or other. Note that this improves NHB expectations from those communicated to all councillors immediately after the Settlement.

	<b>NHB Estimate per MTFS £’000</b>	<b>NHB Updated Forecasts £’000</b>	<b>Difference £’000</b>
<b>2017/18</b>	1,938	1,854	84
<b>2018/19</b>	1,218	1,418	(200)
<b>2019/20</b>	1,168	1,360	(192)
<b>2020/21</b>	n/a	824	n/a

- 3.2.7 For February the Council’s core NHB planning assumptions may be updated again, if better information becomes available.

### 3.3 Other Government Funding Announcements

#### **Housing Benefit and Council Tax Support Administration Grant**

The draft budget takes account of the most recent grant notifications issued for benefits administration, together with assumptions that they will continue to reduce year by year by around 6% per year. In part this is linked to the implementation of Universal Credit (UC) in this district and there is now a downwards trend in caseload, as new working-age claimants move to UC. That said, there are also new work demands

being created during the transitional period and the Council still has its relatively new role of providing personal budgeting support to UC claimants, with specific funding for this being provided by Government. Overall the funding changes currently have a negative impact on the budget, however, and during 2017/18 the need to review staffing levels will continue, to ensure they remain appropriate for changing workloads.

#### **Bailrigg Garden Village**

Following on from the Council's successful expression of interest in response to the Government's Garden Villages, Towns and Cities prospectus, Ministers have announced that the City Council is due to receive funding in the region of £200K to help enable delivery, as well as professional and technical support from the Homes and Communities Agency. Once more information has been received, a Cabinet report will be presented regarding the governance for the project and any associated matters. At present, the funding is not reflected within the draft budget.

#### **Community Housing Fund**

The Council has also just received notification that it is due to receive almost £708K of the £60M Community Housing Fund for 2016/17, announced by Government as part of its 2016 budget. It appears that there may be more funds available in next year too. The funds have been allocated to authorities proportionate to the number of holiday homes in their local area, taking account of the affordability of housing to local people. The aim of the Fund is to "enable local community groups deliver affordable housing units of mixed tenure on sites which are likely to be of little interest to mainstream housebuilders and will thereby contribute to the overall national effort to boost housing supply." The Council did not bid for this funding and it will need some time to explore Government guidance to determine options for how best the funds might be used. Again, a Cabinet report will be produced in due course and the funding is not yet reflected in budget.

## **4 PROVISIONS AND RESERVES (INCLUDING UNALLOCATED BALANCES)**

- 4.1 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.

	<b>31 March 16 £'000</b>	<b>Net Movements £000's</b>	<b>31 March 17 £'000</b>	<b>Net Movements £000's</b>	<b>31 March 18 £'000</b>
General Fund Balances	4,459	+17	4,476	+165	4,641
Earmarked Reserves	6,406	(1,108)	5,298	(318)	4,980
<b>TOTAL</b>	<b>10,865</b>	<b>(1,091)</b>	<b>9,774</b>	<b>(153)</b>	<b>9,621</b>

- 4.2 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.

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

#### 4.3.1 General Fund Balances

After allowing for this year's forecast net overspending, balances would amount to £4.476M by 31 March 2016. If the existing minimum balance of £1.5M remained unchanged and the current year's outturn is as expected, surplus balances in the region of £3M would be available to support future years' budgets and provide capacity to help take the organisation forward.

These matters will be explored further in the coming weeks. As a recap and drawing on the Council's existing Medium Term Financial Strategy (MTFS), in broad terms the working principle is that surplus Balances would be used to help manage the risks, lead-in times and up-front investment costs associated with implementing savings measures.

#### 4.3.2 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. More substantial changes may be made in February. In particular, the Authority continues to hold substantial balances in the Invest to Save (£1.8M) and Restructuring (£0.5M). Advice and the adequacy and use of such reserves will also be influenced by Cabinet's budget proposals.

