

**Budget and Policy Framework 2009/10
04 February 2009**

Report of Cabinet

PURPOSE OF REPORT

To update Council on the latest position regarding the Corporate Plan and to present Cabinet's Council Tax and draft budget proposals. This is in order that the City Council can ultimately approve the 2009/10 Revenue Budget and Capital Programme in accordance with statutory deadlines and the framework approved at earlier Council meetings.

This report is public.

RECOMMENDATIONS

In respect of the Corporate Plan:

1. That Council considers the Corporate Plan proposals, as set out below:
 - a) That the current version of the Corporate Plan, attached at Appendix B, be approved.
 - b) That subject to a) above, the remaining outstanding sections of the Plan be completed accordingly and referred to the Council's Business Committee for further consideration prior to Council formally signing off the Plan.

In respect of the General Fund Revenue Budget:

2. That Council considers the General Fund revenue budget proposals to date, as set out in section 3 of this report.
3. That the 2008/09 Revised Budget of £23.782M be approved, with the net overspending of £571K being met from Revenue Balances.
4. That the minimum level of General Fund Balances be retained at £1M from 01 April 2009.
5. That a City Council Tax increase of 4% be approved for 2009/10.

In respect of the General Fund Capital Programme:

6. That Council considers the current General Fund Capital Programme position as set out in section 4 of the report.

In respect of the Housing Revenue Account (Council Housing):

7. That the Housing Revenue Account (HRA) Revised Budget for 2008/09 be approved, as set out at Appendix F.
8. That the minimum level of HRA Balances be retained at £350K from 01 April 2009, and that the Statement on Reserves and Balances (as set out at Appendix H) be noted.
9. That the HRA Budget for 2009/10 be approved, also as set out in Appendix F.
10. That the Council Housing Capital Programme be approved, as set out at Appendix I.

1 INTRODUCTION

- 1.1 Cabinet has responsibility for making proposals to Council each year in respect of the Budget and Policy Framework. The proposals in respect of the Policy Framework documents and in particular, the Corporate Plan, are now largely complete, with the exception of developing targets for each corporate priority action. In developing the proposals Cabinet has reviewed, consulted on, and adopted its revised medium term priorities and its related corporate objectives for the immediate future.
- 1.2 With regard to the Budget, Cabinet considered its proposals at its meeting on 20 January and made recommendations as appropriate. Those requiring specific Council consideration or approval are reflected in the recommendations above.
- 1.3 As in previous years, this report's recommendations seek formal approval for the level of City Council Tax increase in 2009/10, but not the actual revenue budget detail. In considering the recommendations, Council may decide whether to adopt, amend or to substitute the proposals, or whether to refer any issues back to Cabinet. In due course Council will be requested to approve the full Revenue Budget and the full 2009/10 Council Tax at its meeting on 04 March, once details of all other precepts have been received.
- 1.4 To assist Council in its deliberations, the main points associated with the budget and policy framework proposals and underlying assumptions are outlined below; the full related resolutions of the January Cabinet meeting are included at **Appendix A** for information. For more detail, Members may also find it helpful to refer back to the actual Cabinet reports.

2 POLICY FRAMEWORK

- 2.1 The policy framework is the collection of Plans and Strategies (other than the Budget and Capital Programme) that can only be approved or amended by full Council. The process for updating these was agreed by Cabinet at its meeting on 31 July 2008, and this process was completed before Christmas. The draft Corporate Plan reflects the outcomes of these considerations.

2.2 Corporate Plan

Background

The Corporate Plan brings together all the Council's strategic priorities and objectives set out in the other documents included in the policy framework. Its content drives the allocation of resources that are included in the budget and capital programme and service business plans. The format and presentation of the plan has been slightly amended to refine its content and format, particularly in terms of providing a

shared focus on the priority outcomes that the Council is seeking to achieve. The basis of the plan once again combines the strategic district-wide aspirations set out in the Council's current Sustainable Community Strategy (SCS) with the specific priorities of the Cabinet, and brings these together into 4 key priorities sub divided into 7 objectives each with a series of key actions. It is these key priorities, objectives, and actions that will guide the Council's work and investment over the next three years.

