Lancaster City Council | Report Cover Sheet

Meeting	Cabinet	**Date**	08 February 2022
Report	Medium Term Financial Strategy Update 2021/22 – 2025/26		
Report of	Chief Finance Officer		

Purpose of Report

To provide an update on the Council's Medium Term Financial Strategy (MTFS) forecasts for 2022/23 to 2025/26

Key Decision (Y/N)	**N**	**Date of Notice**	**N/A**	**Exempt (Y/N)**	**N**

Report Summary

This report provides an update on the Council's general budgetary position for current and future years. Given that at the time of writing, the Final Local Government Settlement has not been laid before Parliament and so estimates maybe subject to change. However, the report is an update only primarily for information.

Recommendations of Councillor Anne Whitehead

That Cabinet

(1) Considers the draft future years budget estimates as set out in the report as the latest information available.

(2) Agrees that the update be referred on to Council 23 February 2022 for information.

Relationship to Policy Framework

Performance, project, and resource monitoring provides a link between the Council Plan and operational achievement, by providing regular updates on the impact of operational initiatives against strategic aims.

Conclusion of Impact Assessment(s) where applicable

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

The content of this report has no impact in itself.

Details of Consultation

No specific consultation around this 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 authored this report in his role as Chief Finance Officer

Monitoring Officer's Comments

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

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Links to Background Papers	

1.0 INTRODUCTION

1.1 The previous reports on this agenda considered the annual process for setting the Council's revenue and capital budgets for 2022/23. This report sets out the context in which future decisions on resource allocation and budgeting will be taken.

1.2 The Medium-Term Financial Strategy (MTFS) sets out how Lancaster City Council will manage its finances to deliver against its corporate priorities, whilst protecting its financial standing and responding to the many challenges it faces. This will in turn inform the future budget setting process.

2.0 STRATEGIC & OPERATIONAL CONTEXT

2.1 Like all Councils we continue to face a time of unprecedented change, which, in turn, puts significant pressure on the ability to forecast into the medium and long term. Specific areas of uncertainty and change have been noted in previous reports but include:

- an accelerated pace of change in the 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;
- External factors such as the pandemic and EU Exit which fundamentally alter both the priorities for and use of Council resources and the context of our income from taxation, rates, fees and charges.
- Changes to PWLB borrowing criteria have curtailed all Council's ability to borrow for yield and impacted the potential to obtain income from commercial investments.
- The impact of COVID -19 on the wider economy and the rise in both pay and general inflation
- The recently announced decommissioning plans for the Heysham1 and Heysham 2 nuclear reactors and the significant impact across the district, and the Council's finances via the retained business rates system.
- Signing of the legally binding collaboration agreement between the Council and Lancashire County Council for the delivery of The South Lancaster District Growth Catalyst

3.0 GOVERNMENT FUNDING PROSPECTS

Local Government Finance Settlement

3.1 The Government released the provisional local government finance settlement on 16 December 2021, with the final settlement due to be presented to parliament in February 2022. As with last year this is a one-year settlement rather than a long-term review due to the ongoing economic uncertainty caused by the COVID-19 pandemic. The major aspects of the settlement are set out below:

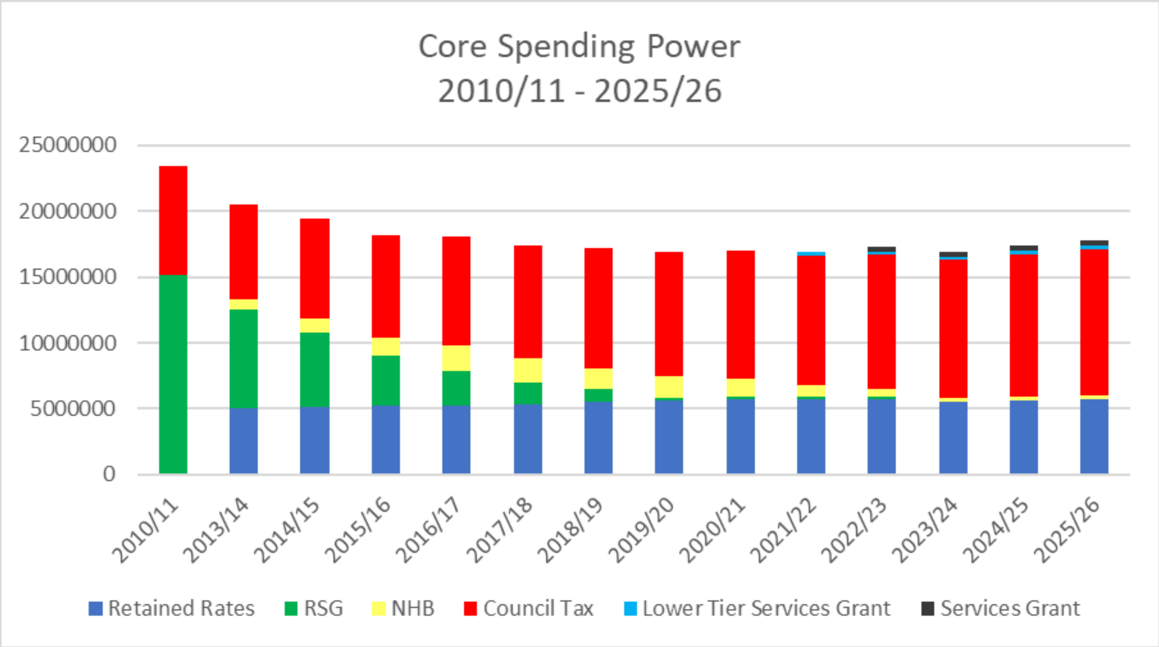
- The calculation of Core Spending Power
- The level of Council Tax increase (excluding social care) beyond which a referendum is required remains at 2% or £5 whichever is the greater for 2022/23
- The continued delay of the Spending Review and Fair Funding Review. The Government is currently in the process of reviewing the components of the business rates retention system, and the role they can play in providing an incentive for local authorities to grow the business rates in their area. This was originally planned to be implemented in 2020/21 but has been delayed due to the COVID-19 pandemic.
- The freezing of the Business Rates "multiplier" for 2022/23

