

Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	Date	18 January 2022
Report of	Chief Finance Officer		
Purpose of Report			
To provide an update on the Council's budget strategy for 2022/23 and financial outlook up to 2025/26. Specifically, the report considers the budget and council tax proposals for 2022/23.			
Key Decision (Y/N)		Date of Notice	
		Exempt (Y/N)	N

Report Summary

The report summarises the latest budget and council tax proposals for 2022/23 and looks forward to the work to be undertaken in respect of the Capital Strategy and Medium Term Financial Strategy.

Recommendations of Councillor Anne Whitehead

1. That Cabinet make recommendations to Council regarding the Lancaster City Council element of the Council Tax as set out in paragraph 3.4 (option one) of this report which is a £5 increase to the Band D Council Tax (from £236.95 to £241.95).
2. That Cabinet makes recommendations regarding its initial budget proposals as set out in section 4 and Appendix A of this report.
3. That the recommendations and proposals in this report be referred to Council on 26 January for initial consideration as well as being presented for scrutiny by Budget and Performance Panel on 02 February, in order that any feedback can be provided to Cabinet at its 08 February meeting.

Relationship to Policy Framework

The budget framework in general sets out a financial plan for achieving the Council's corporate priorities which incorporate the above cross cutting themes. Equalities impact assessments are undertaken for the relevant activities which are reflected in the budget.

Conclusion of Impact Assessment(s) where applicable

Climate	Wellbeing & Social Value
Digital	Health & Safety
Equality	Community Safety

The budget incorporates measures to make progress in addressing the climate emergency and digital improvements as well as activities to address wellbeing, health

and community safety.	
Details of Consultation	
Details of consultation are set out in sections 7 and 8 of the report.	
Legal Implications	
No legal implications directly arising from this report.	
Financial Implications	
As set out in the report.	
Other Resource or Risk Implications	
No other implications directly arising from this report.	
Section 151 Officer's Comments	
The Section 151 Officer has authored this report in his capacity as Chief Finance Officer	
Monitoring Officer's Comments	
The Monitoring Officer has been consulted and has no comments on this report.	
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Links to Background Papers	

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 The Cabinet meeting on 07 December 2021 considered updated estimates in respect of Government funding and Council Tax and the corresponding impact on the revenue budget gap. Since that report, the Government has released the Provisional Local Government Finance Settlement. A number of informal meetings have been held between Members and Executive Management Team to consider specific revenue budget proposals for 2022/23.
- 1.3 All services have been working with the Chief Executive and Finance Team to ensure a balanced budget aligned with our priorities is achieved. Throughout the Autumn discussions have been held with all services to identify opportunities to address the structural deficit and align expenditure with priority outcomes based on the Funding the Future Strategy.
- 1.4 This report sets out:
 - An update to the estimates in respect of Council funding including Revenue Support Grant, Retained Business Rates & New Homes Bonus following on from the release of the provisional local government finance settlement and the corresponding impact on the budget gap. (section 2)

- Consideration of options for setting the Council's element of the Council Tax for 2022/23. (section 3)
- A summary of the proposals for achieving a balanced revenue budget for 2022/23. (section 4)
- An update on the work undertaken in respect of the capital programme for 2021/22 to 2025/26 and a longer-term Capital Strategy. (section 5)
- An update on the development of a Medium Term Financial Strategy which will secure the long term financial resilience of the authority and identify resources to meet the Council's priorities for the next five years. (section 6)

2.0 LOCAL GOVERNMENT FUNDING UPDATE

2.1 The Council's net revenue expenditure is funded from the following sources:

- Settlement Funding Assessment which is divided into Revenue Support Grant and Localised Business Rates
- Council Tax
- New Homes Bonus

2.2 The Government released the provisional local government finance settlement on 16 December 2021. As in 2020 this is a one-year settlement following on from its Spending Review in November 2021, rather than a long-term review due to the ongoing economic uncertainty caused by the COVID-19 pandemic.

2.3 A summary of the provisional settlement for Lancaster City Council is provided in table one below.

Table One – Provisional Settlement allocations for Lancaster City Council

	Provisional Settlement £000	LCC Forecast £000	Difference £000
Settlement Funding Assessment			
Revenue Support Grant	212	0	212
Retained Rates	9,762	9,624	138
New Homes Bonus	547	556	-9
Lower Tier Services Grant	257	0	257
Services Grant	395	0	395
Reimbursement 1.25% NIC	0	144	-144
Total Government Funding			849

2.5 As table one shows, the provisional settlement allocates £0.849M more resources than anticipated and this slightly reduces the gap for the 2022/23 revenue budget. However, a number of additional pressures have been identified and reflected in the current budgeted position. These are discussed further in section 4.

