

## **Budget & Policy Framework Update 2022/23 – 2025/26 26 January 2022**

### **Report of Cabinet**

#### **PURPOSE OF REPORT**

To update Council and gain its feedback on the latest position regarding the development of the budget and policy framework for 2022/23 to 2025/26 and in that context, to seek approval to the level of Council Tax increase for 2022/23 and for Cabinet's proposed revenue budget for 2022/23.

**This report is Public**

#### **RECOMMENDATION OF COUNCILLOR WHITEHEAD**

- (1) That Council approves a City Council Tax increase of £5 to the Band D Council Tax (from £236.95 to £241.95) for 2022/23, together with a year on year target of the maximum allowable under the Government's local referendum thresholds for future years.**
- (2) That Council considers the proposed revenue budget for 2022/23 as set out in this 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 seeks a final decision on Council Tax increases and feedback on Cabinet's proposed balanced revenue budget for 2022/23.
- 1.3 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. Cabinet agreed a proposed balanced revenue budget for recommendation to Council at its 18 January 2022 meeting.
- 1.4 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.

## 2.0 STRATEGIC & OPERATIONAL CONTEXT

2.1 The 2022/23 Budget has once again been set against the backdrop of significant change, which puts significant pressure on the ability to forecast. There is continued evidence of

- accelerated pace of change in funding regimes, formula and budget and accounting requirements of central government
- fewer system-wide reviews, and a much greater number of issue specific consultations, reviews and changes some of which are resulting in in-year changes, and even retrospective changes to previously agreed budgetary forecasting and funding distribution formula
- a wide range of single initiative funding opportunities emerging both as a result of the pandemic and more generally which need to be established within capacity including consideration of appropriate dispersal and income accounting, governance and delivery practices
- External factors such as the pandemic and EU Exit which fundamentally alter both the priorities for and use of Council resources and change the context under-pinning our income from council tax and business rates as well as fees and charges.
- The impact of COVID -19 on the wider economy and the rise in both pay and general inflation

## 3.0 LOCAL GOVERNMENT FUNDING UPDATE

3.1 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

3.2 The Government released the provisional local government finance settlement on 16 December 2021. Similar to 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.

3.3 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**

	<b>Provisional Settlement £000</b>	<b>LCC Forecast £000</b>	<b>Difference £000</b>
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
<b>Total Government Funding</b>	<b>11,173</b>	<b>10,324</b>	<b>849</b>

- 3.4 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 5.
- 3.5 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 7.

#### 4.0 COUNCIL TAX

4.1 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	Income	
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

- 4.2 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.
- 4.3 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.
- 4.4 **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.

## 5.0 BUDGET PROPOSALS

5.1 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 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**

	<b>2022/23</b>
	<b>£'000</b>
<b>Revenue Budget/Forecast as at 24 February 2021</b>	<b>21,110</b>
<b>Base Budget Changes</b>	
Operational Changes	1,478
Additional Inflationary Pressure	67
Latest Budgetary Position	<b>22,655</b>
<b>Outcomes Based Resourcing Proposals:</b>	
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
<b>General Fund Revenue Budget</b>	<b>21,254</b>
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)
<b>Council Tax Requirement</b>	<b>10,176</b>
<b>Estimated Council Tax Income - (Increases based on £5 for 2022/23 then max</b>	<b>10,176</b>
<b>Resulting Base Budget (Surplus)/Deficit</b>	<b>0</b>

5.2 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.

5.3 Table 4 below reconciles the position reported to Council 15 December 2021 to the current balanced position.

**Table 4 Reconciliation Council 15 December 2021 to Current Position**

	<b>2022/23</b>
<b>Resulting Base Budget (Surplus)/ Deficit as at 15 December 2021 (Council)</b>	<b>2,232</b>
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
<b>Resulting Base Budget (Surplus)/ Deficit as at 18 January 2022</b>	<b>0</b>

Budget Principles and Assumptions

5.4 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.

5.5 Despite significant challenges the Council is aiming to deliver a balanced budget for 2022/23. Within the budget there remain opportunities to address the underlying structural deficit in line with its Funding the Future Strategy (FtF), by:

- o Increasing and diversifying income
- o Improving productivity and securing efficiencies via new ways of working
- o Developing alternative ways to achieve priority outcomes (e.g. partnership)

5.6 Table 5 below, lists the major assumptions that have been made for the 2022/23 budget.

**Table 5 Major Assumptions 2022/23**

	<b>2022/23</b>
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

5.7 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
<b>Sub Total</b>	<b>1.478</b>
Impact of Inflation	0.067
<b>Total</b>	<b>1.545</b>

Pay & Prices Increases

5.8 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.