- Continuation of a number of funding streams including Revenue Support Grant, which was due to cease in 2020/21, the Lower Tier Services Grant and New Homes Bonus. It is likely this scheme will not exist in its current form, as it is being reviewed as part of the spending and fair funding review.
- The introduction of a new one off Services Grant which includes funding for local government costs for the increase in employer National Insurance Contributions

3.2 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 MTFS reflecting the past two settlements.

Core Spending Power

3.3 The calculation of Core Spending Power has changed over the years and is not limited to general government revenue grant and Business Rates but has also included Council Tax receipts, New Homes Bonus, and other specific grants.

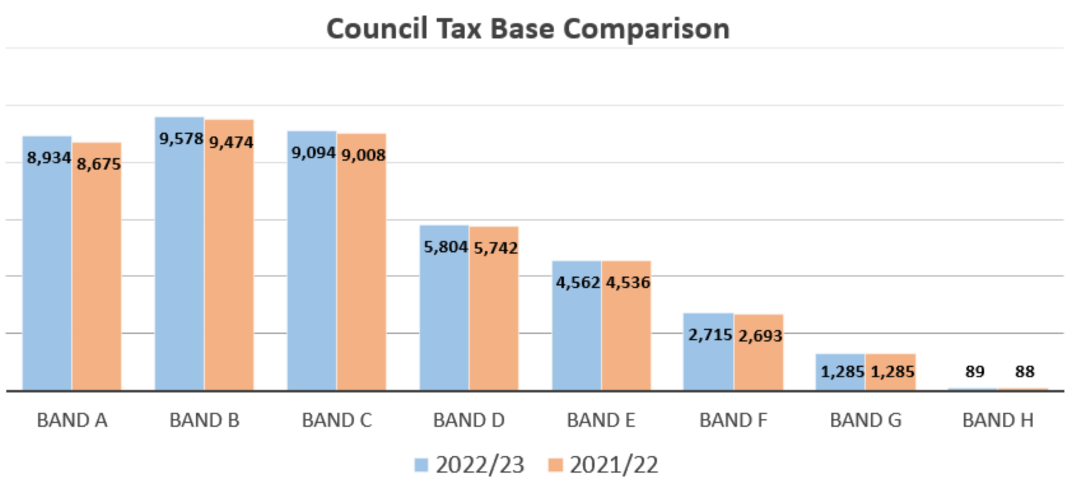


3.4 As the graph above shows the Council is now almost entirely reliant on Council Tax and Business Rates with a small amount of income from central government grants to fund net expenditure and it is, therefore, important to provide regular estimates of these key funding streams.

<u>Council Tax</u>

3.5 Council tax is the Council's primary source of funding and is calculated by multiplying the tax base, the number of eligible residential properties (expressed in band D equivalents), by the level of the district council precept which is determined each year. Growth in housing numbers inevitably increases the taxbase and, therefore, Council Tax income.

3.6 The tax base for 2022/23 has been calculated as 42,060 Band D equivalent properties after allowing for a collection rate of 98.68%, the same as in previous years. There has been a reduction in the numbers of void and exempt properties together with a reduction in both the numbers of accounts eligible for discounts and the Council Tax Reduction Scheme. There is also expected to be an increase in new properties for 2022/23 though this is smaller than that seen in 2021/22. From 2023/24 1% growth in the Tax base has been used for forecasting.



