CABINET

Medium Term Financial Strategy 2023/24 – 2027/28

7 February 2023

Report of Chief Finance Officer

PURPOSE OF REPORT					
To provide an update on the Council's Medium Term Financial Strategy (MTFS) forecasts for 2023/24 to 2027/28					
Key Decision		**Non-Key Decision**	**X**	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision					

RECOMMENDATION OF COUNCILLOR WHITEHEAD

1. 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 22 February 2023 for information.

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 2023/24. 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 OPERATIONAL & STRATEGIC CONTEXT

2.1 As referred to the Budget & Policy Framework Update report elsewhere on the agenda the 2023/24 Budget has once again been set against the backdrop of significant change and economic volatility. This level change and volatility is likely to extend for a further 1 to 2 years, which increases the uncertainty around planning estimation and assumptions and puts significant pressure on the Council's limited resources.

2.2 Members will be aware that for a number of years the Council has reported a structural budget deficit, meaning that its planned expenditure exceeds its anticipated income. In addition to this, the current cost of living crisis has compounded matters by exacerbating general and pay inflation together with energy costs, placing considerable additional pressure on the Council's limited resources.

2.3 Further uncertainties remain around the future of Heysham 1 & 2 Power Stations and their decommissioning plans. Whilst Central Government provides a mechanism to limit the losses incurred by the Council, given they account for a significant proportion of the Council's Business Rates income this remains a considerable risk to the Council's financial position.

2.4 Nationally, Central Government have attempted to provide Local Government with additional certainty by providing a 2-year Finance Settlement, with both new and continuation of several grant funding streams confirmed. Whilst this is an improvement on previous single year settlements, difficulties remain in forecasting in the medium and longer term which is required when developing the Council's Medium Term Financial Strategy.

2.5 All business rateable values in England and Wales have been revalued based on open market rental levels as at 1st April 2021 with the new liabilities taking effect from 1st April 2023. Although the Council has seen a 5% raise in rateable values there remains significant uncertainties around the application of reliefs and the potential level of appeals

2.6 The Council has been successful in agreeing an investment plan with Government (DLUHC) to allocate external funding of over £5M from UK Shared Prosperity Fund (UKSPF). This has been awarded to support building pride in place, supporting high quality skills training, supporting pay, employment, and productivity growth, and increasing life chances across the district. Officers are currently finalising the first round of awards for eight local projects to be delivered collaboratively by the Council and its partners, with further rounds of funding awards to follow during the programme's lifespan up to March 2025.

2.7 More recently on 19th January this year the Council was successful in its bid to secure £50M from Department for Levelling Up towards the Eden Project Morecambe. This is excellent news and a great boost for the district. Securing Government funding was an important step but much work still remains to be done by Eden and the project partners. It will naturally be some years before the impact of increased income from business rates and tourism filter through. In the meantime, officers are working with Eden and the other partners to implement the required governance and delivery mechanisms to ensure that the full benefits of the project are secured.

2.8 Bank Rate has been subject to a succession of increases during the current financial year and is expected to peak at 4.5% in the first half of 2023/24. This has led to a significant forecast increase in investment interest. Set against this, however, the Council has a need to borrow at a time when PWLB and Local Authority lending rates are rising. PWLB 5-50 year rates are between 4.10 and 4.80%. This places pressures on the affordability of the Council's Capital Programme and the need to consider how it is funded

3.0 GOVERNMENT FUNDING PROSPECTS

Local Government Finance Settlement

3.1 The Government released the provisional local government finance settlement on 19 December 2023, with the final settlement due to be presented to parliament in February 2023, however this is not expected to change from the draft position. Unlike previous years this is a 2 year settlement and reflects both 2023/24 and also 2024/25. Whilst this extension in the planning horizon is welcome it still provides substantial difficulties in developing forecasts in the medium term. 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 increased to 3% or £5 whichever is the greater for 2023/24
- 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 now for a number of years.
- The freezing of the Business Rates "multiplier" for 2023/24.
- Continuation of a number of funding streams including Revenue Support Grant, which was due to cease in 2020/21, Services Grant, although at a reduced level and New Homes Bonus. It is likely this scheme will not exist in its current form for much longer, as it is being reviewed as part of the spending and fair funding review.
- The Settlement also introduced a new one off Funding Guarantee grant to ensure that all Council's receive a minimum of 3% increase in spending power before making local decisions. However, the Lower Tier Services Grant allocated in 2022/23 has now ceased.

3.2 A summary of the provisional settlement for Lancaster City Council is provided in table one below. Assumptions have been included to estimate Government funding from 2024/25 onwards however actual allocations for this period are currently unknown.

