

Budget and Policy Framework General Fund Revenue Budget 2022-23

23 February 2022

Report of Cabinet

PURPOSE OF REPORT

To present Cabinet's final budget proposals in order that the Council can complete its revenue budget setting for 2022/23.

This report is public.

RECOMMENDATIONS:

- (1) That the General Fund Revenue Budget of £21.254M for 2022/23 be approved, resulting in a Council Tax Requirement of £10.176M, excluding parish precepts, and a Band D basic City Council tax rate of £241.95.**
- (2) That the supporting General Fund Revenue Budget proposals be approved, as summarised at Appendices A and B.**
- (3) That the budget transfer (virements and carry forwards) limits be approved as set out in Appendix D**
- (4) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances, specifically the advice that the minimum level of balances be retained at £3.5M, to provide for added uncertainty.**

1.0 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 Council meeting on 26 January 2022 considered Cabinet's proposed revenue budget for 2022/23 and approved a City Council Tax increase of £5 together with a year-on-year target of the maximum allowable under the Government's local referendum thresholds for future years.
- 1.3 The report presents Cabinet's final budget proposals in order that the Council can complete its revenue budget setting for 2022/23.

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 REVENUE BUDGET 2022/23

3.1 The General Fund Revenue Budget for 2022/23, summarised in table 1 below, is included at **Appendix A** with more detailed budget proposals in **Appendix B**. The proposed budget is balanced, in line with statutory requirements, contributes to the Council's reserves and takes account of the final local government finance settlement which was approved by Parliament on 8 February 2022.

Table 1: Revenue Budget 2022/23

2022/23 Revenue Budget & Council		
Tax Requirement	£M	Note
Net Revenue Budget for 2022/23 per MTFS	21.110	} Appendices A & B
Changes made outside of the annual budget process	1.545	
Additional Resource Requirements	0.690	
Income Generation Proposals	(0.840)	
Savings Proposals	(0.180)	
Revenue Impact of Capital Programme Review	(1.505)	
Contribution to Reserves	0.434	
General Fund Revenue Budget	21.254	
Funded by		
Revenue Support Grant	(0.212)	
Additional Grants	(0.760)	
Retained Business Rates	(10.106)	
	(11.078)	
Council Tax Requirement	10.176	£5 Council Tax increase Council 26 January 2022

Budget Principles and Assumptions

3.2 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.

3.3 Table 2 below, lists the major assumptions that have been made for the 2022/23 budget.

Table 2 Major Assumptions 2022/23

Assumptions	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

3.4 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 pay and 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 3 below:

Table 3 Operational Changes 2022/23

Operational Changes 2022/23	£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

- 3.5 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.
- 3.6 Prices inflation has been included on selected non-pay items as set out in table 2

Pension Fund Top Up Payment

- 3.7 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 Resource Requirements

- 3.8 Additional resource requirements have been highlighted through budget process. Some key requirements are set out below and within **Appendix B**:

- Building Control £0.105M
- LATCO Development Manager £0.023M
- Programme Manager £0.058M
- Integrated EDMS system £0.045M

Savings and Income Generation Proposals

- 3.9 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

Revenue Impact of Capital Programme Review

- 3.10 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.

4.0 COUNCIL TAX & BUSINESS RATES

Council Tax

- 4.1 Legislation requires that separate estimates be made for any Collection Fund surpluses or deficits on the Collection Fund relating to the Council Tax and Business Rates.
- 4.2 For Council Tax, it is confirmed that the Collection Fund is expected to generate a surplus for the year bringing the overall fund position back into surplus.
- 4.3 The Council Tax increase of £5 agreed by Council on 26 January 2022 means that the City element of Council Tax for a band D property will be £241.95.

Business Rates

- 4.4 The Council is required to submit its annual business rates return to the Government by the end of January in which it estimates business rates income for 2022/23 and the estimated deficit / surplus as at the end of 2021/22.
- 4.5 The estimated deficit for 2021/22 is £12.517M as shown in Table 4 below and the City Council's share of this is £5.007M
- 4.6 The table below shows that of the City Council's share of the £5.007M deficit £4.564M will be recognised during 2022/23 and it is estimated that £4.367M of this will be offset by Section 31 grant leaving a charge against the General Fund of £0.197M. An amount of £0.443M relating to the 2020/21 deficit will be recognised in 2023/24 in accordance with Central Government regulations and budgetary provision for this has been made.