## 5 GENERAL FUND CAPITAL PROGRAMME

5.1 Since December Cabinet, there have only been a few changes made to the overall capital programme. 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 £'000	Change in Underlying Borrowing Need: CFR £'000
<b>Original 4-Year Programme (2016/17 to 2019/20)</b>	<b>36,939</b>	<b>+17,660</b>
Changes reported to Cabinet 06 December	+2,694	+1,304
Further Changes:		
ICT infrastructure – additional cost of Firewall	+32	-
Luneside East – legal fees	+8	-
Vehicle Renewals	+15	-
Increase in estimated funding from capital receipts	-	(500)
<b>Total Changes</b>	<b>2,749</b>	<b>+804</b>
<b>Resulting 5-Year Draft Programme (to 2020/21)</b>	<b>39,688</b>	<b>+18,464</b>

- 5.2 Capital receipts expectations have been provisionally increased, reflecting the recent decisions of Cabinet on matters such as Heysham Gateway, ahead of formal negotiations and more detailed assessment of value.
- 5.3 The profiling of the draft programme has also been adjusted to reflect more up to date assessments of when spend is expected to be incurred. This, combined with increased capital receipts expectations, has result in capital financing costs reducing, as highlighted earlier in the revenue budget.
- 5.4 In due course there may other changes to consider with regard to the capital programme, linked to the consideration and development of Cabinet's budget proposals.

## **6 LOCAL TAXATION**

### **6.1 Collection Fund Position**

- 6.1.1 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.
- 6.1.2 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).
- 6.1.3 In respect of council tax, the review of the Collection Fund's financial position is still expecting the Fund to be broadly in balance and if confirmed, this would mean that there is no surplus or deficit to be declared.
- 6.1.4 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 2017 Revaluation adds further complexities, and opens up new risks. The final position will be determined in line with the 31 January deadline for reporting to Cabinet in February.

### **6.2 Council Tax: Options**

- 6.2.1 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.
- 6.2.2 Government has announced as part of the provisional Settlement that a general threshold of 2% will still apply for most local authorities. Furthermore, those authorities that have adult social care responsibilities may increase their council tax rates by up to a further 6% in total over the three-year period to 2019/20 (with the flexibility to front-load this, by increasing rates by 3% in each of the next two years).
- 6.2.3 For shire districts (such as the City Council) and Police and Crime Commissioners whose council tax currently falls within the lowest quartile, they may continue to increase their Band D tax rates by £5 – slightly more than the standard threshold. This is in line with the Council's existing financial strategy.

- 6.2.4 For 2017/18 an increase of £5 would increase the City Council's tax rate from £208.97 to £213.97 for a Band D property. The increase amounts to around 2.4% per year, or put another way, 10 pence per week. The Council has very recently decided to retain its existing Localised Council Tax Support Scheme, which provides up to full support to cover any increase, and this helps mitigate the impact on low income households.
- 6.2.5 Government had also consulted on introducing local referendum thresholds for larger town councils and parishes (with precepts of over £0.5M). It has deferred its plans, but in any event currently the district's local councils are nowhere near as large.
- 6.2.6 Drawing on the relevant points above, two basic options for council tax are presented, to demonstrate the impact of tax decisions. A 1% change in council tax would generally have around an £84K impact on the budget.

<b>Council Tax Basic Options</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
<b>Option 1:</b> Retain existing strategy: maintain a steady increase of £5 per year to help protect service delivery, subject to confirmation of future referendum thresholds.				
<i>Resulting Band D Tax Rate</i>	£213.97	£218.97	£223.97	£228.97
<i>% Increase</i>	2.4%	2.3%	2.3%	2.2%
<b>Net Savings Requirement or (Surplus)</b>	<b>(£0.991M)</b>	<b>£0.598M</b>	<b>£1.098M</b>	<b>£2.314M</b>
<b>Option 2:</b> Change future strategy For example: freeze council tax year on year, increasing the pressure to make savings on service delivery				
<i>Resulting Band D Tax Rate</i>	£208.97	£208.97	£208.97	£208.97
<b>Net Savings Requirement or (Surplus)</b>	<b>(£0.789M)</b>	<b>£1.007M</b>	<b>£1.721M</b>	<b>£3.156M</b>
<b>Net Difference between the two options</b>	<b>£202K</b>	<b>£409K</b>	<b>£623K</b>	<b>£842K</b>
<b>Total Difference over the 4- year period</b>				<b>£2.076M</b>

- 6.2.7 The table shows that a council tax freeze would lose income of just over £200K in 2017/18, and this loss would continue to grow by a similar amount each year thereafter, for as long as rates continued to be frozen. By 2020/21, annual lost income would have increased to an estimated £842K. Across the whole four-year period, lost income would total over £2M.
- 6.2.8 In reality there are numerous other targets that may be considered for the period, but for simplicity the options presented just include the current MTFs assumptions of an annual £5 increase, and the impact of freezing council tax year on year.
- 6.2.9 Other options can be modelled, and Cabinet is requested to indicate in advance of the meeting if it requires this to be done.