Sustainable Community Strategy/Local Area Agreement

Council recently approved a refreshed Sustainable Community Strategy (SCS) informed by a comprehensive public consultation exercise undertaken by the Local Strategic Partnership (LSP) and the latest version of the County Council's Local Area Agreement (LAA). The LSP's 7 Thematic Groups have agreed their action plans for delivering the SCS and the council's contribution to delivering these is included in the draft Corporate Plan. Council is now asked to agree the latest version of the Plan, attached at **Appendix B**, as the basis for determining the budget proposals for 2009/10.

Targets & Outcomes

At present, the recommended Corporate Plan is not complete. There are still outstanding sections (Foreword and Vision) and performance target information for each corporate priority action to prepare. The next stage therefore, is for officers to complete the outstanding sections of the Plan following today's meeting, and in particular, identify options for the priority action performance targets. It is recommended that this process be overseen in the first instance by the Council's Business Committee, as was the case last year. Once the completed Plan has been considered by the committee, a final draft will be submitted to Council for formal signing off in April.

Consultation

As part of the annual consultation process, the Leader outlined the Cabinet's budget and policy framework proposals at an open meeting of the Budget and Performance Panel on 27 January 2009, to which all Members of the Council, LSP Thematic Group chairmen, and business stakeholder representatives were invited. Feedback from this meeting was not available at the time this agenda was published and so it will be circulated under separate cover as soon as practicable if appropriate.

3 GENERAL FUND REVENUE BUDGET

- 3.1 For the current year, Council is recommended to approve a Revised Budget of £23.782M, with the net overspending of £571K being met from Revenue Balances. The net overspending is made up of a number of variances, most notably in connection with Concessionary Travel and Market operations, but several underspendings also occurred, e.g. on CC(D)S operations. Further information on all significant budget variances is included in the January Cabinet report.
- 3.2 For 2009/10 Council is recommended to approve a 4% increase in the basic City Council Tax. This would result in a Band D City Council Tax of around £185.30, as shown at **Appendix C**, and in cash terms the increase amounts to £7.13 for a full year (though final figures may round slightly differently). In addition information from the County Council and the Police and Fire Authorities is awaited, regarding their precept levels and resulting Tax rates.
- 3.3 The outline budget proposals to help achieve the recommended increase in Council Tax are set out at **Appendix D** for Council's initial consideration. It can be seen from this that some figures are still provisional and further work is required. In particular, taking account of proposals quantified so far, further savings of around £1.4M are

needed in order to support the recommended increase in Council Tax. The following issues and points are also highlighted:

- i. The appendix includes various savings and growth proposals, which amount to a net £264K saving in 2009/10 rising to £333K in future years. Cabinet supports in principle the savings items set out in Appendix D, and the growth items also included, but the growth items will be subject to further consideration, depending on sufficient progress being made to achieve the overall savings requirement.
- ii. Further development of budget proposals will be undertaken by Star Chamber, in order that a fully balanced set of revenue budget proposals can be developed for the February Cabinet meeting.
- iii. The draft budget takes account of the use of various grants such as Housing & Planning Delivery Grant (HPDG) and Area Based Grant (ABG). It also takes account of inflation and interest rate forecasts, although given the current economic conditions, these are more uncertain than in recent years. Regarding Icelandic investments, monthly updates are now being provided by the Local Government Association (LGA) to Group Leaders. The draft budget has been prepared as outlined in the December report to Council and more details are included in the January Cabinet report; there is no further information to report at this time.
- iv. The Local Government Finance Settlement was announced in late November. (Since Cabinet met, the final Settlement has also been announced and there are no changes.) This means that for 2009/10, the total amount of Government support that the Council will receive is £15.994M. This represents a year on year cash increase of £471K or 3%.
- v. At the time of Cabinet putting forward these proposals, however, the final Local Government Finance Settlement had not been received, nor had the Collection Fund position been determined. For these reasons, there is no recommendation included as yet on the Council's Net Revenue Budget amount for 2009/10.
- vi. Provisional Settlement information has also been received for 2010/11, but not for 2011/12. This is because there will be no rolling 3-year Settlement; instead the 3-year Settlements will run consecutively, tied in with Government's Comprehensive Spending Reviews. Prospects for future spending on public services are very gloomy; currently for 2011/12 a 2% year on year cash increase in Government support is assumed (i.e. broadly equivalent to a no real terms increase).
- vii. With regard to capping, the Minister for Local Government has stated that "keeping council tax under control remains a priority for the Government. We expect the average council tax increase in England to be substantially below 5%. We will not hesitate to use our capping powers to protect council tax payers from excessive increases. No decisions have been taken on capping principles for 2008/09. It would, however, be unwise for any authority to assume that capping principles set in previous years will be repeated. We intend to take decisions on principles after authorities have set their budgets, but we are prepared to announce the principles in advance if the circumstances suggest this is necessary." This message was reiterated in a letter sent to all local authority Leaders on 09 December 2008. Council is advised to take these comments into account when considering proposed Council Tax increases for next year.
- viii. An initial review of General Fund Balances, Reserves and Provisions has been undertaken and this is reflected in the current draft budget position; further information will be reported into Budget Council.