Table 4: Business Rates

	2021/22 £M
Actual deficit brought forward (from collection fund statement)	27.381
NDR Collection Fund income for 2021/22	-83.543
NDR Collection Fund expenditure for 2021/22	68.679
Estimated Deficit for 2021/22 as at 31 January 2022	12.517
City Council Share of the deficit at 40%	5.007
Less: adjustment for amount eligible for spreading	-0.443
City Council Share of the deficit to be recognised in 2022/23	4.564
Share of deficit to be offset by S31 additional grant reliefs in respect of retail discount & nursery discount & Covid Additional Funding Relief	-4.367
Charge against the General Fund in 2022/23	0.197
City Council Share of the deficit to be recognised during 2023/24	0.443

- 4.7 Similar to previous years the position is a particularly complex one in light of the COVID-19 pandemic. As a result of the pandemic Central Government has again amended and extended the reliefs that could be given to ratepayers. Councils are being compensated for this through payments of Section 31 grant so that this element of the deficit will not impact on local authority budgets.
- 4.8 The on-going impact of the pandemic and the restrictions placed on business means that business rates continue to be an area of significant uncertainty in respect of predicting income for the reasons set out in the following paragraphs:

- 4.9 Appeals by businesses against their Rateable Value (RV). The Valuation Office allows business to appeal against their RV via the check and challenge process. Councils make provision against future levels of appeals; however, the timing and value of potential appeals remains unclear.
- 4.10 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 reactor's accounts for over 45% of the Council's total rateable value. Central Government operates a "safety net" system to protect those Councils which see their year-on-year business rate income fall by more than 7.5 per cent. 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.
- 4.11 The Council receives a 'disregard' for renewable energy hereditaments which means that 100% of the business rates for these properties is retained by the authority. It is estimated that in 2022/23, this will be worth £3.012M. Whilst it is evident that this 100% disregard will continue into 2022/23, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

5.0 PROVISIONS, RESERVES & BALANCES

- 5.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and balances.

Provisions

- 5.2 The bad debt and insurance provisions have been reviewed and are considered adequate at this time.

Reserves & Balances

- 5.3 Reserve levels and use of reserves are an important part of the budget framework. It is important that the Council maintains a healthy level of reserves in order to maintain financial resilience but balances this with the careful use of those reserves, usually on 'one-off' items in order to support corporate priority projects.

Annual Assessment of Reserves Levels

- 5.4 The Section 151 Officer's annual review of the adequacy of reserve balances is a statutory requirement. Although usable revenue reserve levels have increased in the last two years, continuing uncertainties with respect to COVID-19, BREXIT, Local Government Funding, and the outcomes of the Council's OBR process remain. **Taking this additional risk into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should remain at £3.5M.**

- 5.5 The Section 151 Officer's latest advice on the adequacy of balances is based on the following observations:

- The General Fund Balance at 31/03/21 was £7.808M, with net in year allocations of £2.267M. The proposed 2022/23 budget will not require of funding from unallocated reserves leaving a forecast balance of £5.614M at 31/03/22. Allowing for the s151 Officers recommended minimum level of £3.500M this provides for £2.114M of available balances.

- The Council's MTFS suggests a structural budget gap in 2023/24 onwards of approximately £2.165M raising to £3.997M. If this is not closed, then balances will be required to make up the difference.
- There is continuing uncertainty with respect to COVID-19 and BREXIT and how this will impact, directly or indirectly, Council finances.
- Business rates retention volatility remains a risk to the Council in particularly the recent announcements in regard to the decommissioning of the Heysham nuclear reactors. This is managed via the Business Rates Retention Reserve, therefore, should not impact directly on the General Fund balance.
- The MTFS provides forecasts on funding and on net expenditure and sensitivities associated with these forecasts. The Treasury Management Strategy documents collectively provide assurance with respect to the affordability, sustainability, and prudence of capital expenditure.