3.7 The Council recognises the impact that Council Tax has on its residents and will always take their ability to pay into consideration when setting Council Tax levels. It provides a 100% Local Council Tax Support Scheme. However, the Council should adopt an approach where local sources of funding are maximised as far as is reasonably practicable to do so.

3.8 Government's referendum criteria limits increases in the Council's element of Council Tax to 2% or £5, whichever is greater. For the purposes of forecasting, it has been assumed that the Council will increase council tax by the maximum allowed, in each of the next three years. The table below sets out Council Tax forecasts for the next four years including a sensitivity analysis showing the potential impact on council tax yield of different scenarios.

Table 1: Council Tax Forecasts

	Actual 2021/22	**Forecast 2022/23**	**Forecast 2023/24**	**Forecast 2024/25**	**Forecast 2025/26**
Council Tax Band D (£5 increase)	£236.95	£241.95	£246.95	£251.95	£256.95
Tax base (1% growth from 2023/24)	41,500	42,060	42,481	42,905	43,334
Council Tax Income	**£9,833,425**	**£10,176,417**	**£10,490,584**	**£10,810,017**	**£11,134,790**
Previous MTFS		£10,091,000	£10,403,000	£10,719,000	£11,043,773
Difference Increase/(Decrease)		**£85,417**	**£87,584**	**£91,017**	**£91,017**
Scenario 1 – no increase In Council tax over period Of MTFS		(£124,883)	(£337,222)	(£552,564)	(£775,673)
Scenario 2 – 1% drop in council tax collection rate		(£17,654)	(£18,669)	(£18,471)	(£21,761)
Scenario 3 – 1.5% increase in tax base growth		£85,417	£139,518	£198,312	£257,205

<u>Business Rates</u>

3.9 Business rates is now a fundamental part of the local government finance settlement and, along with Council Tax, accounts for the majority of local government financing. Members will appreciate that despite intervention of central government through various grant funding streams and reliefs the full effects of the pandemic on businesses are not as yet entirely evident. This, along with a number of other significant uncertainties set out below make forecasting and planning extremely difficult.

3.10 We are one of only a small number of Councils with a nuclear power station within its boundary and Members will be aware of the recent announcements regarding the decommissioning plans for the Heysham 1 (H1) and Heysham 2 (H2) 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.

3.11 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. That set percentage is currently 92.5% allowing for a drop of 7.5% from the baseline. Given the Council's exposure this will have the effect of triggering a safety net payment from Central Government and so growth would only be relevant were it to be significant enough to generate rating income above the baseline. The Council will need to rely on the Business Rates Retention Reserve to smooth operational shortfalls in the short term.

3.12 It was expected that, at some point as part of government funding reviews, there would be a business rates growth reset effectively removing all growth from the system by setting the business rates baseline to equal actual rates levels. To date this has not taken place and it has been assumed that this would take place in 2023/24 at the earliest. Given the challenges the Council faces with the nuclear power station decommissioning timetable, the timing of the reset is likely to have a significant impact on the Council's finances and so continued delay and indecision only adds to the planning uncertainty.

3.13 The table below provides Business Rates forecasts for the next four years incorporating a number of assumptions. As outlined previously, given the high degree of uncertainty and the number of potential variables, the position may change. Current forecast assumptions are:

- Income to remain in line with business rates monitoring during 2021/22 together with a 2% uplift to baseline and tariff in respect of inflation.
- Heysham 1 reactor to be decommissioned at the beginning of 2024/25 triggering a safety net payment.
- Any growth in business rates will be not be of a significant enough value to get above the safety net mechanism
- Continuation of the green energy disregard in its current form

Table 2: Business Rates Forecasts

	2022/23 £	2023/24 £	2024/25 £	2025/26 £
Retained Business Rates	7,290,255	5,520,887	-	-
Safety Net Payment	-	-	5,631,304	5,743,931
Renewable Energy Disregard Income	3,012,525	3,071,707	3,133,141	3,195,803
Sub Total	**10,302,780**	**8,592,593**	**8,764,445**	**8,939,734**
Deficit charged against General Fund in 2022/23 (after applying S31 grant in respect additional reliefs)	-196,616			
Total net retained business rates	**10,106,164**	**8,592,593**	**8,764,445**	**8,939,734**

<u>New Homes Bonus</u>

3.21 New Homes Bonus is a reward grant which is calculated from Council Taxbase figures. As previously reported, the previous years' rewards element of the grant has been phased out after 2022/23. There remains a risk that the Government will seek to further reduce the grant in future years which would increase the budget gap at the Council. The current forecast of levels of New Homes Bonus is set out in the table below.