6.2.10 Cabinet is now requested to decide what level of council tax increase to recommend for next year and what targets to propose for 2017/18 onwards. In doing so, Cabinet is advised to consider:

- the council tax threshold, above which a local referendum must be held;
- 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 2018/19 and beyond. More savings cannot be delivered without having greater adverse impact on services and communities.

6.2.11 Cabinet is reminded that its council tax recommendation for 2017/18 will be final (subject to Government's final confirmation of the threshold), for subsequent consideration by Council. Targets for 2018/19 and beyond will be reviewed in future years, in accordance with the Medium Term Financial Strategy (MTFS).

## 7 **BALANCING THE BUDGET: CABINET'S BUDGET PROPOSALS**

7.1 Alongside council tax, Cabinet is also requested to make recommendations regarding its supporting budget proposals for initial consideration by Council, in line with the two-phased budget approach approved at its meeting back in December. As part of that, Officers were tasked by Cabinet Members to identify savings and potential options and they have been presented informally to the Leader's Briefings.

7.2 Cabinet's budget proposals should seek to put in place measures balance the medium term budget as far as possible, but there will be another opportunity at the February meeting to make some further changes. Importantly, the Council has a statutory obligation to set a balanced budget for 2017/18.

7.3 It is also important to appreciate that any decisions taken during this budget on recurring items will have a bearing in future years, and so emphasis should be on securing recurring annual savings, rather than one-off measures. This is reflected in the current financial strategy, as is the Council's position on growth, which is quoted below. Cabinet is advised to take account of this in deciding on whether to consider any growth requests.

### ***Growth (Redirection of Resources)***

*Growth in a particular area will only be considered if it meets either of the following conditions:*

- *it is needed to meet statutory service standards; or*
- *it is essential to meet a key objective within Corporate Plan proposals, for which there are no alternative providers or sources of funding available **and** sufficient progress has been 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.*

- 7.4 Linked to this, the s151 Officer advises Cabinet (as she will advise Council) to work within existing financial strategy constraints and the approved budget strategy, to avoid adding unnecessary extra pressure onto the ongoing budget. There will then be time during next year to have a structured approach to determining what Cabinet's and the Council's) affordable proposed priorities for the budget are, and how resources should be allocated and/or redirected to maximise impact.
- 7.5 Separately, as touched on earlier there are a small number of items where the Council already has a specific commitment to consider various issues (good examples being Job Evaluation and Canal Corridor, and more recently Community Pools). Cabinet is advised to take into account such matters when developing its budget proposals.
- 7.6 Once Cabinet's budget proposals are determined they will be reflected in the draft budget framework, for Council's due consideration. Similarly the s151 Officer's formal advice will be finalised.

## **8 DETAILS OF CONSULTATION**

- 8.1 Cabinet's budget proposals are due to be considered by Budget and Performance Panel at its meeting on 24 January, prior to February Council.

## **9 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)**

- 9.1 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 basic options are set out at section 6 of the report. Other alternative options can be modelled at Cabinet's request.
- 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.

- 9.2 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.

- 9.3 The two-phased budget strategy adopted by Cabinet is considered to be an effective way of managing the main risks of budget affordability and financial sustainability, by allowing more time for prioritisation and planning.

## **10 OFFICER PREFERRED OPTION AND COMMENTS**

- 10.1 Generally Officer preferred options are reflected in the recommendations, with the exception of council tax.

- 10.2 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 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 £5 year on year increase, subject to confirmation of local referendum thresholds. Although a budget surplus is currently forecast in next year, one-off spending pressures could easily swallow that up.
- 10.3 The Officer 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.

## 11 CONCLUSION AND IMPLICATIONS FOR THE FUTURE

- 11.1 The Council's financial challenges continue 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. The two-phased budget strategy adopted is in support of this aim, as is the Council's wider financial strategy. The approach also allows the Council to respond to new information and developments and this is crucial, given the forthcoming fundamental finance reforms underway and the huge inherent uncertainties that currently exist.