5.6 In calculating the minimum level of General Fund balance, an assessment of the risks that give rise to unanticipated expenditure or loss of income has been made and these are shown in Table 5 below.

Table 5: Risk Assessment

Risk	Symptom of Risk	Balance Required £M
Increased demand for services	3% increase in net revenue expenditure	0.650
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.900
Recession results in additional reduction in Council Tax collection rates than budget	3% reduction in collection rate	0.300
Next years budget savings not achieved	50% under achievement	0.090
Natural disaster such as flood	Additional unexpected expenditure	0.500
Additional uncertainty with respect to Brexit/ COVID	Additional unexpected expenditure	1.000
Aggregate overspend if all of the above risks were to happen		3.440
Estimated General Fund Balance as at 31/03/23		5.648

5.7 The analysis shows that, in the unlikely event of a 'Perfect Storm' of risks happening all within the next year, there are sufficient balances to meet all these risks in the short term which would give the Council time to adapt in the longer term.

5.8 The minimum level of balances will be kept under review as part of the MTFS and reported to Cabinet on a regular basis.

Planned use of reserves and estimated reserve balances over the medium term

5.9 The estimated combined reserves balances are shown in **Appendix C** and are summarised in table 6 below

Table 6: Estimated Combined Level of Reserves

	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M
Balance brought forward	(33.445)	(19.829)	(18.900)	(17.361)	(17.247)
Impact of 2022/23 budget decisions	0.000	(0.434)	0.743	0.316	0.216
Impact of previous decisions, covid & outturn	13.616	1.363	0.796	-0.202	0
Balance carried forward	(19.829)	(18.900)	(17.361)	(17.247)	(17.031)

5.10 The above analysis reflects allocated use of reserves which are subject to the completion and authorisation of a reserves bid template to ensure the effective use of resources to meet corporate priorities. If no bid is made or the bid is rejected, then allocations will not be used.

5.11 It should also be noted that the above analysis does not currently reflect the impact of the forecast structural budget deficits which, if unaddressed, will require significant contributions from reserves. Indicative estimates are provided within the Medium Term Financial Strategy.

Governance Arrangements on the Use of Reserves

5.12 The Council's Reserves Strategy sets out arrangements for the approval of reserves expenditure which include:

- a requirement to complete a bid document setting out how reserves expenditure will deliver corporate priorities with a clear costing statement and schedule of outcome measures
- a process to ensure that all use of reserves are approved by Cabinet either as part of the annual budget or via consideration of bids during the year, usually as part of strategy or project approval Cabinet report
- decision limits to ensure that Cabinet approval of reserves bids is delegated appropriately.

6.0 OPTIONS & OPTIONS ANALYSIS

Revenue Budget

6.1 Council may adjust its revenue budget proposals, so long as the overall budget for 2022/23 balances and fits with the proposed Council Tax level.

Other Budget Framework Matters (Reserves and Provisions)

Given known commitments, risks, and Council Tax restrictions there is little flexibility in financial terms, but Council could consider different budget strategies to be appraised for future years, or alternative arrangements for approving the use of various reserves, or different virement and/or carry forward limits. Overall, however, previous arrangements have worked reasonably well, and so no other fundamental changes are proposed.

Section 151 Officer's Comments and Advice

Council is required to note this formally in the minutes of the meeting, hence it is reflected in the recommendations

6.4 Depending on the nature of any alternative proposals put forward, Officers may need time to assess the risks and implications. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision making.

7.0 OFFICER PREFERRED OPTION (AND COMMENTS) **Revenue Budget 2022/23 and Reserves Position**

7.1 To agree the recommendations as presented as the proposals to be put forward by Cabinet should fit with any external constraints and the budgetary framework already approved. The recommendations as set out meet these requirements; the detailed supporting budget proposals are then a matter for Members.

8.0 CONCLUSION

8.1 This report addresses the actions required to complete the budget setting process for 2022/23, and for updating the Council's associated financial strategy.

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)

No additional impact identified – any specific issues have been (or will be) considered as part of the relevant aspect of the policy framework or individual budget proposals, etc.

FINANCIAL IMPLICATIONS

As set out in the report.