Table One – Provisional Settlement allocations for Lancaster City Council

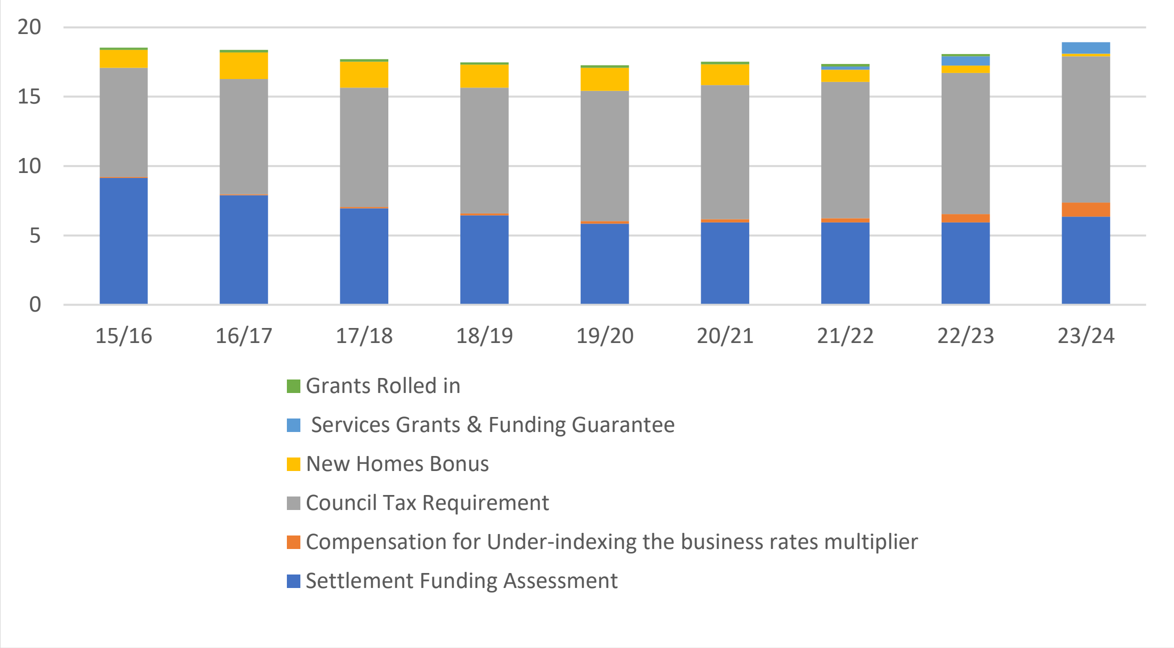
	Provisional Settlement £000	LCC Forecast £000	Difference £000
Settlement Funding Assessment			
Revenue Support Grant	232	0	232
Retained Business Rates	9,407	9,567	(160)
New Homes Bonus	188	180	8
Funding Guarantee	615	0	615
Lower Tier Services Grant	0	257	(257)
Services Grant	223	396	(173)
Total Government Funding	**10,665**	**10,400**	**265**

Core Spending Power

3.3 Core Spending Power (CSP) is a measure used by the Government to set out the resources available to a Council to fund service delivery. The calculation of CSP has changed over the years and now combines certain grants payable to Council together with estimates of Business Rates and Council Tax, these estimates are based on Government assumptions.

3.4 On the basis of the provisional Settlement, the Council's CSP for 2023/24 will increase from £18.08M to £18.93M or 4.7% when compared to CSP in 2022/23 and includes an assumption by Government that Councils will increase their Council Tax by the maximum allowable. This is in comparison to the average CSP for all Councils in England of 9.2%

Table Two: Core Spending Power

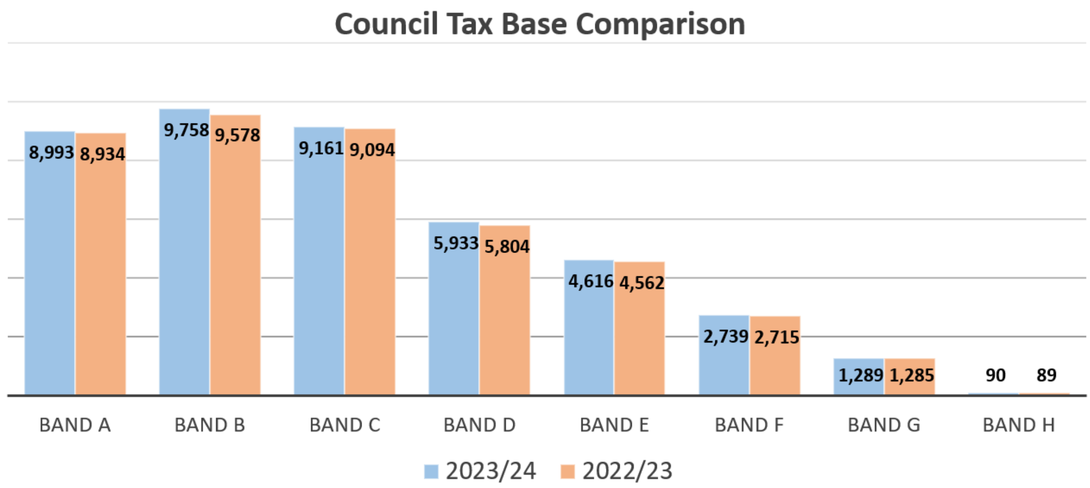


3.5 Table two above compares the historic value of CSP, and shows the Council is now almost entirely reliant on Council Tax and Business Rates with a small amount of income from central government grants to fund net expenditure and it is, therefore, important to provide regular estimates of these key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