### **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)**

See **Appendix D** for equality impact assessment.

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. Her advice on all relevant matters will be expanded upon once Cabinet's budget proposals are known.

### **LEGAL IMPLICATIONS**

Legal Services have been consulted and have made no comments.

### **MONITORING OFFICER'S COMMENTS**

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

### **BACKGROUND PAPERS**

None. Any public background information is already available through previous reports or the Government website.

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## General Fund Revenue Budget 2016/17 to 2020/21 For Consideration by Cabinet 17 January 2017

		2016/17	2017/18	2018/19	2019/20	2020/21
		£'000	£'000	£'000	£'000	£'000
<b>BUDGET PROJECTIONS</b>	<b>Original Revenue Budget / Forecast</b>	<b>16,258</b>	<b>15,180</b>	<b>17,221</b>	<b>17,427</b>	
	<i>Allowing for budgeted contribution to Balances</i>	<i>56</i>	<i>165</i>			
	Changes to Budget Projections - <i>Cabinet 06 December</i>	305	(307)	(600)	(326)	17,819
	<b>Base Budget Changes after Cabinet 06 December</b>					
	New Homes Bonus	-	84	(200)	(192)	276
	Net Benefit Admin Grant reduction	-	77	75	73	104
	Pensions	-	(71)	(70)	(68)	295
	Loss of interest re Pensions	-	12	19	18	0
	Capital Financing - MRP changes		(65)	(29)	(21)	(22)
	Investment Interest	-	(90)	(66)	(253)	(313)
	Other net changes across all Services	(1)	47	(51)	(67)	(90)
	<b>Reduced Contribution to Balances</b>	<b>(39)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>General Fund Revenue Budget</b>	<b>16,523</b>	<b>14,867</b>	<b>16,299</b>	<b>16,591</b>	<b>18,069</b>
	Settlement Funding Assessment:					
	Revenue Support Grant	(2,652)	(1,605)	(941)	(200)	0
Retained Business Rates	(4,568)	(5,065)	(5,223)	(5,400)	(5,510)	
Business Rates - Safety Net Adjustment	0	401	413	427	441	
Renewable Energy Income	(947)	(966)	(994)	(1,025)	(1,046)	
Estimated Collection Fund Surplus	(60)	0	0	0	0	
<b>Council Tax Requirement</b>	<b>8,296</b>	<b>7,632</b>	<b>9,554</b>	<b>10,393</b>	<b>11,954</b>	
<b>Target Council Tax Requirement</b>	<b>8,296</b>	<b>8,623</b>	<b>8,956</b>	<b>9,295</b>	<b>9,640</b>	
<b>Latest Budget Deficit / (Surplus)</b>	<b>0</b>	<b>(991)</b>	<b>598</b>	<b>1,098</b>	<b>2,314</b>	

<b>General Fund Unallocated Balance</b>		£M
<b>Original Projected Balance as at 31 March 2016</b>		<b>(4.128)</b>
Budgeted Contribution		(0.056)
2015/16 Actual Underspend		(0.331)
2016/17 Forecast Overspend		0.039
<b>Projected Balances as at 31 March 2017</b>		<b>(4.476)</b>
Budgeted Contribution		(0.165)
<b>Projected Balances as at 31 March 2018</b>		<b>(4.641)</b>
<b>Less Agreed Minimum Level of Balances</b>		<b>1.500</b>
<b>Available Balances</b>		<b>(3.141)</b>

