LANCASTER CITY COUNCIL

Promoting City, Coast & Countryside

LATE REPORTS, URGENT BUSINESS and SUPPLEMENTARY INFORMATION

Cabinet

Tuesday, 5 November 2019

The following report was received too late to be included on the main agenda for this meeting and was marked 'to follow'.

Agenda Item Number	Page	Title	Reason for Late Report	Officer Responsible For Late Report
8	1 - 14	MEDIUM TERM FINANCIAL STRATEGY		
		(Cabinet Member with Special Responsibility Councillor Whitehead) Report of Director of Corporate Services (Report to follow)		

Agenda Item 8

CABINET

Budget and Policy Framework Update 2020/21 to 2023/24
5 November 2019

Report of Director of Corporate Services

PURPOSE OF REPORT					
To provide an update on the Council's Medium Term Financial Strategy forecasts for 2020/21 to 2023/24 and outline the approach and timetable for considering the budget framework.					
Key Decision		**Non-Key Decision**		**Referral from Officer**	
Date of notice of forthcoming key decision					
This report is public.					

RECOMMENDATIONS OF COUNCILLOR WHITEHEAD:

i. **That the draft budgetary position, set out in section 2 (and appendix 1) for current and future years be approved, accepting that this is an interim update.**

ii. **That Cabinet agree the approach to the budget framework as set out in Section 3 of the report.**

iii. **That Cabinet agree the timetable as set out in Section 4 of the report.**

1 **INTRODUCTION**

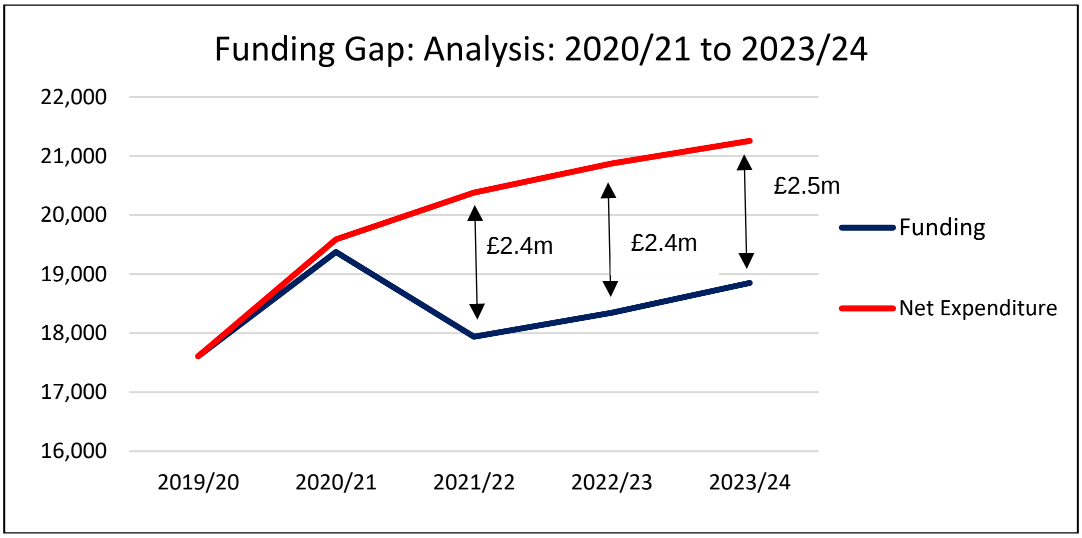
1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning proposals and a balanced budget for Council's consideration.

1.2 This report sets out:

- An updated budget gap analysis taking account of the latest funding outlook and other information on expenditure and income pressures (section 2 and appendix one)
- A brief summary of the budget framework strategy (section 3)
- A timetable for balancing the 2020/21 to 2023/24 revenue budgets and capital programme (section 4)

2 UPDATED BUDGET GAP ANALYSIS

2.1 Appendix One provides an update to the funding forecast based upon the latest available information. It should be noted that this forecast is subject to change when more up to date information becomes available. The budget gap for the next four years is summarised in the graph below.



2.2 The graph above shows a forecast reduction in funding in 2021/22 associated with Government's Fair Funding review where it is anticipated that there will be a redistribution of funding to upper tier authorities to deal with social care demand pressures. However, beyond this one-off adjustment, funding is forecast to rise. As such, the gap is not anticipated to widen significantly, as it did during the years of funding cuts, and therefore once the gap has been addressed, the Council should be on a more sustainable financial footing. More detailed information on the budget gap is included in appendix one.