Table 3: New Homes Bonus

	2022/23	2023/24	2024/25	2024/25
Annual Reward	272,600	272,000	272.000	272.000
Previous Years Rewards	274,200	-	-	-
Total	546,800	272,000	272,000	272,000
Previous MTFS	504,300	230,000	230,000	230,000
Difference Increase/(Decrease)	42,500	42,000	42,000	42,000

4.0 MEDIUM TERM FINANCIAL STRATGEY – CURRENT PROSPECTS TO 2025/26

4.1 Officers have undertaken a detailed review of the current and future years budgets. This included incorporating approved and known changes together with savings and income generation proposals and comprehensive salary and inflation reviews. In addition, the Council's General Fund capital programme has been reviewed and amended in order to reduce the number of schemes funded through unsupported borrowing. This lessens the charges to revenue for Minimum Revenue Provision and loan interest.

General Fund Revenue Budget Projections

4.2 Table 4 below outlines the current forecast budgetary position for 2022/23 to 2025/26

Table 4: General Fund Revenue Projections 2022/23 to 2025/26

General Fund Revenue Budget Projections 2022/23 to 2025/26

BUDGET PROJECTIONS

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000
Revenue Budget/Forecast as at 24 February 2021	**21,110**	**23,550**	**24,400**	**24,400**
Base Budget Changes				
Operational Changes	1,478	1,243	1,454	1,586
Additional Inflationary Pressure	67	117	179	791
Latest Budgetary Position	**22,655**	**24,910**	**26,033**	**26,777**
Outcomes Based Resourcing Proposals:				
Savings Proposals	(180)	(212)	(222)	(230)
Additional Resource Requirements	690	842	803	806
Income Generation Proposals	(840)	(1,112)	(1,068)	(1,074)
Revenue Impact of Capital Programme Review	(1,505)	(1,742)	(1,751)	(1,297)
Contribution to/(from) Collection Fund Reserves	400	(743)	(316)	(216)
Contribution to/(from) Unallocated Reserve	34			
General Fund Revenue Budget	**21,254**	**21,943**	**23,479**	**24,766**
Core Funding:				
Revenue Support Grant	(212)			
New Homes Bonus	(42)	(42)	(42)	(42)
Supplementry Government Grants	(652)	(652)	(652)	(652)
Prior Year Council Tax Surplus	(66)			
Net Business Rates Income	(10,106)	(8,593)	(8,764)	(8,940)
Council Tax Requirement	**10,176**	**12,656**	**14,021**	**15,132**
Estimated Council Tax Income - (Increases based on £5 for 2022/23 then max	**10,176**	**10,491**	**10,810**	**11,135**
Resulting Base Budget (Surplus)/Deficit	**0**	**2,165**	**3,211**	**3,997**

Budget Principles and Assumptions

4.3 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.

4.4 Table 5 below, lists the major assumptions that have been made within the MTFS with further details discussed in later paragraphs

Table 5: 4 Year MTFS Planning Assumptions

Assumption	2022/23	2023/24	2024/25	2025/26
Council Tax base growth	1.34%	1.00%	1.00%	1.00%
Council Tax inflation	£5.00	£5.00	£5.00	£5.00
Inflation – Pay	515,100 2%	1,129,300 2%	1,703,700 2%	2,295,000 2%
Inflation – Premises Related	128,900 Mixed %	216,000 Mixed %	305,800 Mixed %	395,000 Mixed %
Inflation – Insurance	60,800 10%	120,700 10%	182,700 10%	241,800 10%
Inflation – General Index	216,400 3.30%	329,000 2.10%	437,700 1.90%	547,500 1.90%
Inflation – Fees & Charges	(401,400) 3.30%	(662,500) 2.10%	(897,100) 1.90%	(1,133,000 1.90%

<u>Pay & Prices Increases</u>

4.5 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.

4.6 Price inflation has been included on selected non-pay items as set out in table 5. In the likely event that the rate of inflation exceeds budget there is an expectation that managers will need to manage within base budget allocations.

<u>Savings and Income Generation Proposals</u>

4.7 The budget savings or income growth identified as part of the 2022/23 budget discussion relate to several areas where actions are being undertaken by the Council and are incorporated within the MTFS. Some of the key areas are summarised by directorate in the tables below, with more information included within the Budget and Policy Framework General Fund Revenue Budget 2022/23 item on the agenda.

Table 6: Directorate Summary Savings Proposals

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Proposed Savings					
Communities & Environment	53	53	54	54	214
Economic Growth & Regeneration	41	42	48	53	184
Corporate Services	15	43	43	43	144
Office of the Chief Executive	71	74	77	80	302
Total Savings Proposals	**180**	**212**	**222**	**230**	**844**

Table 7: Directorate Summary Income Generation Proposals

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Income Generation Proposals					
Communities & Environment	813	1,074	1,024	1,025	3,936
Economic Growth & Regeneration	27	38	44	49	158
Corporate Services	0	0	0	0	0
Office of the Chief Executive	0	0	0	0	0
Total Income Generation Proposals	**840**	**1,112**	**1,068**	**1,074**	**4,094**

4.8 As part of the Council's quarterly monitoring process (Delivering our Priorities), progress against these targets will be monitored and reported to Members via Cabinet and Budget & Performance Panel.