## RESERVES AND PROVISIONS STATEMENT (INCLUDING BALANCES)

For Consideration by Cabinet 17 January 2017

GENERAL FUND	2016/17			2017/18			2018/19			2019/20			2020/21								
	Balance as at 31/03/16 £	From Revenue £	To Capital £	To Revenue £	Balance as at 31/03/17 £	From Revenue £	To Capital £	To Revenue £	Balance as at 31/03/18 £	From Revenue £	To Capital £	To Revenue £	Balance as at 31/03/19 £	From Revenue £	To Capital £	To Revenue £	Balance as at 31/03/20 £	From Revenue £	To Capital £	To Revenue £	Balance as at 31/03/21 £
<b>General Fund Balance</b>	(4,459,000)	(17,400)			(4,476,400)	(164,900)			(4,641,300)				(4,641,300)				(4,641,300)				(4,641,300)
<b>Earmarked Reserves:</b>																					
Apprenticeships	(39,700)			39,700																	
Business Rates Retention	(381,500)				(381,500)				(381,500)				(381,500)				(381,500)				(381,500)
Capital Support	(526,500)		8,000	248,800	(269,700)				(269,700)				(269,700)				(269,700)				(269,700)
Corporate Property	(328,100)	(54,100)	59,000	17,700	(305,500)			100,000	(205,500)				(205,500)				(205,500)				(205,500)
Elections		(40,000)			(40,000)	(40,000)			(80,000)	(40,000)			(120,000)	(40,000)		160,000		(40,000)			(40,000)
Highways	(219,600)			219,600																	
Homelessness Support	(76,500)				(76,500)	(3,100)			(79,600)	(9,800)			(89,400)	(10,100)			(99,500)	(10,100)			(109,600)
Invest to Save	(1,469,600)	(350,700)	6,000		(1,814,300)				(1,814,300)				(1,814,300)				(1,814,300)				(1,814,300)
Local Plan	(71,600)	(40,100)			(111,700)			87,400	(24,300)				(24,300)				(24,300)				(24,300)
Markets	(54,100)			54,100																	
Morecambe Area Action Plan (MAAP)	(114,500)		80,900	28,600	(5,000)				(5,000)				(5,000)				(5,000)				(5,000)
Renewals (all services)	(812,400)	(402,800)	420,000	142,600	(652,600)	(479,300)	240,000	33,700	(858,200)	(479,300)	382,000	46,400	(909,100)	(479,300)	114,000	102,900	(1,171,500)	(479,300)	38,000	28,200	(1,584,600)
Restructuring / Budget Support	(602,900)	(333,600)		357,800	(578,700)			48,500	(530,200)				(530,200)				(530,200)				(530,200)
S106 Commuted Sums - Open Spaces	(104,000)			22,500	(81,500)			20,900	(60,600)			16,600	(44,000)			15,600	(28,400)			11,800	(16,600)
S106 Commuted Sums - Affordable Housing	(261,800)		90,000		(171,800)				(171,800)				(171,800)				(171,800)				(171,800)
S106 Commuted Sums - Highways, crossing & cycle paths	(844,100)	(79,600)	413,100	1,500	(509,100)	(50,000)	352,500	6,800	(199,800)	(75,000)	75,000	6,700	(193,100)	(75,000)	75,000	4,400	(188,700)				(188,700)
Welfare Reforms	(396,300)	(23,500)		190,000	(229,800)				(229,800)				(229,800)				(229,800)				(229,800)
Youth Games	(32,900)			32,900		(41,800)		41,800													
<b>Reserves Held in Perpetuity:</b>																					
Graves Maintenance	(22,200)				(22,200)				(22,200)				(22,200)				(22,200)				(22,200)
Marsh Capital	(47,700)				(47,700)				(47,700)				(47,700)				(47,700)				(47,700)
<b>Total Earmarked Reserves</b>	<b>(6,406,000)</b>	<b>(1,324,400)</b>	<b>1,077,000</b>	<b>1,355,800</b>	<b>(5,297,600)</b>	<b>(614,200)</b>	<b>592,500</b>	<b>339,100</b>	<b>(4,980,200)</b>	<b>(604,100)</b>	<b>457,000</b>	<b>69,700</b>	<b>(5,057,600)</b>	<b>(604,400)</b>	<b>189,000</b>	<b>282,900</b>	<b>(5,190,100)</b>	<b>(529,400)</b>	<b>38,000</b>	<b>40,000</b>	<b>(5,641,500)</b>

Provisions	Balance as at 31/03/16	Transfers In	Expenditure	Balance as at 31/03/17
	£	£	£	£
Bad Debts	1,898,830	390,000	(175,000)	2,113,830
Legal	128,191			128,191
Insurance	341,564	170,000	(100,000)	411,564
<b>Total</b>	<b>2,368,585</b>	<b>560,000</b>	<b>(275,000)</b>	<b>2,653,585</b>