- ix. With regard to the level of balances for next year, it is proposed to retain the basic minimum at £1M as recommended by the s151 Officer, but Members should note that following the overspending in the current financial year, Balances are expected to fall to £1.191M by 31 March 2008. The budget forecasts have been prepared on the assumption that the surplus resources of £191K will be used as a one-off contribution towards the 2009/10 budget, i.e. that the current phased use of surplus balances would end. This will be reviewed in February, with firm proposals being incorporated into the report to Budget Council. A statement on the Balances position is included at **Appendix E**.
- x. The Council's Tax Base for 2009/10 has been set at 43,200 Band D properties, which represents a year on year increase of just 50 (0.1%). This represents reduction of 50, when compared with the latest MTFS projections.

3.4 In summary, in recommending a 4% increase in Council Tax, Cabinet has had regard to the Council's current MTFS and future years' projections (the latest figures are shown at Appendix C, including remaining savings requirements), proposed corporate priorities and service delivery needs, the affordability of Council Tax bills for the district, and Government's statements regarding capping.

4 GENERAL FUND CAPITAL PROGRAMME

4.1 Back in October Cabinet approved a framework for considering capital spending bids in line with emerging priorities, but also taking account of other service needs. The framework forms a key part of the Council's draft Capital Investment Strategy.

4.2 Further to this, at the last Cabinet meeting Members considered the latest draft capital programme and funding proposals. In summary, the position is as follows. For now, the summary below focuses on the net programme, i.e. only the Council funding required for proposed schemes, excluding any externally funded elements. More detailed information is included within the January Cabinet report if required. At this stage, the programme has not been rolled forward into 2013/14.

	2008/09 £'000	2009/10 £'000	2010/11 £'000	2011/12 £'000	2012/13 £'000	Total £'000
City Council Funding Requirement for Draft Programme	5,087	2,913	1,978	1,398	561	11,937
Estimated Funding Available:						
Capital Receipts: balance b/f	1,424	--	--	--	--	1,424
In Year Capital Receipts	1,250	7,105	50	1,025	50	9,480
Direct Revenue Financing	563	270	65	70	50	1,018
Underlying Increase in Borrowing	1,636	-1,401	--	--	--	235
Cumulative Surplus (+)/Shortfall (-)	-214	+2,847	+984	+681	+220	+220

4.3 An update on the latest position and the main issues arising is outlined below for Council's information and consideration:

- i. The combined value of existing schemes and new bids submitted by Services for the period amounts to approximately £62M.

