RECOMMENDATIONS TO CABINET – 7 FERUARY 2012

FROM THE RESOURCES AND PERFORMANCE PANEL MEETING HELD ON 31 JANUARY 2012

RP106: **FINANCIAL PLAN 2011 - 2015**

The Deputy Chief Executive presented the Full Financial Plan 2011/2015, which was produced on an annual basis, as part of the council tax setting process. The Council updated its longer term Financial Plan to take account of any changes in grant settlements, inflation on service costs and revised priorities of the Administration.

The Panel was informed that in February 2011 the Council set out a Financial Plan for 2010/2014 that took account of the coalition Government's aim of reducing the national deficit quickly and in doing so accelerated the reduction in Government grant to councils. The Plan showed the formula grant to the Council reducing by 30% in cash terms over the period 2011/2014. It was highlighted that the period remained the most difficult period since the Council came into being in 1974 in terms of containing levels of spending whilst maintaining services to residents, businesses and visitors to the Borough.

Members were advised that in the grant settlement announced by Government on 8 December 2011 it was confirmed that the grant to the Council had been reduced by £1.4m from £12.3m in 2011/2012 to £10.9m in 2012/2013. In 2013 the Government intended to replace the current formula grant system with an arrangement by which the Council would retain a proportion of the business rates that it collected. It was noted that full details of the new scheme were not available and there was no provisional figures for the new system of 'grant' for 2013/2014 or 2014/2015.

The Deputy Chief Executive explained that the Council's record over the past few years showed it to be 'ahead of the game' and it had quietly gone about its business in seeking efficiencies and different ways of delivering services producing significant levels of savings and reductions in staffing and as a consequence, the pay bill. During 2010 and 2011 service reviews had reduced ongoing annual spending each year rising to £5.2m savings in 2013/2014. It was highlighted that very few authorities could match the record of the Council and many still had difficulties in dealing with the budget for the current year and future years. The Council's early actions had therefore provided it with breathing space to properly consider measured and well managed changes to services as necessary. The Council had achieved the savings in-house without the need to involve any consultants.

It was highlighted that the costs of services of the Council had been updated. The impact of the recession and the uncertainty of the economy made the longer term picture difficult to project.

- Containing spending – a number of service budgets had been held at

2011/2012 levels and increases had been made only where known price increases had occurred.

- Projecting levels of income in certain services including planning/car parks and industrial estates remained difficult in this period and a cautious approach had been taken on projecting forward into 2012/2015.

- At the time of writing the report a number of Government documents/consultation papers were under consideration. Setting planning fees at local level, a local council tax discount scheme and the proposed retention of business rates would all affect the medium/long term Financial Plan, but to date firm details were not available and a cautious approach had been taken on the impact the changes could have on the finances of the Council.

The Deputy Chief Executive explained that when producing the revised estimates and projections for the full term of the Financial Plan use was made of working balances and reserves were used to protect the Council from volatile changes in the cost of services and receipt of income. The effect of using the balances provided the Council with time to consider in a more proactive and measured way how to deal with situations like the reduction in grant or changes in income from services. At no time did the Plan take working balances below the minimum level as stated in the Balances and Reserves Policy of the Council.

The Panel was informed that as part of the grant settlement the Government had included an incentive for councils to hold council tax to current levels. If the Council therefore set council tax Band D at £111.97 (no increase) then the Government would provide extra grant equivalent to 2.5% of council tax income. This would equate to £157,890 for the Council, but would only be paid for one year in 2012/2013. The Financial Plan 2012/2015 assumed no increase in council tax for 2012/2013. The new Plan assumed an increase in council tax for 2013/2014 and 2014/2015 of 2.5% each year.

The Deputy Chief Executive advised that the record of the Council on council tax over the past few years had been exceptional. If the Council delivered council tax at the proposed levels in the Plan, then over a period of 10 years since April 2005, the council tax would had only risen by 8.25% from £108.67 to £117.64in the period of up to and including 2014.

The Panel’s attention was drawn to the following key areas:

- The Revenue Budget 2011/2012.
- Cost of Services 2012/2015.
- Changes to the Current Financial Plan.
- Fees and Charges 2012/2013.
- Corporate Business Plan, Service Plans and Investment.
- Staffing Plan – at the time of settling the Financial Plan in February 2011 savings on the pay bill were £2.7m. In the current year a further

£390,000 of savings on the staffing budget had been identified rising to £428,000 in 2014/2015.