Revenue Impact of Capital Programme Review

4.9 Cabinet and Executive Management Team have reviewed in detail the Council's previous capital programme and have repositioned and reprofiled several capital schemes in line with the revised Capital Strategy (Investing in the Future). This has lessened the impact that capital projects have on revenue by creating Minimum Revenue Provision (MRP) and interest cost savings. Details of the estimated savings incorporated with the MTFS are detailed in the table below:

Table 8: Revenue Saving for Capital Programme Repositioning

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Revenue Impact of Capital Programme Review	1,505	1,742	1,751	1,297	6,295

5.0 CAPITAL INVESTMENT AND FINANCING

Capital Investment

5.1 Through its capital programme the Council plans net investment of £33.414M to support the delivery of its key Strategic Priorities and Outcomes such as Climate Emergency, Economic Prosperity and Regeneration and Housing as well as refurbishment or replacement of existing property or facilities to deliver services, or to meet legislative requirements.

5.2 The current programme is split between approved schemes, that is those which have a fully formed business case in line with Treasury Green Book requirements, and those still under development for which a provision has been made whilst work is undertaken to fully work up schemes. The provision will not be utilised until full business cases have been considered and approved via the relevant decision-making governance. Summary details of the current 5-year capital programme are given at table 9 below, with further details provided within the Capital Programme & Capital Strategy 2022-23 to 2025-26 paper elsewhere on the agenda.

Table 9: Capital Programme

	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	Total £'000
Approved Schemes						
Communities & Environment	5,388	3,946	894	4,985	2,899	18,112
Economic Growth & Regeneration	4,067	1,977	641	306	306	7,297
Corporate Services	145	490	190	150	130	1,105
Schemes Under Development	0	1,650	1,200	2,550	1,500	6,900
Total Net Capital Programme	**9,600**	**8,063**	**2,925**	**7,991**	**4,835**	**33,414**

Capital Financing

5.3 The Council's Capital Financing Requirement (CFR) is simply the total amount of capital expenditure (including that from prior years) that has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying need to borrow. Any capital expenditure, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. Based on the draft capital programme the Council's CFR is set to increase from the current estimated 2022/23 position of £104.00M to £105.28M in 2025/26. However, it must be noted that following the review of the capital programme this represents a significant reduction from previous years.

Table 10: Capital Financing Requirement

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
CFR – Non Housing	57.72	64.43	68.86	67.98	72.28	73.26
CFR – Housing	37.23	36.19	35.14	34.1	33.06	32.02
Total CFR	**94.95**	**100.62**	**104.00**	**102.08**	**105.34**	**105.28**

5.4 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase over the next five years from its estimated current position of £61.08M to £70.04M later in 2021/22 to £84.00M in 2022/23 as the Council looks to move forward with several ambitious schemes to enable delivery of its Strategic Priorities. It is then forecast to reduce slightly to £80.88M reflecting repayments of the HRA self-financing loan. See table 11 below

Table: 11: Forecast Borrowing Position

	2020/21 Actual £M	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Debt at 1 April	62.12	61.08	70.04	84.00	82.96	81.92
Expected change in Debt	-1.04	8.96	13.96	-1.04	-1.04	-1.04
Actual gross debt at 31 March	**61.08**	**70.04**	**84.00**	**82.96**	**81.92**	**80.88**

5.5 This level of borrowing is assessed for affordability, sustainability, and prudence in line with the Council's Treasury Management Strategy and requires annual approval by Council following consultation with Budget & Performance Panel. Council is being asked to formally approve the annual Treasury Management Strategy elsewhere on this agenda.

5.6 The Council is required to repay an element of the accumulated General Fund CFR each year through a revenue charge known as the minimum revenue provision (MRP) together with the interest charges associated with the borrowing. Council is asked to formally approve the MRP policy annual as part of the Treasury Management Strategy. The current policy is based on the estimated life of each asset created as a result of the related capital expenditure. Table's 12 and 13 provide forecast levels of annual capital financing charges and its proportion of the revenue budget.