- ii. Whilst at present there is forecast to be a small shortfall in funding of £214K for the current year, this is expected to be addressed through further slippage on schemes, into 2009/10.
 - iii. By far the greatest quantified capital pressure still relates to the investment needs for structural and other works to council owned property, including municipal buildings, and these are included in the draft programme. The programme does not include any proposals in connection with any wider access to services' accommodation developments, however. This is on the basis that these developments will not be taken forward, at least for this year, given the capital uncertainties. Instead, smaller measures to achieve some relocation/consolidation will be progressed, insofar as they can be funded through the remaining Access to Services earmarked reserve.
 - iv. With regard to funding, capital receipts of around £9.48M are still assumed from the current year to 2012/13. This is unchanged from the position as reported to Council in November. Clearly there are risks attached to the completion of relevant property sales, especially given the current economic climate. A further update on property disposal is scheduled for February Cabinet.
 - v. At present the draft programme assumes that £1.018M of revenue funding will be made available to help fund certain schemes, over the period to 2012/13. These contributions are built into the draft revenue budget projections as appropriate.
 - vi. In total the draft programme provides for a net increase of only £235K in the Council's underlying supported borrowing requirement for the period. It does, however, provide a temporary increase of £1.4M in this year, but on the basis that this be 'repaid' in 2009/10 – this was approved by Council back in November. Any longer term increase in capital related borrowing must meet the requirements of the Prudential Code, i.e. it should be prudent, affordable and sustainable, as the costs of such borrowing will fall on the Revenue Budget and Council Tax.
 - vii. The Council currently expects to draw in around £48M of external funding for schemes over the period to 2012/13. Key issues and risks relating to external funding were reported to the January Cabinet meeting. These include the need for projects to fit with the Council's priorities and to ensure sufficient resources and skills for project management, as well as potential match funding requirements and implications of overspending, etc.
 - viii. There are still other important aspects outstanding regarding the capital position, and work is underway to progress these as far as possible. In particular, this includes scheme considerations such as Luneside East and Chatsworth Gardens. Furthermore, there may be other capital investment needs coming through, linked to Cabinet's revenue budget proposals. Finally, it is possible that capitalisation bids for issues such as concessionary travel and in the longer term, Icelandic investments, may also have bearing on the capital position.
- 4.4 Given that further work is still ongoing on certain aspects of the programme and its funding, at this stage Council is recommended only to consider the overall capital position, and make any recommendations as it feels appropriate. A full update will be included in the final budget report to Council in February, when a fully balanced programme will be presented for approval.

5 HOUSING REVENUE ACCOUNT

- 5.1 In respect of the Housing Revenue Account (HRA), the recommendations complete the budget setting process for 2009/10. In considering the recommendations Council is asked to note the following:

- i. The revised budget position for 2008/09 is summarised at **Appendix F**, for Council approval. Overall, a net increase in expenditure of £367K is forecast. Of this, £119K relates to approved carry forward requests, and a further £248K is to be transferred to the Major Repairs Reserve to help fund longer term maintenance of the housing stock. Other net variances arising have been offset by a reduction in revenue financing for the current year's capital programme.
- ii. Next year's proposed revenue budget (also summarised at Appendix F) takes account of Cabinet's decision to set average housing rents at £59.56 per week, which represents an increase of 5%, i.e. slightly below the 5.9% 'Limit Rent' increase set by Government. As in previous years the decision on rent levels was taken at the January Cabinet meeting, subject to call-in, in order to give sufficient time for the statutory notices on rent changes to be issued to tenants by 01 March. Future years' budget projections continue to assume year on year rent increases of 5%.
- iii. The budget proposals also allow for the latest notifications on housing subsidy payable to the Government (known as 'negative subsidy'). The Council will benefit as a result of some changes that the Government has introduced. In next year the Council is now due to pay £1.185M, representing a reduction of £159K when compared with the current year. This is expected to be a one-off benefit, however. The outcome of Government's recent review of the subsidy system is due out in spring, and this should inform Government decisions regarding council rent and subsidy determinations from 2010/11 onwards.
- iv. The proposed revenue budget provides for various growth items, the largest of which relates to energy performance certificates. More information is included at **Appendix G**.
- v. A formal review of the HRA's Balances, Reserves and Provisions has been undertaken, the outcome of which is reflected in **Appendix H**, as well as the HRA budget proposals. It is recommended that the minimum level of Balances be retained at £350K. After taking account of the 2007/08 outturn and the revised budget position for the current year, HRA balances are expected to be in line with this recommendation.
- vi. In effect, the budget proposals allow for any surplus resources to be transferred into the Major Repairs Reserve (MRR), to support future years' capital investment in line with the 30-year Business Plan.
- vii. Members may be aware that in order to fund the Business Plan, it was originally estimated (some years ago) that £12.8M would need to be set aside in the MRR by 2014. Under these budget proposals, it is forecast that balances of around £10.3M will be set aside by then, leaving a gap of £2.5M. This has deteriorated by around £0.9M on the position a year ago. This needs to be an area for review, as soon as workloads allow.
- viii. With regard to capital, the proposed programme is set out at **Appendix I** and it has been driven primarily by the 30-year Business Plan, in line with the outcome from the Stock Options Appraisal. Other than the revenue financing changes mentioned earlier, no other major changes have been required in order to balance the capital position. The proposed programme will enable the housing stock to continue to meet both the Decent Homes Standard and the Council's own higher Standard, using information from the most recent stock condition surveys.