2.4 The pattern of one year settlements and the lack of a longer term horizon makes financial planning particularly difficult; however, a number of funding assumptions have been made within the Council's Medium Term Financial Strategy (MTFS) reflecting the past two settlements. These are discussed in greater detail within section 6.

3 COUNCIL TAX

3.1 As part of the provisional finance settlement, the Government published its referendum criteria for Council Tax. District councils will be permitted to raise their Council Tax by 2% or £5, whichever is higher, without reference to a referendum. Table two below considers the following two options for Council Tax:

- Option one – an annual 2% or £5 increase in Council Tax (whichever is higher) – for Lancaster City Council, this will be £5 in 2022/23
- Option two – no increase in Council Tax

Table Two – Impact of council tax options: 2022/23 to 2025/26

Year	Taxbase (% Annual Increase)	Estimated Annual Movement	Option One Annual maximum increase in Council Tax			Option Two No annual increase in Council Tax		Additional Income from increase
			%	Band D	Increase	Income	Band D	
2022/23	42,060	1.34%	241.95	£5	10,176,417	236.95	9,966,117	210,300
2023/24	42,480	1.00%	246.95	£5	10,490,584	236.95	10,065,778	424,806
2024/25	42,905	1.00%	251.95	£5	10,810,017	236.95	10,166,436	643,581
2025/26	43,334	1.00%	256.99	2%	11,136,523	236.95	10,268,100	868,423

3.2 The budget proposals have assumed the maximum allowable increase in Council Tax. In 2022/23 this will raise an additional £210k. If there was no increase in Council Tax, income would increase by £133k due to additional properties. The table above also shows the difference, in terms of income, between the maximum allowable tax increase and no increase which, over four years, amounts to an additional £2.147M in income if option one is adopted.

3.3 Taxbase growth of 1.34% in 2022/23 is higher than originally forecast in the MTFS. The MTFS assumes an increase of £5 until a 2% increase is greater than £5.

3.4 **The recommendation arising from this report is that the Council on 26 January 2022 agree a £5 increase (option one) to the level of the 2022/23 Band D Council Tax for the Lancaster City Council element.** It is also recommended that option one is selected for the purposes of completing estimates in the Medium-Term Financial Strategy.

4 BUDGET PROPOSALS

- 4.1 The 7 December 2021 Cabinet report set out the challenges facing the Council in balancing its revenue budget for 2022/23 and beyond. Since that report several savings and growth proposals have been presented as well as in-year changes and ongoing changes to accounting, forecasting and grant activity which have caused a change in the budgetary position for this budget from that stated previously. Proposals for closing the budget gap are shown in table three below and are provided in more detail in **Appendix A**.

Table Three Cabinet's Draft Revenue Budget Proposals – 2022/23

	2022/23 £'000
Revenue Budget/Forecast as at 24 February 2021	21,110
Base Budget Changes	
Operational Changes	1,478
Additional Inflationary Pressure	67
Latest Budgetary Position	22,655
Outcomes Based Resourcing Proposals:	
Savings Proposals	(180)
Additional Resource Requirements	690
Income Generation Proposals	(840)
Revenue Impact of Capital Programme Review	(1,505)
Contribution to/(from) Collection Fund Reserves	400
Contribution to/(from) Unallocated Reserve	34
General Fund Revenue Budget	21,254
Core Funding:	
Revenue Support Grant	(212)
New Homes Bonus	(42)
Supplementary Government Grants	(652)
Prior Year Council Tax Surplus	(66)
Net Business Rates Income	(10,106)
Council Tax Requirement	10,176
Estimated Council Tax Income - (Increases based on £5 for 2022/23 then max)	10,176
Resulting Base Budget (Surplus)/Deficit	0

- 4.2 The proposals set out in the table 3 above produce a balanced revenue budget for 2022/23, which forms part of the recommendations of this report. If Cabinet agree the proposal, then it will go forward to the Budget and Performance Panel on 02 February 2022 and to Council on 29 January 2022 and then form part of the Budget and MTFS report to the Budget Council Meeting on 24 February 2022.
- 4.3 Table 4 below reconciles the position reported to Cabinet 7 December 2021 to the current balanced position.