Table 12: Revenue Impact of Capital Decisions

	2021/22 Estimate £M	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M
Interest	1.393	1.463	1.585	1.662	1.670
MRP	2.175	2.698	3.321	3.406	3.853
Total	**3.568**	**4.161**	**4.906**	**5.068**	**5.523**

Table 13: Ratio of Financing Costs to Net Revenue Stream

	2020/21 Actual %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %
General Fund	14.61	19.97	20.24	23.09	22.25	22.95
HRA	20.79	19.41	18.42	17.69	17.25	16.98

5.7 As can be seen based on current General Fund capital programme and accompanying borrowing estimates debt financing costs within the General Fund are set to increase to around 23% of the Council's annual net revenue budget. Recent benchmarking work by the Local Government Association (LGA) provided a Northwest average of 8%. Levels will, therefore, need to be closely monitored and the impact on affordability of new capital schemes carefully considered as part of the business case assessment and governance processes. Estimates within the HRA are seen to decrease as the borrowing undertaken as part of HRA self-financing is repaid.

6.0 THE SHORT & MEDIUM-TERM BUDGET GAP

6.1 Government funding and income forecasts covered previously within this report, together with the budget expenditure, savings and income estimates that have been calculated as part of the 2022/23 revenue budget process provide an updated forecast of the budget gaps over the next three years. This is shown below in the graph and Table 14

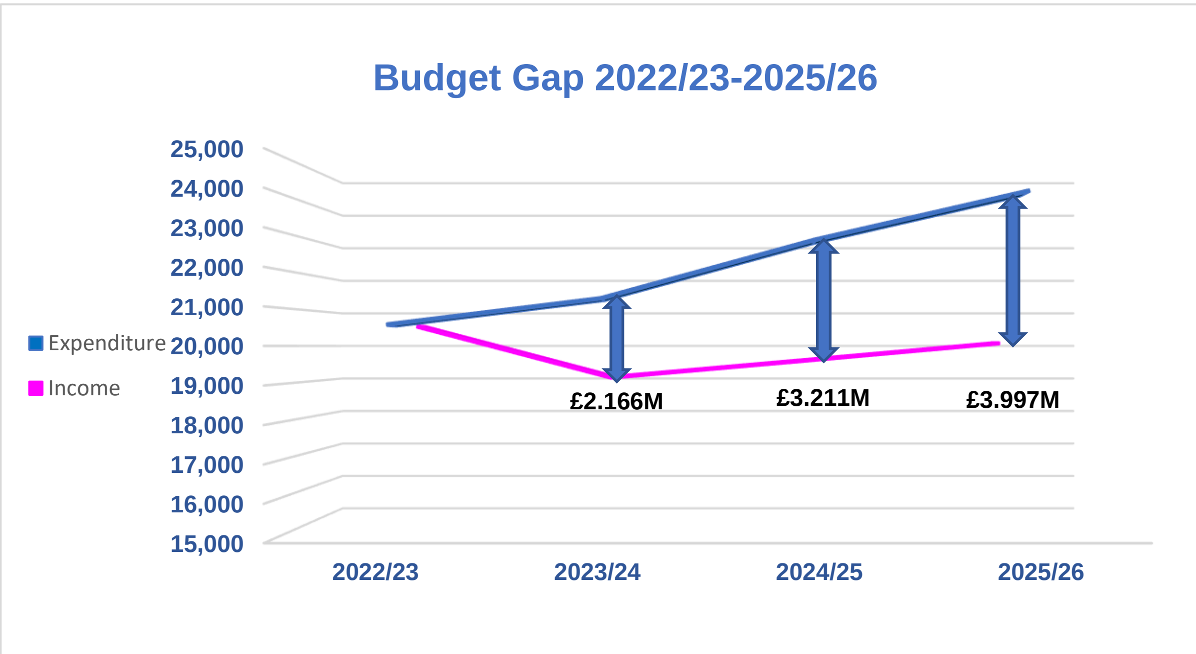


Table 14: Cumulative Deficit as Percentage of Revenue Budget

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'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
Percentage of Revenue Budget		**9.87%**	**22.90%**	**37.85%**

6.2 The forecast gaps are cumulative and structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive and this is compounded year on year. This position represents a significant challenge to the Council 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.*

6.3 It should be noted that this forecast is based on a series of estimates and assumptions and so is subject to change when more up to date information becomes available. However, it provides Members with a clear view of size of the challenge facing the Council over the coming years.

7.0 PROVISIONS, RESERVES AND BALANCES

7.1 A Council's reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. The level, purpose and planned use of reserves are important factors for the Council as part of the MTFS.

7.2 Councils generally hold two types of reserves, "Unallocated" to meet short term unexpected cost pressures or income reductions and "Earmarked". The latter can be held to provide for some future anticipated expenditure for identified projects, particularly in respect of corporate priorities, address specific risks such as the previously identified upcoming pressures on business rates retention reserve resulting from the decommissioning of H1 & H2, or to fund transitional arrangements resulting from the forthcoming Outcomes Based Resourcing project. They may also provide up-front funding for measures which specifically result in future efficiencies, cost savings or increased income, or to hold funding from other bodies, (mainly Central Government), for specified purposes.