LEGAL IMPLICATIONS

Legal Services have been consulted and are content with the report but will consider further the development and implementation of relevant budget proposals in due course to ensure legal aspects are fully considered.

Robustness of Estimates and Adequacy of Council's Reserves

The Local Government Act 2003 placed explicit requirements on the Section 151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves. A summary of the Section 151 Officer's advice to date is provided below for information, but it should be noted that some of this is provisional until Cabinet's final budget proposals are confirmed.

At Budget Council, Members will be recommended to note formally the advice of the s151 Officer.

Provisions, Reserves and Balances

Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.

Unallocated balances of £3.5M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed. This level assessment remains unchanged from last year and reflects increased uncertainty with respect

to the on-going COVID -19 pandemic, Brexit and reflects the sensitivity of some of the underlying savings and income levels within the budget.

Robustness of Estimates

A variety of exercises have been undertaken to establish a robust budget for the forthcoming year. These include:

- producing a base budget, taking account of service commitments, pay and price increases and expected demand/ activity levels as appropriate, and the consideration of key assumptions and risks such as levels of future Government funding for the pandemic and other areas.
- reviewing the Council's services and activities, making provision for expected changes.
- reviewing the Council's MTFS, together with other corporate monitoring information produced during the year.
- undertaking a review of the Council's borrowing needs to support capital investment, in line with the Prudential Code.

These measures ensure that as far as is practical, the estimates and assumptions underpinning the base budget are robust.

Affordability of Spending Plans

In addition, the Section 151 Officer is responsible for ensuring that when setting and revising Prudential Indicators, including borrowing limits, all matters to be taken into account are reported to Council for consideration as part of the Treasury Management Framework.

In considering affordability, the fundamental objective is to ensure that the Council's capital investment remains within sustainable limits, having regard to the impact on Council Tax (for General Fund). Affordability is ultimately determined by judgements on what is 'acceptable' this will be influenced by public, political, and national influences.

The factors that have been taken into account in considering capital investment plans include the following.

- availability of capital resources, including capital grants, capital receipts, etc
- existing commitments and planned service / priority changes
- options appraisal arrangements and robust business cases for the chosen options
- revenue consequences of any proposed capital schemes, including interest and debt repayment costs of any borrowing
- future years' revenue budget projections, and the scope to meet borrowing costs
- the likely level of government support for revenue generally
- the extent to which other liabilities can be avoided, through investment decisions.

In considering and balancing these factors, the capital proposals to date are based on levels of "prudential borrowing" or CFR over the period to 2025/26. The bulk of this relates to schemes to support delivery of the Council's key Strategic Priorities and Outcomes such as Climate Emergency, Economic Prosperity and Regeneration and Housing as outlined in the Capital Programme.

Like all Councils, Lancaster City faces increased financial pressures and uncertainty because of the impact of COVID-19 and Brexit. Over several years, the Council has managed to build up a level of reserves and will benefit from the significant green energy disregard, both of which offers a degree of protection from volatilities.

An underlying structural budget deficit was identified several years ago and although this deficit has increased, current spending plans are sustainable in the short term through the prudent allocation of funding from reserves.

However, in the medium term based on current projections they are not sustainable, and it is of the utmost importance that Members and Officers work together to support the Council's Funding the Future Strategy. Outcomes Based Resourcing is a core priority for all Officers in the coming financial year, and it will be expected to deliver significant inroads into the deficit.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer reminds Council that the decisions (recommendations 1 and 2) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 (Part 3 section 1 constitution) of the Council Procedure Rules, and accordingly a recorded vote should be taken.

BACKGROUND PAPERS

Cabinet Papers

08 February 2021

<https://committeeadmin.lancaster.gov.uk/ieListDocuments.aspx?CId=297&MId=7801&Ver=4>

Council Papers

15 December 2021

[Agenda for Council on Wednesday, 15th December 2021, 6.00 p.m. \(lancaster.gov.uk\)](#)

26 January 2022

[Agenda for Council on Wednesday, 26th January 2022, 6.00 p.m. - Lancaster City Council](#)

Budget & Performance Panel

2nd February 2022

[Agenda for Budget and Performance Panel on Wednesday, 2nd February 2022, 6.00 p.m. - Lancaster City Council](#)

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