- Internal Drainage Boards (IDBs).
- Special Expenses – 2012/2013.
- Government Grant – Council Tax Freeze.
- New Homes Bonus.
- General Fund Balance and Reserves.
- Collection Fund Surplus.
- Council Tax – Council Tax Base 2012/2013, Council Tax 2011/2012, Council Tax 2012/2013 and future years.
- Cost Reduction Programme.
- Prudential Framework.

In conclusion, the Deputy Chief Executive informed the Panel that the Council could balance the budget for 2012/2013 and 2013/2014, but the impact of rising costs, uncertain levels of income and reducing 'grant' resources and controlled levels of council tax meant that there was a shortfall in 2014/2015 of £1.5m. The Council had planned to use working balances and reserves to allow for time to properly plan and organise changes in services and ways of service delivery.

In response to questions from Councillor Humphrey relating to the one-off salary payment, the Deputy Chief Executive explained that as part of the two year pay agreement it was resolved that a flat rate sum, of £250 per full time employee (pro rata for part time) be awarded to all permanent/fixed term employees on a one-off basis, subject to the Council exceeding its budgeted savings targets for 2011/2012. The target for 2011/2012 was set at £231,000. Savings in 2011/2012 had reached a sum of £594,250. This would therefore allow the £250 payment to be made in 2012/2013.

In response to questions relating to Internal Drainage Boards, the Chief Executive explained that IDBs levies were paid by the Council to the various Drainage Boards. The levies counted as spending of the Council, but a percentage (82%) was repaid by the Government one year in arrears as part of the grant settlement. Any substantial increase in the levies could have an adverse impact on the council tax payer who picked up the residual costs. The budget estimates for 2012/2013 were based on 2011/2012 actual costs plus an allowance for inflation.

The current arrangements for the partial repayment of levies through the grant settlement were likely to change in 2013 with the introduction of retention of business rates by the Council rather than receipt of formula grant from Government. The Panel was advised that there was no provision for the settlement of changes in Drainage Board levies included in the proposed new system of funding local authorities. The Deputy Chief Executive advised that this introduced a degree of uncertainty in the budget process especially if Drainage Boards raised the levy above the rate of inflation.

In response to further questions from Councillor de Winton regarding the funding relationship with IDBs, the Deputy Chief Executive explained that it would be preferable to levy outside the authority and to be funded centrally. The Council had written to Government, but to date had received no response.

The Chief Executive added that the new arrangements would prove difficult as the baseline was set for a 10 year period. He explained that if the IDB increased the levy in year 2, the Council would have to fund the increase from its own expenditure.

Councillor White commented on the amalgamation of IDBs and spending levels. The Deputy Chief Executive explained that the IDBs had been fairly stable in the increase in levies over past years. However, there would be a concern for the Borough Council if major capital works were required in the future.

Councillor Crofts commented that he was a member of several IDBs and in his view the Borough Council could gain greater control. The current practice was that the Borough Council was permitted to have one more representative than landowners. The current membership of the King’s Lynn IDB was 29, with 15 Councillors. There was a proposal to reduce the King’s Lynn Board to a more manageable level. He highlighted the importance of Councillors having a certain level of drainage knowledge before being nominated to become a member of the IDBs.

In response to questions from Councillor J Collop regarding special expenses for King’s Lynn, the Deputy Chief Executive explained that in each case the actual Band D charge had been calculated, but in 2012/2013 the charge to be made to residents would be subject to a freeze if the revised figures increased the charge from the level set in 2011/2012. For example, in Hunstanton the actual charge had reduced to £32.46 from £37.49 and in this case the lower charge would be made. In the case of Downham Market and King’s Lynn the actual charges had increased, but the charge to be made would be restricted to last years figure. The sum total for special expenses was £722,810, however, the Council could not fully recover all costs because of the freeze on council tax and would therefore only include a sum of £551,100 in the estimates for 2012/2013.

Following questions from Councillor D J Collis on the Government Grant and Council Tax Freeze, the Deputy Chief Executive explained that in 2011/2012 the Government provided an incentive to freeze council tax by offering councils an additional grant equivalent to a 2.5% increase on a Band D council tax charge. The grant was payable for 3 years to 2013/2014. The sum due for 2012/2013 was £157,440. In 2012/2013 if the Council freezes council tax, then the Government would again provide for an additional grant of £157,890 equivalent to a 2.5% in council tax, but it would be for one year only. In 2012/2013 this would give a total figure to be claimed by the Council of £315,330 (£157,440 plus £157,890).

In response to questions and comments from Councillor D J Collis on the New Homes Bonus, the Deputy Chief Executive explained that benefits available to the Council if new houses were built and outlined the additional enhancements for each affordable home added to the list. The scheme was introduced in April 2011 and the Council had gained funding of £451,600 for new homes in 2011/2012 and a further £601,080 to be paid in 2012/2013. It was also assumed that over the next two years the bonus would increase by a further £550,000 per year.