7.3 By their nature reserves are finite and, within the existing statutory and regulatory framework, it is the responsibility of the s151 Officer to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use. This assessment has been undertaken within the Budget and Policy Framework General Fund Revenue Budget 2022/23 item earlier on the agenda.

7.4 The Council's forecast level of reserves is impacted by historic as well as current decisions. The graph and Table 15 below provide details of our current forecast level of reserves including the impact of funding the forecast deficit from reserves.

Table 15: Current Forecast Level of Reserves & Balances

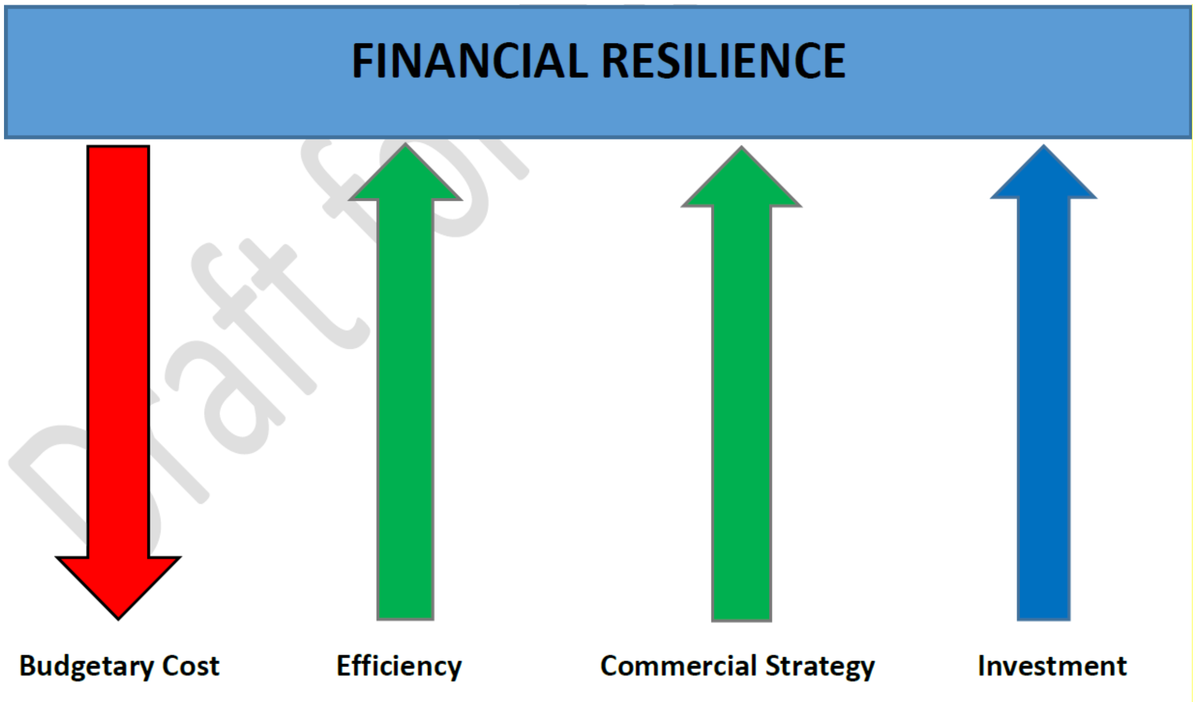
	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Balance brought forward	(33.445)	(19.829)	(19.138)	(15.433)	(12.108)
Impact of 2022/23 budget decisions	0.000	(0.434)	0.743	0.316	0.216
Impact of previous decisions, covid & outturn	13.616	1.125	0.797	-0.202	0
Funding of Deficit	0	0	2.165	3.211	3.997
Balance carried forward	**(19.829)**	**(19.138)**	**(15.433)**	**(12.108)**	**(7.895)**

7.5 These forecasts include the Council's plans to use £6.7M of its reserves over the next 4 years to support feasibility work in respect of regeneration projects and housing, to finance some capital projects, to deliver the culture strategy and provide support to businesses and the vulnerable through the Covid 19 pandemic. A review into this level of commitment is currently on going as well as looking into all of the remaining planned allocations from Council reserves.

8.0 BALANCING THE BUDGET TO 2025/26

Realising the Funding the Future Strategy

8.1 In December 2018 Council adopted its Funding the Future Strategy (FtF) "a strategy for building financial resilience". The strategy consists of 4 elements or pillars which were intended to be taken together to address the underlying structural deficit.



8.2 Each element complemented the others and in combination were designed to lead to financial resilience.

<u>Investing for a Return, or to Reduce Costs</u>

8.3 In January 2019 Council approved a Property Investment Strategy which set out requirements and governance arrangements for the purchase of assets to deliver a positive contribution to the Council's budget. In November 2020, however, HM Treasury revised the rules governing the Council's access to PWLB borrowing to fund the acquisition of assets primarily for yield. Prior to this announcement the Council purchased assets totalling c£14M which are now delivering approximately £1M positive contribution to the Council's revenue budget.