3 BUDGET FRAMEWORK STRATEGY

Revenue Budget – 2020/21 to 2023/24

3.1 The Financial Resilience Advisory Group considered an Outcomes Based Budgeting approach to the revenue budget to replace the incremental approach undertaken in the past. Key features of the approach include:

- A review of all expenditure and incomes and not just incremental annual changes to the budget.
- A focus on outcomes taking account of corporate priorities
- An opportunity to take a four year view of the budget to cover the period of the Council to ensure that 'knee-jerk' financial decision are avoided in favour of better long term budget planning
- An opportunity to move away from a silo approach to budgeting to more co-ordinated delivery of plans in key corporate priority areas
- A focus on the Funding the Future strategy to deliver efficiencies and increased income from property investment and commercialisation
- An opportunity to focus on growth, in the council taxbase and business rates base, in order to recognise the benefits of projects which focus on sustainable economic growth

Capital Programme

3.2 A full review of the Capital Programme is being undertaken as part of the budget setting process. A capital bidding process, introduced last year, which requires all new and existing bids to be assessed and scored against corporate ambitions will be further developed and a Capital Programme white paper will be considered by the Financial Resilience Advisory Group in November.

Reserves Strategy

3.3 A revised approach to the governance processes for use of reserves was approved by Cabinet last month and this approach will be employed as part of the budget process.

Housing Revenue Account

3.4 A full update on the HRA budget and financial outlook will be considered alongside the revenue budget, in January, including options to ensure that the service's 30-year business plan is viable and that its ongoing budget is balanced, whilst delivering value for money to tenants.

4. BUDGET TIMETABLE

4.1 The proposed budget timetable is set out on the next page.

5. DETAILS OF CONSULTATION

5.1 As in previous years, planned public drop-in events, the usual high level consultation with relevant stakeholders on the budget will be undertaken prior to Budget Council in February. More specific consultation will be considered at a future meeting of the Financial Resilience Advisory Group. Consultation on council housing matters will be undertaken through the District Wide Tenants' Forum.

6. OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

6.1 Regarding the budget strategy, Cabinet may approve the proposals as set out, or require changes to be made to the suggested approach. The overriding aim of any budget setting process is to approve a balanced budget by statutory deadlines, allocating resources to help ensure delivery of the Council's corporate priorities. The proposed approach is in line with that broad aim, drawing on various strategic matters. Any changes that Cabinet puts forward should also be framed in that context.

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)** None 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 IMPLICATIONS As set out in the report.	
SECTION 151 OFFICER'S COMMENTS The section 151 Officer has been significantly involved in the budget process and the production of this report.	
LEGAL IMPLICATIONS Legal Services have been consulted, but at this stage there are no legal implications arising.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no comments to add.	
BACKGROUND PAPERS None.	**Contact Officer: Daniel Bates** **Telephone: 01524 582138** **E-mail:dbates@lancaster.gov.uk**