- ix. As in previous years it is not proposed to undertake any prudential borrowing to support capital investment in Council Housing, and therefore there is no direct impact on the Council's Prudential Indicators.
- x. The amount of capital expenditure to be funded from housing capital receipts in 2009/10 is estimated at £84,000. Expenditure up to this amount will be offset against HRA capital receipts as a capital allowance, before the pooling arrangements apply.
- xi. Finally, Members will be aware that the Pay and Grading report elsewhere on the agenda has medium term implications for the HRA, but these have not yet been built into these budget projections.

5.2 Cabinet's HRA budget proposals were to be presented to the District Wide Tenants' Forum on 28 January. Feedback from that meeting will be fed into Council under separate cover as appropriate.

6 CONCLUSION

6.1 Council are asked to approve the current version of the Corporate Plan and agree the process for signing off the final version of the Plan.

6.2 The report also seeks Council approval for the 2009/10 City Council Tax increase. It should be noted that by agreeing the recommendations of the report, Council will be approving the Council Tax increase for 2009/10 at 4%, but not the overall revenue budget requirement.

6.3 Regarding the General Fund Capital Programme, at this stage information on progress has been provided but Council is not being requested to approve any specific recommendations. Cabinet's final proposals will be reported to the Budget Council meeting for further consideration and final approval.

6.4 With regard to the HRA the position is different, in that this report includes Cabinet's final budget proposals for both revenue and the Council Housing Capital Programme.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

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

FINANCIAL IMPLICATIONS

As referred to in the report.

SECTION 151 OFFICER'S COMMENTS

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far. A summary of the s151 Officer's advice to date is provided below for information, but it should be noted that this is provisional until such time as Cabinet's full budget proposals for General Fund are known. At present, savings of around £1.4M still need to be identified and

this represents a significant risk to setting a balanced budget.

Reserves and Provisions

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed, given that measures are in place to manage and reassess other key issues such as Fairpay / Job Evaluation, and recognising that the arrangements to deal with any principal losses arising from Icelandic investments have effectively been postponed, in line with Government Regulations. There is still a need to review some other earmarked reserves, however, in light of Cabinet's budget and planning proposals.
- Unallocated balances of £350K for the Housing Revenue Account and £1M for General Fund are reasonable levels to safeguard the Council's overall financial position.

With regard to General Fund balances, £1M represents about 4.2% of the net Revenue Budget. The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at current levels, unless a specific service policy change indicates otherwise, and also this advice may be reviewed again once Cabinet's final General Fund budget proposals are known.

At present the General Fund budget proposals assume that estimated surplus balances as at 01 April 2009 (£191K) will be used to support next year's revenue budget. There is some risk attached to this, in that if further net overspending occurs in this year, the assumed surplus balances would not be available. In context of the overall budget, however, this risk should be manageable, but again this will be reviewed during February as part of updating the Council's Medium Term Financial Strategy.

With regard to Housing Revenue Account balances, £350K represents approximately 2.5% of gross income. With regard to any surplus balances, the same general principles apply (as they have done in recent years), in that they would be used to support the 30-year Business Plan, taking account of housing rent increases.

Robustness of Estimates

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

- Producing a continuation budget, taking account of service commitments, pay and price increases and expected demand / activity levels as appropriate, and the consideration of key assumptions and risks.
- Reviewing the Council's priorities and its associated service activities and spending / income generation plans. This is being supported by the Star Chamber exercise and by consultation.
- Reviewing the Council's medium term financial strategy and planning, following its adoption last March, together with other corporate financial monitoring information produced during the year.
- Undertaking an initial review of the Council's affordable borrowing levels to support capital investment, in line with the Prudential Code, but taking account of Government Regulations regarding Icelandic investments.

These measures ensure that as far as is practical at this stage, the estimates and assumptions underpinning the base budget are robust, but clearly further work is required to present a robust General Fund budget to achieve the recommended Council Tax increase, as well a balanced General Fund Capital Programme.

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. This will be covered in the report to Budget Council, at which time Council will consider full proposals regarding the capital programme and financing for the five year period to 2013/14. There is no borrowing to be undertaken in respect of the Council Housing Capital programme included in this report.

LEGAL IMPLICATIONS

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

MONITORING OFFICER'S COMMENTS

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

BACKGROUND PAPERS

Prudential Code
Local Government Finance Settlement

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