Table 4 Reconciliation Cabinet 07 December 2021 to Current Position

	2022/23
Resulting Base Budget (Surplus)/ Deficit as at 7 December 2021 (Cabinet)	2,232
Impact of Provisional Local Government Finance Settlement as at 16 December 2021	(849)
Impact of Review of the Capital Programme (MRP & Interest)	(1,505)
Savings Proposals	(180)
Additional Resource Requirements	690
Additional Income Proposals	(840)
Operational Changes (Pension Top Up plus minor changes)	447
Inflationary Impact	(19)
Council Tax/Business Rates Adjustments	(10)
Contribution to Reserves	34
Resulting Base Budget (Surplus)/ Deficit as at 18 January 2022	0

Budget Principles and Assumptions

- 4.4 Within the revenue budget there are several principles and key assumptions underpinning the proposed revenue strategy. These are:
- i. Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources;
 - ii. No long-term use of balances to meet recurring baseline expenditure.
 - iii. Resources will be targeted to deliver Corporate ambitions and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.
- 4.5 Table 5 below, lists the major assumptions that have been made for the 2022/23 budget.

Table 5 Major Assumptions 2022/23

	2022/23
Council Tax base growth	1.34%
Council Tax inflation	£5
Business Rates Multiplier	Frozen
Inflation – Pay	2% 515,100
Inflation – Premises Related	Various 128,900
Inflation – Insurance	10% 60,800
Inflation – General Index	3.3% 216,400
Inflation – Fees & Charges	3.3% (401,400)

Operational Changes

- 4.6 Operational changes included in the base budget for 2022/23 currently amount to an increase in expenditure of £1.478M. The Council budgets for inflation across a number of areas such as gas, electricity, water, insurance, building costs etc as well as general price inflation and seeks the appropriate indices from a number of sources. The impact of inflation increases expenditure by a further £0.067M. A summary of operational changes is given in the table 6 below:

Table 6 Operational Changes

Operational Changes	£M
Salaries	0.515
Additional cost pressures	0.430
Slipped expenditure	0.095
Other minor changes	0.038
Pension Fund Top Up	0.400
Sub Total	1.478
Impact of Inflation	0.067
Total	1.545

Pay & Prices Increases

- 4.7 A 2% pay award allowance has been included in 2022/23 and 2% across the remaining years. The assumption of 2% considers that employees on lower salaries are expected to receive an increase. It should be noted that pay awards in Local Government are covered by collective bargaining between employers and trade unions and are not subject to direct control from Central Government. However, it is reasonable to assume that Local Government will mirror what happens in the rest of the public sector.
- 4.8 Prices inflation has been included on selected non-pay items as set out in table 5.

Pension Fund Top Up Payment

- 4.9 The pension fund is subject to a triennial actuarial valuation, the most recent of which was undertaken by Mercers LLP during 2019, on behalf of Lancashire County Council, the pension fund administrator. As a result of the triennial valuation Council elected to prepay its pension's deficit recovery and future service costs in April 2020 for the period 2020/21 to 2022/23. Due to an underestimation in pensionable pay the Council has been asked to consider making additional payments to the pension fund.

Additional Cost Pressures

- 4.10 Significant cost pressures have been highlighted through budget monitoring. Some key pressures are set out below and within **Appendix B**:
- HGV Drivers £0.087M
 - Bank Charges £0.027M
 - Investment Interest £0.055M
 - Audit Fees £0.020M
 - Vehicle Repair & Maintenance £0.084M
 - Salt Ayre Energy Costs £0.233M

Savings and Income Generation Proposals

- 4.11 The budget savings or income growth identified in **Appendix B** for 2022/23 relate to several areas where actions are being undertaken by the Council. Some of the key areas are:
- Car Parking Tariff Review £0.495M
 - Salt Ayre Income £0.209M
- 4.12 It should be noted that the potential income of £0.495M relating to the Council's car parking tariff review is subject to a separate report and agreement and at this time may be at risk.

Revenue Impact of Capital Programme Review

- 4.13 Cabinet and Executive Management Team have reviewed in detail the Council's existing capital programme and have repositioned and reprofiled a number of capital schemes in line with its revised Capital Investment Strategy (Investing in the Future) to lessen the revenue impact of capital projects through Minimum Revenue Provision (MRP) and interest cost savings.