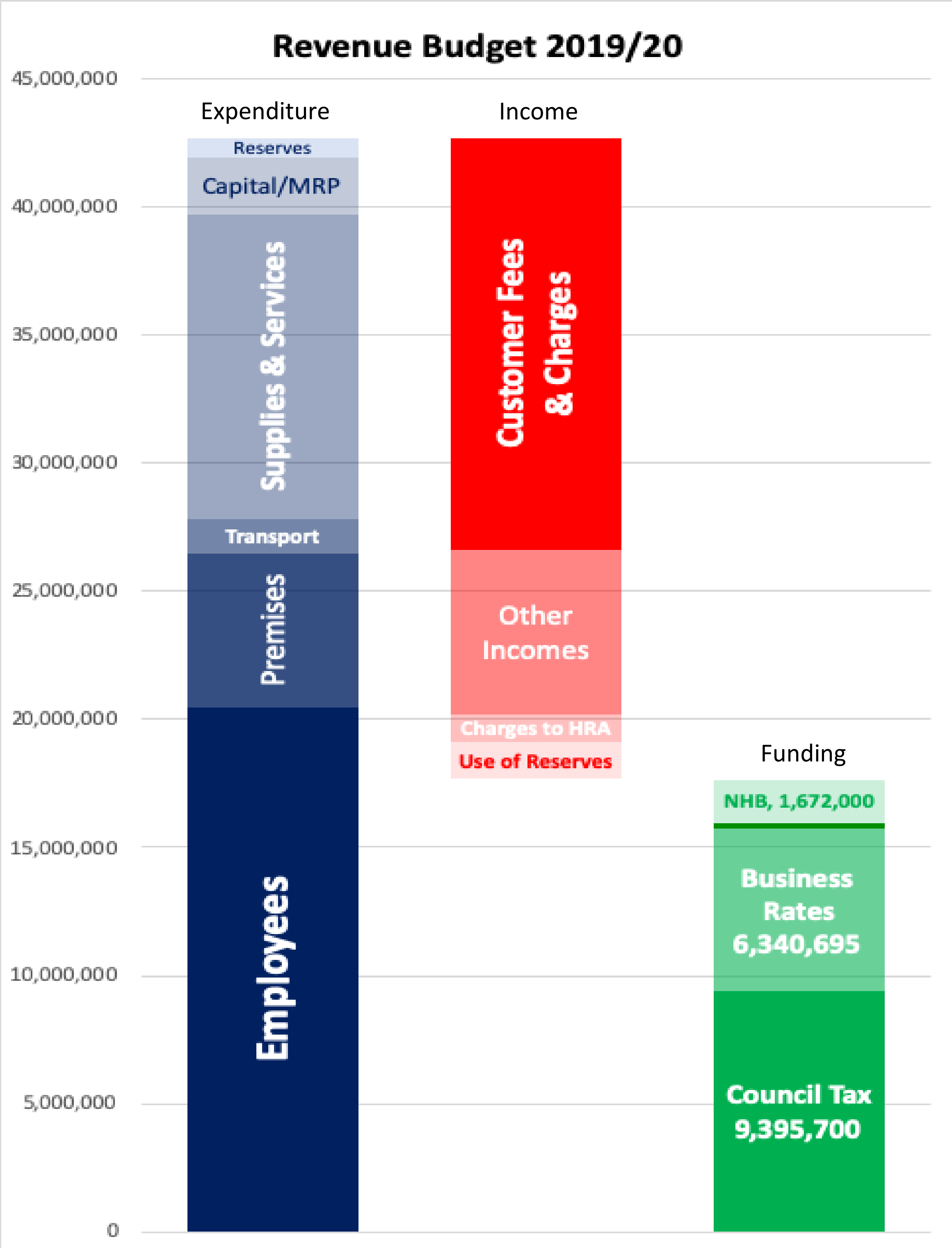
Budget Timetable for the period of 2020/21 to 2023/24

OBB Timetable	Date	Revenue	Capital	Reserves
Stage 1: Challenging the Base: •Budgetholders complete cost centre summaries OBB challenge processes	October	Outcomes Based Budgeting approach agreed		Reserves Strategy Agreed
		•Budgetholders completing cost centre summaries •Full budget model released to Councillors •Additional challenges		
	November	**Cabinet (06/11)**: MTFS refresh provides budget gap analysis and timetable	**Capital Strategy Group** Capital Process White Paper – to consider bid/ scoring/approval process	
		Cost centre summaries completed by budgetholders		
Stage 2: Cabinet Steer •Cabinet determine spending and saving priorities •Growth, Sustain, Refocus, Retreat, Stop Expected areas for growth and savings agreed		**Informal Cabinet meetings**: Review of cost centre summaries and discussion on priorities and agree 'steer' in respect of growth bids and savings plans	Capital bids process opened	
		Councillors/budgetholders meet for information sharing around cost centre summaries		
	December	Budgetholders start on Growth Bids, Savings Plans in accordance with Cabinet 'steer'	**Cabinet (03/12):** report on capital approach.	Reserve bids process opened
		Cabinet (03/12): Council Tax Support considered	**B&PP (10/12):** Capital approach considered	**B&PP (10/12):** Reserves Strategy considered
		Informal Cabinet: All growth bids, savings plans, reserve bids and structural changes considered and options model released to all Councillors		**Council (18/12):** Reserves Strategy considered
Stage 3: Cabinet develops proposed budget	January	**Informal Cabinet** to agree proposed budget including council tax	**CSG** consider key capital schemes and undertake initial scoring exercise	
		Cabinet (14/01): Cabinet approves proposed budget		
Stage 4: Consultation using budget model with identified groups		**B&PP (21/01):** consultation on proposed budget	**Informal Cabinet** – score all Capital Bids	
		Council (29/01): approve Council Tax level		
Stage 5: Approval	February	**Cabinet (11/02):** approves proposed budget for 2020/21 to 2023/24	**Cabinet (11/02**): approves Capital Programme for 2020/21 to 2023/24.	**Cabinet (11/02):** approves finalised Reserves Strategy.
		Budget Council (26/02): Final Budget Approved	**Budget Council (26/02):** Capital Programme Approved	**Budget Council (26/02):** Reserves Strategy Approved