The Chief Executive advised that during the last 8 years the Borough Council had been endeavouring to drive the economy forward by supporting business growth to generate additional income for the Council. He explained that if the level of business rates increased the authority would benefit, however if there was a reduction in business rates collected, the authority's income would reduce. Reference was made to the best and worse case scenarios, for example, the new proposed Sainsbury's store could generate additional business rates, but if the power station was to close down, the Council would lose business rates income.

Following questions from Councillor de Winton on business rates and growth, the Deputy Chief Executive explained that the Council had no say in setting the level of business rates. The rates were set by Government. However, the Council could continue to be proactive in encouraging new businesses to locate in the Borough to increase the volume of business rates collected.

In response to questions from Councillor D J Collis on the cost of redundancies, the Deputy Chief Executive undertook to obtain the relevant information and circulate details to the Panel.

Councillor Wareham asked what level of savings on salaries had been achieved to date. In response, the Deputy Chief Executive advised the amount was £3m.

Councillor D J Collis asked what consultation had been carried out within the Council. The Deputy Chief Executive explained that representatives from all sections, including Unions had been consulted as well as an article being published in the Management Team update on which all staff were invited to comment. To date no comments had been received.

In response to questions from Councillor Humphrey relating to a decrease in car parking income, the Deputy Chief Executive explained that during the estimate process, an assumption had been made that additional income would be generated from car parking charges. However, the increase in the volume had not occurred. The numbers of visitors had decreased. In Hunstanton, this was due to the poor weather during the summer months. King's Lynn car parks had been down, but had recovered during the Christmas period. Health warnings were detailed in the Monthly Budget Monitoring Reports which were circulated to all Members. The situation would continue to be monitored closely.

Following comments and questions from Councillor J Collop on the New Homes Bonus, the Deputy Chief Executive explained that the Council could encourage new build, but also become a developer itself by entering into a joint venture arrangement within a framework contract which would generate a return for the Council.

Councillor D J Collis enquired if the condition of surfaces of the Council's car parks was a factor in a reduction of the Council's income. The Chief Executive advised that there was a schedule of works within the Capital Programme to address the issue.

RESOLVED: That Cabinet be advised that the Resources and Performance Panel supports the recommendations as set out in the report to Cabinet as follows:

<u>Recommendation 1</u>

It is recommended that Council approve the revision to the Budget for 2011/2012 as set out in the report.

<u>Recommendation 2</u>

Council is recommended to reaffirm the Balances and Reserves Policy and the maximum balances set for the reserves as noted in the report.

<u>Recommendation 3</u>

It is recommended that Council:

1) Approves the budget of £16,901,700 for 2012/2013 and notes the projections for 2013/2014 and 2014/2015.

2) Approves the level of Special Expenses for the Town/Parish Councils as detailed in the report.

3) Approves the Fees and Charges 2012/2013 detailed in Appendix 3.

4) Approves a Band D council tax of £111,97 for 2012/2013.

<u>Recommendation 4</u>

Council is recommended to approve a minimum requirement of the General Fund balance for 2012/2013 of £881,669.

<u>Resources and Performance</u>

Members were informed that the first part of the report looked at the budget for services within Resources and Performance for 2011/2012. Although the budgets were revised in a report to Cabinet in January 2012 some changes had occurred since that date.

The full Financial Plan 2011/2015 presented in the previous agenda item provided an overview of the budget proposals which would be considered by

Cabinet on 7 February 2012. Council would be asked to approve the Financial Plan 2011/2015 and the council tax for 2012/2013 on 23 February 2012.

The report looked at the budgets and proposals for changes to the services within Resources and Performance over the period 2012/2015.

` The Principal Accountant explained that the original budget 2011/2012 was approved by Council on the 24 February 2011. Throughout the year the budget had been monitored and where necessary sought approval for additional budget provision. A revision to the 2011/2012 budget was approved by Cabinet on the 10 January 2012. The figures had been further reviewed as part of the budget process and in the case of the Resources and Performance services further changes, as shown in the table below, were made.

A summary of the changes from the Approved Budget to Projected Outturn were set out at section 2.2 of the report.

The main changes were outlined as follows:

- Budget provision of £167,100 was included in 2012/2013 to allow the £250 salary payment to be made as detailed at 3.28 of the Financial Plan 2011/2015.