5.9 Prices inflation has been included on selected non-pay items as set out in table 5

Pension Fund Top Up Payment

5.10 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

5.11 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

Savings and Income Generation Proposals

5.12 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

5.13 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

- 5.14 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 their 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.

## **6.0 CAPITAL PROGRAMME**

- 6.1 Cabinet and Executive Management Team are currently finalising the proposed Capital Programme for 2022/23 and beyond in accordance with their Capital Investment Strategy (Investing in the Future). A draft version of this strategy was presented Budget and Performance Panel on 14 December 2021 for consideration and commentary as per the Council's constitutional requirements.

- 6.2 Details of the current proposed Capital Programme are provided at **Appendix C**. Members should note that schemes currently under development are subject to consideration of a full business case and approval in accordance with the governance processes outlined in the Capital Investment Strategy. 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.

- 6.3 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 will contribute to achieving the Council's ambitions and influence the longer term revenue budget position.

## **7.0 MEDIUM TERM FINANCIAL STRATEGY**

- 7.1 A revised Medium Term Financial Strategy will be considered in detail at Budget Council. The revision of the MTFFS will be important and timely in order to provide sound financial planning processes to underpin the Council's ambitions. Key considerations of the MTFFS include taking account of the impact of decisions made to balance the 2022/23 budget alongside forecasts for future funding.

- 7.2 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 Heysham 1 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 on 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 it 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.

- 7.3 Medium Term financial forecasts have been updated as shown in Table 6 below. These estimates are 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	21,943	23,479	24,766
Budget Gap (Incremental)	0	2,165	3,211	3,997
Budget Gap (Cumulative)	0	2,165	5,376	9,373
<b>Percentage of Revenue Budget</b>		<b>9.87%</b>	<b>22.90%</b>	<b>37.85%</b>

- 7.4 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 for Executive Management Team and Cabinet 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.”*
- 7.5 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 current financial year. Further updates on the progress of OBR procurement and the MTFS will be made to Budget Council 23 February 2022.
- 7.6 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.
- 8.0 DETAILS OF CONSULTATION**
- 8.1 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.
- 9.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)**
- 9.1 Options are very much dependent on Council's views regarding spending priorities balanced against Council Tax levels.
- In respect of the proposed 2022/23 revenue budget (set out in section 5 of the report and Appendix A), the recommendation reflects the culmination of work completed to date, and so no alternative options are put forward.
  - In respect of Council Tax, the main options are set out at section 6 of the report.
  - In respect of the Capital Programme (section 6 of this report) and MTFS (section 7 of this report), Council is requested to give feedback and no final decisions are sought at this stage.
- 9.2 In terms of the actual budget position, Cabinet's recommendations produce a balanced revenue budget for 2022/23. The Cabinet proposals will be considered by Budget and Performance Panel on 26 January 2021 and any feedback from this event considered



prior to the agreement of a final budget proposal for Budget Council on 23 February 2022.

- 9.3 Depending on the nature of any alternative proposals put forward by Council, Officers may need additional time to assess them fully prior to detailed consideration by Members. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision-making.

#### **Appendices**

- **Appendix A General Fund Revenue Budget Projections 2022/23 to 2025/26**
- **Appendix B Savings and Budget Proposals 2022-23 to 2025-26**
- **Appendix C Capital Programme 2021/22 – 2025/26**

<b>RELATIONSHIP TO POLICY FRAMEWORK</b> The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.	
<b>CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc.)</b> 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.	
<b>LEGAL IMPLICATIONS</b> Legal Services have been consulted, but at this stage there are no legal implications arising.	
<b>FINANCIAL IMPLICATIONS</b> As set out in the report.	
<b>SECTION 151 OFFICER'S COMMENTS</b> The Section 151 Officer has authored this report in his capacity as Chief Finance Officer	
<b>MONITORING OFFICER'S COMMENTS</b> The Monitoring Officer has been consulted and has no comments to add.	
<b>BACKGROUND PAPERS</b> Cabinet reports on budget proposals 07 December 2021 and 18 January 2022	<b>Contact Officer:</b> Paul Thompson <b>Telephone:</b> 01524 582603 <b>E-mail:</b> <a href="mailto:pthompson@lancaster.gov.uk">pthompson@lancaster.gov.uk</a>