APPENDIX ONE – REVISED BUDGET GAP FORECAST

The Starting Point – 2019/20 revenue budget

The revised budget gap forecast is measured in terms of known changes from the balanced 2019/20 budget, a breakdown of which is shown in the chart below.



The next sections look at the latest funding projections based on the latest information available. This information will be updated as and when more information is available, particularly in December when the draft Local Government Finance Settlement is expected.

Council Tax

Council tax is the Counci's primary source of funding. It is calculated by multiplying the taxbase, the number of eligible residential properties (expressed in band D equivalents), by the level of district council precept which is determined each year. The table below shows council tax forecasts for the next four years.

	Actual 2018/19	Actual 2019/20	Forecast 2020/21	Forecast 2021/22	Forecast 2022/23	Forecast 2023/24
Taxbase	41,200	41,400	41,768	42,186	42,608	43,034
Taxbase Growth		0.49%	0.89%	1.00%	1.00%	1.00%
Band D level	220.36	226.95	231.95	236.95	241.95	246.95
Band D increase		2.99%	2.20%	2.16%	2.11%	2.07%
Council Tax Income	**9,078,832**	**9,395,730**	**9,688,194**	**9,996,007**	**10,309,007**	**10,627,268**
Previous MTFS		9,395,730	9,773,186	10,166,121	10,574,894	10,999,873
Difference		**0**	**-84,992**	**-170,114**	**-265,887**	**-372,606**
Above Assumptions: 1% taxbase growth from 2021/22 onwards and £5 increase in band D throughout the medium term						
Scenario A: No increase in Council Tax over period of MTFP			-208,842	-421,861	-639,120	-860,682
Scenario B: Property growth at 18/19 growth levels (0.49%)			-49,792	-103,324	-160,806	-222,459
Scenario C: Increase in property growth to 1.5% per annum			48,383	100,905	157,832	219,445
Scenario D: 1% drop in council tax collection rate			-97,732	-101,661	-105,749	-109,999