5 CAPITAL PROGRAMME

- 5.1 As noted previously Cabinet and Executive Management Team are currently finalising the proposed Capital Programme for 2022/23 and beyond in accordance with its Capital Investment Strategy (Investing in the Future). A draft version of this strategy was presented Budget and Performance Panel 14 December 2021 for consideration and commentary as per the Council's constitutional requirements.
- 5.2 Details of the current proposed Capital Programme are provided at **Appendix C**. The final Capital Programme for 2022/23 to 2025/26 and supporting Capital Strategy to cover this period and beyond will be considered by Cabinet at its February meeting ahead of the Budget Council on 23 February 2022.
- 5.3 It is expected that a number of significant capital proposals will be put forward in line with the Capital Investment Strategy during the forthcoming year covering major upcoming corporate priority projects. These ambitious schemes, which cover economic development, regeneration, housing development and meeting the climate emergency which will contribute to achieving the Council's ambitions and longer term revenue budget position.

6. MEDIUM TERM FINANCIAL STRATEGY

- 6.1 A revised Medium Term Financial Strategy will be considered in detail at Budget Council. The revision of the MTFs will be important and timely in order to provide sound financial planning processes to underpin the Council's ambitions. Key considerations of the MTFs include taking account of the impact of decisions made to balance the 2022/23 budget alongside forecasts for future funding.
- 6.2 There are a number of factors to be considered as part of the financial planning exercise and Members will be aware of the recent announcements regarding the decommissioning plans for the Heysham1 and Heysham 2 nuclear reactors. This announcement will have a significant impact across the district as a whole but will inevitably have a significant impact the Council's finances, as currently the rateable value of the reactors accounts for over 30% of the Council's total rateable value. The retained business rates scheme does have a safety net mechanism in place to ensure that a Council's income does not drop below more than a set percentage of its index linked spending baseline. Given the Council's exposure it is expected that we will inevitably fall into a safety net scenario and will need to rely on the Business Rates Retention Reserve to smooth operational shortfalls in the short term.
- 6.3 Medium Term financial forecasts have been updated as shown in Table 6 below. These estimates are the best estimates and may be subject to change prior to presentation at Budget Council.

Table 6 Medium term Financial Forecasts

	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000
Revenue Budget	21,254	21,929	23,445	24,692
Budget Gap (Incremental)	0	2,151	3,177	3,923
Budget Gap (Incremental)	0	2,151	5,328	9,251
Percentage of Revenue Budget		9.81%	22.73%	37.47%

6.3 The forecast gaps are structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive. This represents a significant challenge over the short and medium term. Re-iterating the commentary in the 07 December 2021 Cabinet report, it is now imperative that a thorough and detailed review of our cost base is undertaken through application of Outcomes Based Resourcing (OBR), or other similar budget principles. This will have a particularly important part to play alongside the other pillars of the Funding the Future strategy in driving down budget gaps from 2023/24 and beyond and in realising financial sustainability.

6.4 Members will be pleased to note that at the time of writing this report detailed proposals are being developed to enable phase 1 procurement of external advice, with the aim of securing suitable expertise by the end of the financial year. Further updates of the progress of OBR procurement and the MTFs will be made to Budget Council 23 February 2022.

6.5 A full update on the Housing Revenue Account budget and financial outlook will be considered alongside the revenue budget 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.

7 DETAILS OF CONSULTATION

7.1 As in previous years, the usual high level consultation with relevant stakeholders on the budget will be undertaken prior to Budget Council in February. More specific consultation may be required depending on the budget savings options being considered. Consultation on council housing matters will be undertaken through the District Wide Tenants' Forum.

8 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

8.1 It is essential that the Council Tax rate is set in accordance with the Council tax billing timetable. Any delay would put the Council at risk of not being able to collect the tax in time to make precept payments which would have serious cash flow implications.

8.2 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 and service ambitions. The proposed approach is in line with that broad aim and any changes that Cabinet puts forward should also be framed in that context.

8.3 In term of the actual budget position, this report puts forward a balanced budget. If Cabinet agrees the budget, then it will form their proposal to Budget and Performance Panel on 02 February 2022. The feedback from this meeting will be considered by Cabinet and incorporated into a final budget proposal which will be considered at the Cabinet meeting on 08 February 2022 and recommended to Council on 24 February 2022.