# GENERAL FUND CAPITAL PROGRAMME - For Consideration by Cabinet 17 January 2017

Service / Scheme	2016/17			2017/18			2018/19			2019/20			2020/21			5 YEAR PROGRAMME		
	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Gross Budget	External Funding	Net Programme	Total Gross Programme	Total External Funding	Total Net Programme
<b>Environmental Services</b>	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Vehicle Renewals	1,160,000		1,160,000	1,685,000		1,685,000	984,000		984,000	971,000		971,000	1,509,000		1,509,000	6,309,000	0	6,309,000
Bins & Boxes Scheduled Buy-Outs	74,000		74,000	50,000		50,000			0			0			0	124,000	0	124,000
Car Parks Improvement Programme	57,000		57,000	27,000		27,000			0			0			0	84,000	0	84,000
Middleton Solar Farm Feasibility Study	0		0			0			0			0			0	0	0	0
Happy Mount Park - Pathway Replacements	43,000		43,000	23,000		23,000	23,000		23,000	23,000		23,000			0	112,000	0	112,000
Langridge Way Play Area	23,000	16,000	7,000			0			0			0			0	23,000	16,000	7,000
<b>Health and Housing</b>																		
Disabled Facilities Grants	850,000	850,000	0	2,511,000	2,511,000	0	1,463,000	1,463,000	0	1,463,000	1,463,000	0	1,463,000	1,463,000	0	7,750,000	7,750,000	0
Warmer Homes Scheme	1,000		1,000			0			0			0			0	1,000	0	1,000
Salt Ayre Sports Centre - Redevelopment	4,405,000		4,405,000	340,000		340,000			0			0			0	4,745,000	0	4,745,000
<b>Regeneration and Planning</b>																		
Sea & River Defence Works & Studies	3,780,000	3,780,000	0	2,860,000	2,860,000	0	1,221,000	1,221,000	0	25,000	25,000	0	25,000	25,000	0	7,911,000	7,911,000	0
Amenity Improvements (Morecambe Promenade)	24,000		24,000			0			0			0			0	24,000	0	24,000
Luneside East	30,000		30,000			0			0			0			0	30,000	0	30,000
Lancaster Square Routes	30,000	11,000	19,000			0			0			0			0	30,000	11,000	19,000
Morecambe TH12: A View for Eric	477,000	359,000	118,000	271,000	206,000	65,000	135,000	103,000	32,000			0			0	883,000	668,000	215,000
MAAP Improving Morecambe's Main Streets	527,000	9,000	518,000	258,000		258,000	150,000		150,000	150,000		150,000			0	1,085,000	9,000	1,076,000
King St/Wellington Terrace Affordable Housing s106 Scheme	90,000		90,000			0			0			0			0	90,000	0	90,000
Middleton Nature Reserve s106 Scheme	4,000		4,000			0			0			0			0	4,000	0	4,000
Pedestrian/cycle links Sainsbury's Morecambe s106 Scheme	1,000		1,000			0			0			0			0	1,000	0	1,000
Lancaster District Empty Homes Partnership	200,000		200,000			0			0			0			0	200,000	0	200,000
Bay Arena Improvements	50,000	50,000	0			0			0			0			0	50,000	50,000	0
S106 Highways Works	319,000		319,000	301,000		301,000			0			0			0	620,000	0	620,000
<b>Resources</b>																		
ICT Systems, Infrastructure & Equipment	799,000		799,000	227,000		227,000	908,000		908,000	93,000		93,000	292,000		292,000	2,319,000	0	2,319,000
Corporate Property Works	2,314,000	8,000	2,306,000	2,746,000		2,746,000	1,113,000		1,113,000			0			0	6,173,000	8,000	6,165,000
Energy Efficiency Works	40,000		40,000	1,080,000		1,080,000			0			0			0	1,120,000	0	1,120,000
<b>GENERAL FUND CAPITAL PROGRAMME</b>	<b>15,298,000</b>	<b>5,083,000</b>	<b>10,215,000</b>	<b>12,379,000</b>	<b>5,577,000</b>	<b>6,802,000</b>	<b>5,997,000</b>	<b>2,787,000</b>	<b>3,210,000</b>	<b>2,725,000</b>	<b>1,488,000</b>	<b>1,237,000</b>	<b>3,289,000</b>	<b>1,488,000</b>	<b>1,801,000</b>	<b>39,688,000</b>	<b>16,423,000</b>	<b>23,265,000</b>
<b>Financing :</b>																		
Specific Grants and Contributions	5,083,000			5,577,000			2,787,000			1,488,000			1,488,000			16,423,000		
General Capital Grants	1,000			0			0		0	0			0		1,000			
Capital Receipts	1,219,000			870,000			0		0	0			0		2,089,000			
Direct Revenue Financing	363,000			50,000			0		0	0			0		413,000			
Earmarked Reserves	1,010,000			632,000			445,000			173,000			38,000		2,298,000			
	7,676,000			7,129,000			3,232,000			1,661,000			1,526,000		21,224,000			
<b>Increase / Reduction (-) in Capital Financing Requirement (CFR) (Underlying Change in Borrowing Need)</b>	<b>7,622,000</b>			<b>5,250,000</b>			<b>2,765,000</b>			<b>1,064,000</b>			<b>1,763,000</b>		<b>18,464,000</b>			
<b>TOTAL FINANCING</b>	<b>15,298,000</b>			<b>12,379,000</b>			<b>5,997,000</b>			<b>2,725,000</b>			<b>3,289,000</b>		<b>39,688,000</b>			
<b>SHORTFALL / SURPLUS (-)</b>	<b>0</b>			<b>0</b>			<b>0</b>			<b>0</b>			<b>0</b>		<b>0</b>			