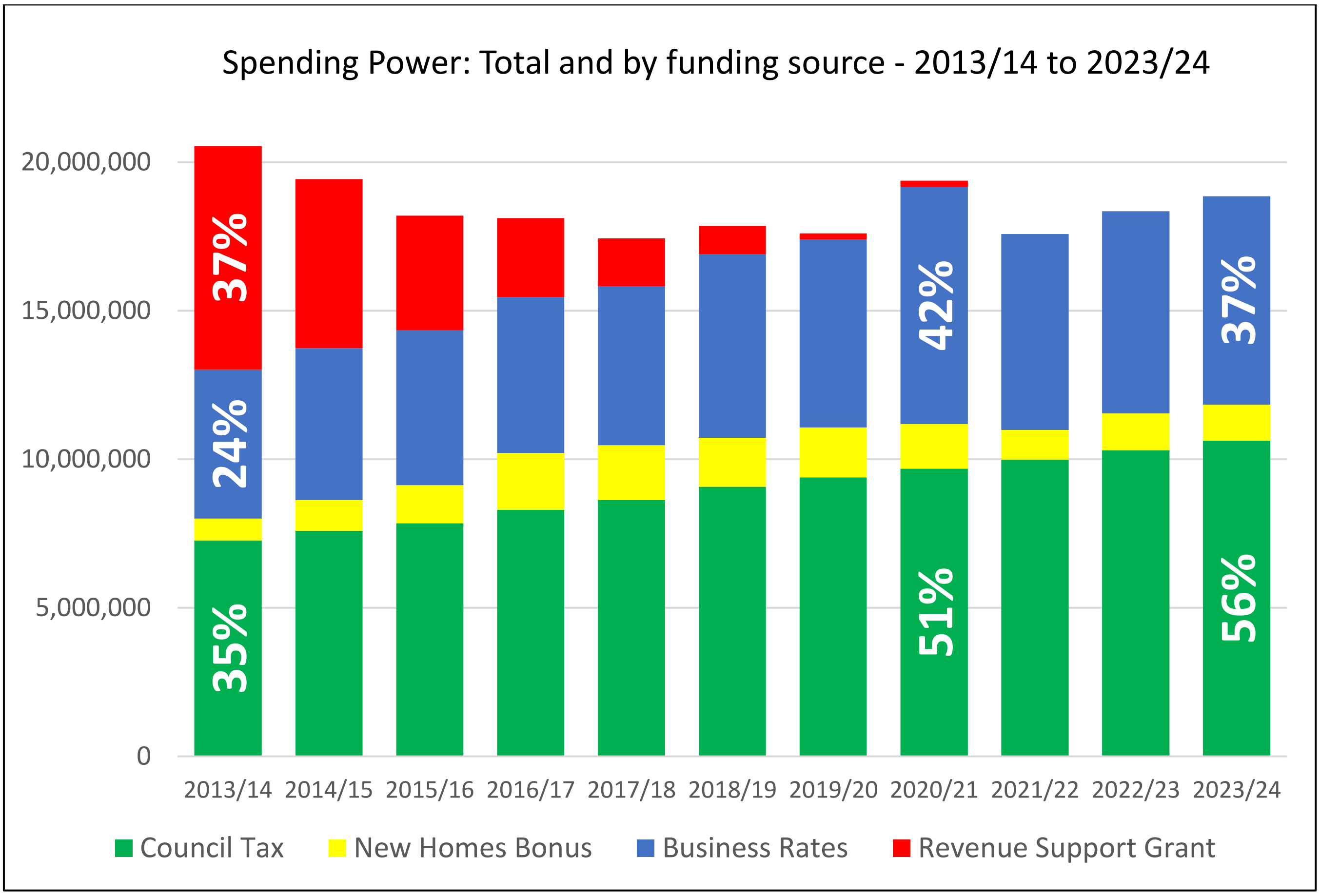
The figures explained

The Council's taxbase is forecast to grow by 0.89% between March 2019 and 2020; this is lower than the 1% previously forecast. This estimate is based on an annual return which calculates the number of properties, taking account of exemptions, discounts and council tax support. The number of actual properties only grew by 0.47% but an increase in empty properties coming back in to use and a reduction in those receiving council tax support has resulted in the estimated 0.89% increase. Scenarios B and C in the sensitivity analysis show the impacts on the budget of slower and quicker growth in the taxbase.

The forecast band D level has reduced when compared with last year's forecast. This is because the Government has indicated that referendum criteria will limit increases to 2% (previously 3%) or £5 whichever is greater. For the purposes of forecasting, it has been assumed that the Council will increase council tax by £5, the maximum allowed, in each of the next four years. Scenario A in the sensitivity analyses shows the impact on the budget of freezing council tax over the MTFS period.

The importance of council tax

As the graph below shows council tax has become the most significant funding income for the Council, accounting for more than half of its funding income from 2020/21 onwards. As such decisions to freeze council tax and/or low growth in property numbers can have a significant impact on the revenue budget (as shown by scenarios A and B) and if either or both were to happen then the Council would have to look to expenditure reductions or increases to other incomes in order to balance the budget.



The importance of council tax to the Council's revenue budget is demonstrated by the change in referendum criteria which means that the Council can no longer raise council tax by 3%. The lower increase of £5 per annum (just over 2%) will over the next four years wipe out £373k in additional tax receipts. Furthermore, scenario A shows that no increase in council tax over the period of the Council will reduce receipts by a further £861k.

Business Rates

Localised business rates is now a fundamental part of the local government finance settlement and, with council tax, accounts for the majority of local government funding. There are three main elements to the system:

- Business rates funding baseline – this is an amount set by the Government based on assessed needs which the local authority is permitted to retain from business rates payers. It has no correlation whatsoever to the level of rates paid.
- Business rates growth retention – this is the share of business rates growth above a preset baseline which the Council is permitted to retain. So far the council has benefitted significantly from this source of income though it is set to be reset to zero in 2021/22.
- Green 'disregard' – councils keep 100% of business rates paid by hereditaments associated with renewable energy production. Lancaster has one of the highest levels of renewable energy rates income in England.