- The original service review target in 2013/2014 had been deleted in the updated Financial Plan 2011/2015. Early work on achieving savings and careful use of the working balances had meant that the Council was able to set a balanced budget for 2012/2014. The Council would need to continue to make savings to meet the potential deficit of future years and a new target had been set for 2014/2015. Section 10 of the Financial Plan 2011/2015 provided further details of the Cost Reduction Programme.

The Panel was advised that the Financial Plan had now been updated for the revised service budgets. In addition, projections had now been prepared for 2014/2015. The main movements between 2013/2014 and the new projects for 2014/2015 were detailed at section 3.5.

The Principal Accountant explained that the Council relied heavily on income from charges for services to help keep council tax at low levels. This reliance did expose the Council to the risks associated with demand led services and in the current period of recession there were concerns over the levels of income that would be achieved.

Members were informed that the fees and charges applicable in 2012/2013 were detailed in Appendix 3 to the overall Financial Plan 2011/2015. A general inflationary rate of 3.9% (the forecast rate for RPI as at 31 March 2012 which was available at November 2011) had been applied to services within Performance and Resources.

In response to questions from Councillor Humphrey on a decrease relating to grants and contributions in 2013/2014, the Deputy Chief Executive explained that an assumption had been made on the level of contribution from Norfolk County Council relating to second homes money. It had now been agreed that Norfolk County Council would continue with the current level of contribution for 2012/2013, but that it could not be assumed for the following year. It was explained that to allow the policy and partnerships programme to progress an amount would be drawn from reserves. The Chief Executive added that an agreement had been made by the Norfolk Leaders to continue the arrangement.

On behalf of the Panel, the Chairman, Councillor Mrs Mellish expressed thanks to officers and Members in delivering a balanced budget and maintaining the levels of service within the Council.

At the invitation of the Chairman, the Leader addressed the Panel. The Leader explained that during his 5 year period, this year had presented the biggest challenge. He expressed his thanks to Management Team for their efforts in balancing the budget and identifying savings, but highlighted that further savings would need to be found in future years in order to achieve a balanced budget.

RESOLVED: The Panel approved the budget proposals 2011/2015 for services within Resources and Performance.

RP107: **CAPITAL PROGRAMME 2011 – 2015**

The Chief Accountant presented the report which:

- Revised the 2011/2012 projections for spending on the Capital Programme.
- Set out an estimate of capital resources that would be available for 2011 – 2015.
- Detailed new capital bids that were recommended to be included in the Capital Programme for the period 2012 – 2015.
- Outlined provision figures for capital expenditure for the 10 year period to 2021/2022.

The Chief Accountant explained that the current climate had brought about a significant slowdown in investment by housing developers and commercial operators which in turn had impacted on the Council's targets for land sales that would provide resources for its Capital Programme. Land sales of housing sites had come to a halt and commercial land sales were taking place, but progress was slow and always subject to planning approval. The Council was faced with a situation where capital resources to fund the Capital Programme were at an all time low and as a consequence would need to revise its ambitions and current plans.

Members were informed that the report set out a programme for 2011/2015 that could be delivered if predicted land sales came about. Certain capital funds came from grants, VAT shelter receipts and reserves, but a large part of funds were to come from land sales. Those sums included in 2011/2015 were anticipated receipts from identified sites, but if the market declined further then it might be necessary to revise the programme.

The programme of works for the years 2015/2022 set out draft proposals and in the light of the current state of the economy further work would need to be carried out to look at the funding issues. Proposals for a major housing development scheme which was intended to generate future capital receipts were currently being prepared. The Council would aim to deliver the Capital Programme even in these difficult times. However, to some degree the Council should curtail its ambitions and revise its Capital Programme accordingly. The report set out a programme of work that fulfilled that aim.

Capital Programme 2011/2012

The Panel was reminded that a full updated Capital Programme 2011/2012 of £11,426,010 was reported at the Cabinet meeting on 21 June 2011. Since that date further amendments to the programme had been reported as part of the monitoring reports, as summarised at section 2 of the report.

Capital Programme 2012/2015

The Chief Accountant explained that this part of the report dealt with the medium-term capital programme 2012/2014 and firstly looked at a revision to the current approved programme. A full updated Capital Programme 2012/2014 was reported at the Cabinet meeting on 21 June 2011 and was summarised at section 3 of the report.

New Bids on the Capital Programme 2012/2015

The Chief Accountant informed the Panel that the ten year Capital Programme reflected a longer term view of the requirements of services in maintaining current levels of service standards, together with the schemes previously within the Decade of Development programme.