8.4 CIPFA has recently sought views on a number of proposals which continue to further restrict the ability of Councils to undertake what it views as speculative investments using public funds. Recent proposals may make it a statutory requirement to set aside each year an amount to repay debt, known as Minimum Revenue Provision (MRP) on commercial assets.

8.5 Members can be assured that the s151 Officer and the finance team have already adopted an approach that has ensured that this Council is already fully compliant with the potential changes and will not see any adverse impact.

8.6 Further discussions on the impact of revisions to CIPFA's Prudential Code and its proposed introduction in 2023/24 are contained within the Council's Capital Strategy (Investing in the Future) discussed elsewhere on the agenda.

<u>Commercial Strategy</u>

8.7 This pillar sets out to improve internally delivered services and establish new delivery models such as:

- Contracts and partnerships with other public bodies, for example, shared service arrangements.
- Contracts and joint ventures with the private sector e.g. joint ventures, outsourcing, public-private partnerships.
- New public sector and non-public entities e.g. joint commissioning boards and companies limited by shares or guarantees.

8.8 The Council recently extended its joint operation of Revenues and Benefits with Preston City Council and currently operates a shared Corporate Fraud Team with Fylde and Preston City Council's. In order to deliver ICT leadership and technical capacity it recently entered into a sharing agreement with Blackpool Borough Council, and to ensure there is an Internal Audit function it recently contracted with Mersey Internal Audit Agency.

8.9 In March 2021 the Council established More Homes for the Bay its first Local Authority Trading Company (LATCo) which, as a separate legal entity, is afforded several strategic freedoms and options not currently available to the Council.

8.10 Currently the Council is developing a business case which will frame the LATCo's activities, its administrative and financing arrangements. These decisions require consideration and approval by its Directors, the Shareholder Committee. Once the business plan has been agreed financial modelling can start to be undertaken to assess the value of the operation to the Council.

<u>Pursuit of Efficiency with Vigour</u>

8.11 In order to improve the efficiency of operations a programme of "Lean Reviews" were intended to re-engineer activities in order to reduce costs and improve productivity. The most recent activity in this area has been the P2P project which has delivered significant operational and process savings both within Exchequer Services and out at service. The next phase is due for rollout before the end of the financial year, with the final phase concluded in 2022/23. Other areas where re-engineering has yielded efficiencies include Human Resources and Void Management. It still remains the intention that *all* key service processes will be subject to review over a three year period.

<u>Outcomes Based Resourcing (OBR)</u>

8.12 This initiative originally committed to in 2018 has been delayed and had been due to commence early in the 2020/21 financial year having been set back by the Covid 19 pandemic.

8.13 Its intention is to ensure that funds are allocated according to a set of predefined outcomes, or priorities using a zero-based approach rather than applying incremental uplifts to an existing set of services each year. This effectively ensures that funds are directed toward the Council's key ambitions and statutory functions and away from areas which contribute less or not at all against the predetermined objectives. OBR will represent a radical overhaul of the Council's budgeting, monitoring, and reporting methods. It will look to examine in detail how we deliver our services to achieve the Council's stated outcomes in the most effective manner, whilst realising savings to address the structural deficit.

8.14 Given that investment opportunities are now limited, this pillar of the strategy has grown in importance and will be required to appropriately target resources to key services whilst shrinking the budget gap. Given the size and complexity of the task and the need for objectivity the Council is looking to engage external consultants. Procurement of the 1st Phase has already taken place with 2nd Phase delivery due commence early 2022/23.

9.0 DETAILS OF CONSULTATION

9.1 As this paper is for noting only no formal consultation has been undertaken

10.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

10.1 The risks to the Council are contained throughout the report and as the report is for noting, no alternative proposals have been put forward.

11.0 CONCLUSION

11.1 There remain significant uncertainties in terms of Local Government funding over the next couple of years. These have been exacerbated by national circumstances such as COVID-19 and Brexit, but also by local issues around decommissioning plans for the Heysham power station. These have severely hampered the degree of confidence with which we can forecast with many key estimates and assumptions likely to change in the coming months. Despite the work to date to realise the Funding the Future Strategy the budget gap has remained.

11.2 It must be recognised that the overall size of the challenge the Council faces in addressing its underlying structural deficit is significant and the formulation of a balanced budget over the medium and longer term will require the delivery of considerable savings.

11.3 Continued focus on delivering the Funding the Future Strategy and the application of Outcomes Based Resourcing principles such as strategic prioritisation, service transformation and continuous improvement will play a significant part in achieving the level of savings required. ***The Council must recognise that it will face a number of key decisions over the next financial year which will affect the manner in which it delivers its services.***