Appendix C

# Equality Impact Assessment

# Appendix D

## Section 1: Details

<b>Service</b>	Corporate
<b>Title and brief description (if required)</b>	General Fund Budget 2017 to 2021, including council tax.
<b>New or existing</b>	Existing
<b>Author/officer lead</b>	Chief Officer (Resources)
<b>Date</b>	13 January 2017

**Does this affect staff, customers or other members of the public?**

Yes

## Section 2: Summary

**What is the purpose, aims and objectives?**

To review/determine the Council's council rates for next year and targets for future years, and to review/determine the allocation of resources across Council functions and services.

**Who is intended to benefit and how?**

The district as a whole, although various groups may be affected (positively or negatively) depending on specific budget proposals.

Note that any specific budget proposals will have a separate EIA undertaken and therefore the predominant focus of this EIA is council tax.

Council tax decisions impact on the level of resources generally available for the provision of council services and therefore, as well as the financial impact, decisions may impact indirectly on the community/different groups, although it is not possible to be specific about this, other than through consideration of specific budget proposals.

### **Section 3: Assessing impact**

<b>Is there any potential or evidence that this will or could:</b>		
• Affect people from any protected group differently to others?	Yes	
• Discriminate unlawfully against any protected group?		No
• Affect the relations between protected groups and others?		No
• Encourage protected groups to participate in activities if participation is disproportionately low (won't always be applicable)?		No
• Prevent the council from achieving the aims of its' Equality and Diversity Policy?		No

<b>If yes, please provide more detail of potential impact and evidence including:</b>	
<ul style="list-style-type: none"> <li>- A brief description of what information you have and from where eg getting to know our communities data, service use monitoring, views of those affected ie discussions or consultation results?</li> <li>- What does this tell you ie negative or positive affect?</li> </ul>	
Age  including older and younger people and children	<p>By law, nobody under the age of 18 is liable for council tax.</p> <p>No other evidence or expectation of any specific impact.</p>
Disability	No evidence or expectation of any specific impact.
Faith, religion or belief	No evidence or expectation of any specific impact.
Gender  including marriage, pregnancy and maternity	No evidence or expectation of any specific impact.
Gender reassignment	No evidence or expectation of any specific impact.
Race	No evidence or expectation of any specific impact.
Sexual orientation  Including Civic Partnership	No evidence or expectation of any specific impact.

Rural communities	No evidence or expectation of any specific impact.
People on low incomes	Potentially any increase in council tax could impact on low income households. This impact is demonstrated and mitigated by the existence of Council's Localised Council Tax Support Scheme (LCTS). As the Council has very recently reviewed its scheme and continues to offer up to full support, low income households would generally see an increase in their LCTS and this may cover up to 100% of any council tax increase.

#### **Section 4: Next steps**

**Do you need any more information/evidence eg statistics, consultation? If so, how do you plan to address this?**

No.

**How have you taken/will you take the potential impact and evidence into account?**

Through Member decision-making - the existence of the LCTS scheme is highlighted in the Cabinet report.

**How do you plan to monitor the impact and effectiveness of this change or decision?**

Through general collection / caseload monitoring, as appropriate.