Business Rates	**Budget 2019/20**	**Forecast 2019/20**	**Forecast 2020/21**	**Forecast 2021/22**	**Forecast 2022/23**	**Forecast 2023/24**
Business Rates	24,924,776	26,890,116	27,483,984	28,173,832	28,880,995	29,605,908
less tariff	19,279,987	19,279,987	19,607,747	22,325,769	22,772,284	23,227,730
Rates Income	5,644,789	7,610,129	7,876,237	5,848,063	6,108,711	6,378,178
Baseline	5,644,789	5,644,789	5,740,750	5,456,363	5,565,490	5,676,800
Rates Surplus	0	1,965,340	2,135,487	391,700	543,221	701,378
Levy on growth (50%)	0	982,670	1,067,743	195,850	271,610	350,689
Budgeted						
Rates Income	5,221,430	5,221,430	5,310,194	5,047,136	5,148,078	5,251,040
Cap Compensation	212,537	212,537	251,532			
Green Energy	906,729	906,729	922,143	940,586	959,398	978,586
	6,340,695	6,340,695	6,483,870	5,987,722	6,107,476	6,229,626
Not budgeted						
Diff between Safety Net and Baseline		423,359	430,556	409,227	417,412	425,760
Rates Growth		982,670	1,067,743	195,850	271,610	350,689
MTFS Refresh		7,746,724	7,982,169	6,592,799	6,796,499	7,006,075
Previous MTFS		6,340,695	5,931,009	6,049,629	6,170,622	6,294,035
Difference		1,406,029	2,051,160	543,170	625,877	712,040
Above Assumptions: 10% reduction in SFA from Fair Funding Review shown as reduction in baseline in 2020/21, 0.5% growth in net rates, budgeted at worst case due to power station risk.						
Scenario E: The power station closes down for a significant period (worst case scenario)			-1,498,300	-605,077	-689,022	-776,449
Scenario F: No Fair Funding Review reductions			0	606,263	618,388	630,756
Scenario G: 1% net rates growth every year			68,368	70,782	145,474	224,239
Scenario H: 2% net rates growth each year			205,104	214,437	442,897	686,083

The figures explained

The first two columns of figures on the above analysis show the difference between the Council budget and actual forecasts for business rates. To date, the Council has budgeted assuming a 'worst case' scenario which includes no growth and an expectation that rates income will fall 7.5% below baseline at which point the Government protects the Council from further losses. The worst case scenario is based upon modelling outages at Heysham Power Stations but in actual fact, these have only been limited. Modest rates growth has meant that the Council has accrued significant surpluses which sit in the Business Rates reserve.

It is now recommended that the Council budget based on annual estimates and fund any future losses associated with power station closedown from the Business Rates reserve. This would mean increased business rates income would be recognised from 2020/21.

The Government has delayed its fair funding review by a year and it is now expected to implement this from 2021/22. A number of assumptions have been modelled:

- A 10% reduction in Settlement Funding Assessment to be affected through a reduced funding baseline – this is a best estimate based on a view that the Government will seek to redistribute from lower tier to upper tier authorities to reflect social care authorities.
- Revenue Support Grant to be rolled into the funding baseline as part of the business rates reset.
- A business rates growth reset effectively removing all growth from the system by setting the business rates baseline to equal actual rates levels

The importance of business rates growth

In the six years since the localised business rates system was introduced, Lancaster City Council has retained over £6m in rates growth, averaging at over £1m per year. All of this growth has been transferred to earmarked reserves which has had the effect of significantly improving the Council's financial stability.

The business rates localised system is now designed to reward business rates growth, both in overall terms and in the renewable energy sector, where the Council retains 100% of rates paid. The modelling assumption is that the rates base will grow by a half percent per annum but scenarios G and H show the additional return to the Council of growth at 1% and 2% per annum respectively. It follows that completion of capital projects such as the Heysham Gateway and Canal Quarter will have significantly favourable impacts in respect of retained rates growth and as these projects move forward it should be possible to measure their additional contribution to the revenue budget.

Revenue Support Grant

Revenue Support Grant	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Grant	199,691	203,086	0	0	0
Total RSG	**199,691**	**203,086**	**0**	**0**	**0**

Revenue Support Grant will be increase by CPI in 2020/21 before being rolled into the Council's business rates baseline in 2021/22.