The Panel was advised that given the current financial position of the Council and the limited capital resources available, no new bids for new build or major refurbishment schemes were sought. The additional schemes proposed for inclusion in the 2012/2015 Capital Programme were outlined as set out at section 4.3 of the report.

Capital Programme 2011/2015

The Chief Accountant outlined the revised Capital Programme 2011/2015 which included all amendments, rephrasing and new bids as set out at section 5.1 of the report.

Capital Resources 2011/2015

Members were advised that the report to Cabinet on 21 June 2011 updated the total capital resources available for the period 2011 to 2014. The available resources had been updated to include those that become available in 2014/2015, against which new capital bids would be considered. It was highlighted that it had been possible to fund all the news bids listed in section 4 of the report.

10 Year Capital Programme

It was noted that the overall Capital Programme now fully incorporated the decade of development schemes as approved at Cabinet on 27 July 2010. A review of those schemes had been undertaken for amendments and rephrasing for the period 2011/2022, however in the current economic climate and the reduced flow of capital receipts, a detailed review of schemes in the programme for the period 2015/2022 would need to be undertaken.

In response to questions from Councillor Humphrey on solar panels being an “investment to save” initiative rather than being funded from unsupported borrowing, the Chief Accountant explained that the Council would receive a return on the level of life of the asset. This amount would be charged to revenue and then offset. The Deputy Chief Executive added that there was a pay back period which might improve. He referred to the Government changing the tariff and the requirement for the business case to be re-worked and a delegated decision arrangement to be put in place. It was anticipated therefore that there would be a reduction in the electricity bill which would give a net gain to the Council.

Councillor Loveless referred to the car park and path repairs at Lynnsport and asked when works would commence. In response, the Chief Accountant explained that the schedule of works had been rephrased to 2012/2013. Councillor Loveless commented that he had concerns about the state of some paths and had raised this important issue with the Lynnsport Manager on a number of occasions. The Chief Accountant undertook to find out the details requested by Councillor Loveless and respond to him directly.

Councillor D J Collis referred to page 10, paragraph 3 of the report and asked how the constraints to allow future development would be dealt with, to which the Deputy Chief Executive explained that the Pelicans hockey pitch had a 99 year lease. The current pitch was located in a developable area. Agreement had been reached with the hockey club to relocate and the Council would provide an alternative pitch. The hockey club had indicated that they were willing to move at short notice. This arrangement would allow the hockey club to fund and build a second pitch.

Councillor Loveless made reference to the Ferry car parking scheme and the project requiring an area of land which had been identified. The Deputy Chief Executive explained that there was potential to develop the identified area of land. The Council had formally written to the landowner on two occasions, but he had refused to sell the land. It was the Council's view that if the land could not be purchased, and the land was to be developed in the future, then a contribution for the Ferry car parking scheme could be raised through a S106 Agreement/Community Infrastructure Levy. The Leader advised that the Council had tried direct contact with the landowner as well as the West Lynn Forum but without success. The Council would however continue to find a way to improve the car parking for the Ferry service.

Councillor Morrison asked if a reduction of £50,000 in the cost to connect sewage treatment works to the main sewer were realistic. The Chief Accountant advised that discussions had been held with Property Services who had confirmed that the identified schemes could be delivered within the reduced budget provision.

Councillor Loveless commented that he supported the bid of £200,000 to bring back derelict land/buildings into use and improve the visual image and hoped that Cabinet would approve the bid.

In response to a question from Councillor Loveless on how the capital would be financed from special expenses during 2013/2014, the Chief Accountant explained that there were two schemes:

- Replacement pavilion at Kings Way which would be charged to King's Lynn special expenses.
- Investment in play areas.

Councillor de Winton commented that the Capital Programme was dependant on capital receipts. This presented a concern in that the Council could become "hostage" in that the NORA site had to be sold in order to attract new business, but on the other hand the proposal would take trade from the town centre. In response, the Leader explained that this was a valid point and that the Council was constantly debating such proposals to reach a sensible decision. The Deputy Chief Executive referred to the previous meeting when the Property Services Manager had presented a report to progress with the sale of an area of land on the NORA site and highlighted that there would be instances in the future where the impact would need to be considered.

RESOLVED: That Cabinet be advised that the Resources and Performance Panel supports the recommendations as set out in the report to Cabinet as follows:

It is recommended that:

1) Cabinet recommends to Council the amendments to capital schemes and resources for the 2011-2015 Capital Programme as detailed in the report.

2) Cabinet recommends to Council that new capital bids of £499,500 are to be funded from available capital resources and included in the Capital Programme 2012-2015.

3) Cabinet note the forecast for capital expenditure for the 10 year period to 2021/2022.