New Homes Bonus

New Homes Bonus is a reward grant which is calculated from council taxbase figures. Since the implementation of New Homes Bonus in 2013/14, the Government has reduced the reward grant to cover only 4 years (down from 6) and has introduced a threshold below which no reward grant is paid. There is a risk that the Government will seek to further reduce the grant in future years which would increase the budget gap at the Council.

New Homes Bonus	**2018/19**	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Annual Reward	361,030	274,251	466,330	250,000	250,000	250,000
Previous Years Grant	1,288,487	1,397,410	1,035,682	1,101,611	990,581	966,330
New Homes Bonus	**1,649,517**	**1,671,662**	**1,502,012**	**1,351,611**	**1,240,581**	**1,216,330**
Above Assumptions: NHB remains in place with modest housing growth over the MTFP period						
Scenario I: NHB phased out over four years			0	-500,000	-750,000	-1,000,000
Scenario J: NHB scrapped & returned as SFA			0	-1,091,983	-980,953	-956,702
Scenario K: NHB is shared equally with County			0	-506,854	-465,218	-456,124

The figures explained

The reward grant for 2020/21 has been calculated using council taxbase information. Although, new properties have only grown modestly, a significant number of formerly empty homes have been brought back into the taxbase resulting in a higher forecast grant than originally estimated for 2020/21 and this reward will be retained for a further three years as long as New Homes Bonus is retained by the Government.

The future of New Homes Bonus is uncertain with reports that the Government is unsatisfied that the reward grant has been effective. Looking to 2020/21 and beyond, there are a number of threats to this funding income. These uncertainties, some of which are modelled above, include:

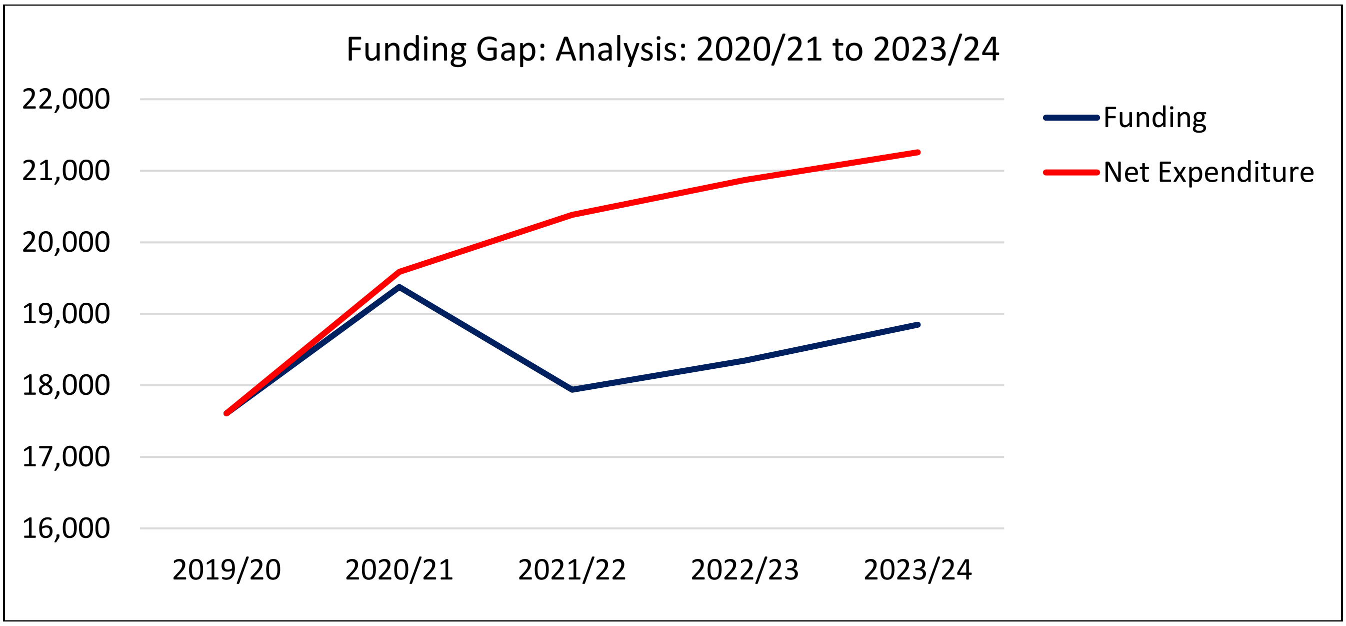
- Scenario I and J: The Government scrapping or significantly reducing New Homes Bonus
- Scenario K: The Government changing the way the reward is shared between districts and counties. The current 80/20 split in favour of districts might be deemed unfair to County Councils which appear to have more significant problems with respect to financial resilience. The scenario assumes a 50:50 split.
- The Government increases the threshold, the minimum amount of housing growth which is disregarded before paying grant, resulting in reduced allocations
- The Council's housing growth slows down reducing the level of grant

Estimating the budget gap

The estimated gap has been calculated using the updated funding outlook information detailed in the previous section and shown in green on the chart on page one. Existing forecasts for expenditure (shown in blue on the chart on page one) and income (shown in red) are added in order to calculate an estimated budget gap. The expenditure and income assumptions are based on previous estimates prior to the budget challenge process which is underway.

The table and graph below summarise the budget gap.

	2019/20	2020/21	2021/22	2022/23	2023/24
Funding brought forward		**17,608**	**19,375**	**17,940**	**18,346**
Council Tax	9,396	292	308	313	318
New Homes Bonus	1,672	-170	-150	-111	-24
Business Rates	6,341	1,641	-1,389	204	210
Revenue Support Grant	200	3	-203	0	0
Funding carried forward	**17,608**	**19,375**	**17,940**	**18,346**	**18,850**
Net Expenditure brought forward		**17,608**	**19,588**	**20,383**	**20,873**
Employees	20,497	1,181	484	360	422
Premises	6,003	-82	154	150	77
Transport	1,319	80	50	38	29
Supplies & Services	11,887	-1,506	-103	105	117
Capital/MRP	2,239	349	314	-51	0
Contribution to Reserves	758	39	-11	-34	0
Customer Fees & Charges	-16,062	-383	-278	-282	-255
Other Income	-6,532	1,243	84	220	-4
Charges to HRA	-1,097	-87	-16	-22	0
Use of Reserves	-1,405	1,146	115	7	0
Net Expenditure carried forward	**17,608**	**19,588**	**20,383**	**20,873**	**21,258**
Gap	**0**	**213**	**2,443**	**2,527**	**2,408**



This appendix has focussed on the most up to date assumptions covering likely funding allocations and council tax levels to establish control totals for funding income. The expenditure and income control totals, in the bottom half of the table, are based upon existing forecasts prior to the budgeting exercise which is currently taking place so are effectively a starting point. The only adjustment to the forecasts is a £215k increase in employees costs associated with an increase in the forecast pay award from 2% to 3%.

The expenditure and income analysis excludes all bids for growth and savings plans which may come forward as part of the budget process. It also excludes potential additional costs for Job Evaluation and the triennial pensions revaluation which may have an impact on the budget which is not yet known. Clarity in respect of these potential cost pressures is expected over the coming weeks and their input will be incorporated into the model.

Strategy for bridging the gap

The analysis in the previous section shows that following on from the anticipated 'one-off' fair funding adjustment in 2020/21, funding and net expenditures grow at reasonably similar rates. This implies that the funding gap is 'one-off' in nature and once the gap has been eliminated, the Council might be on a more sustainable budgetary footing unlike in previous years where significant funding reductions were made.

The gap reported, at its largest, is about £2.5m which is about 12% of the Council's net revenue expenditure.

It is suggested that a strategic approach might be taken in order to bridge the gap with a key emphasis on the Council's Funding the Future Strategy as well as an emphasis on sustainable economic growth projects to grow the business rate base.

Although fairly high level at this stage, the table below gives an indication of how the budget gap might be addressed by a focus on the Funding the Future Strategy and on business rates growth.

	2020/21	2021/22	2022/23	2023/24
Budget gap (from above)	**213**	**2,443**	**2,527**	**2,408**
New investment properties	500	750	1,000	1,250
Commercialisation strategy	200	300	400	500
Assumed 1% efficiency across all expenditures over the four year period	111	221	332	442
3% annual increase in fees and charges	99	318	547	818
1% increase in rates base	69	141	217	298
Total savings	**978**	**1,730**	**2,496**	**3,308**
Annual budget surplus / (deficit)	**766**	**-713**	**-31**	**899**

The analysis shows that reasonably modest increases in income alongside efficiencies should be sufficient to bridge the budget gap over the four year period of the Council. The outcomes based budgeting approach, currently underway, will be developed and seek to challenge existing budgets taking account of the above.