<u>Council Tax</u>

3.6 As noted above 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.

3.7 The tax base for 2023/24 has been calculated as 42,579 Band D equivalent properties after allowing for a collection rate of 98.68%, the same as in previous years. This equates to a 1.2% increase in the tax base. There has been a reduction in the numbers of void properties and an increase in new build properties together with a reduction in the numbers of accounts eligible for the Council Tax Reduction Scheme. Offsetting these positive movements, there has been an increase in the number of properties eligible for 50% and 25% occupancy reductions. From 2024/25 1% growth in the Tax base has been used for forecasting.



3.8 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.

3.9 Government's referendum criteria limits increases in the Council's element of Council Tax to 3% or £5, whichever is greater. For the purposes of forecasting, it has been assumed that the Council will increase council tax by 2.99%, the maximum allowed, before triggering a referendum 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 Three: Council Tax Forecasts

	Actual 2022/23	**Forecast 2023/24**	**Forecast 2024/25**	**Forecast 2025/26**	**Forecast 2026/27**	**Forecast 2027/28**
Council Tax Band D 2.99% increase		£249.18	£256.63	£264.31	£272.21	£280.35
Council Tax Band D (£5 increase)	£241.95	£246.95	£251.95	£256.95	£261.95	£266.95
Tax base (1% growth from 2023/24)	42,060	42,579	43,005	43,435	43,869	44,308
Council Tax Income	**£10,176,417**	**£10,610,019**	**£11,036,531**	**£11,480,188**	**£11,941,680**	**£12,421,724**
Previous MTFS		£10,491,000	£10,810,000	£11,135,000	£11,135,000	£11,135,000
Difference Increase/(Decrease)		**£119,019**	**£226,531**	**£345,188**	**£806,680**	**£806,680**
Scenario 1 – no increase In Council tax over period Of MTFS		(£189,011)	(£404,991)	(£625,941)	(£520,850)	(£414,709)
Scenario 2 – Council Tax Band D £5 increase		£23,884	£25,057	£25,582	£356,533	£692,988
Scenario 3 – 1.5% increase in tax base growth & 2.99% increase in Council Tax Band D		£146,902	£310,315	£489,605	£1,016,763	£1,567,827

Business Rates

3.10 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 following the COVID-19 pandemic, central government continue to intervene through various grant funding streams and reliefs. The position remains unsettled which, along with a number of other significant uncertainties set out below make forecasting and planning extremely difficult.

Revaluation

3.11 All rateable values in England and Wales have been revalued by the Valuation Office Agency (VOA) as part of the 2023 Revaluation. This revaluation has been based on open market rental levels as at 1st April 2021 and will be the basis of the business rates liability for each eligible business property in the District from 1st April 2023.

3.12 The VOA published the draft rating list in November 2022. As shown in below, the draft rating list for Lancaster City Council provides gross rateable value (RV) for 2023 of £169.117M.

Table Four: Lancaster City Council Classifications

	2017	**2023**	**Movement**	
Category	**Rateable Value**	**Rateable Value**	**£**	**%**
Commercial	64,204,715	63,509,776	(694,939)	(1.08%)
Industrial	9,952,150	12,253,525	2,301,375	23.12%
Leisure	3,437,325	4,041,320	603,995	17.57%
Miscellaneous	6,392,137	6,894,217	502,080	7.85%
Educational	11,173,475	13,021,150	1,847,675	16.54%
Non Formula Assessed Utilities	1,515,813	2,428,436	912,623	60.21%
Formula Assessed Utilities	63,655,600	66,775,940	3,120,340	4.90%
Treasury (Crown)	148,725	192,375	43,650	29.35%
Total	**160,479,940**	**169,116,739**	**8,636,799**	**5.38%**

3.13 Members should note that the gross RV for the Council has increased by £8.637M, an increase of 5.38%. This increase compares less than favourably with, both the national picture for England which, overall, has seen an increase in RV of 7.3%, and the North West where the rateable value on average has increased by 7.4% as shown in table 5 below

Table Five National & District Comparisons

	Retail	**Industry**	**Office**	**Other**	**All Sectors**
ENGLAND	**(10.0)**	**27.8**	**10.3**	**4.4**	**7.3**
North East	(13.9)	19.1	8.6	1.9	2.2
North West	**(9.9)**	**23.2**	**17.2**	**5.4**	**7.4**
Yorks/ Humber	(14.6)	19.4	7.9	6.1	4.7
East Midlands	(10.6)	23.2	5.5	6.2	8.6
West Midlands	(11.9)	26.7	15.3	4.5	9
East Midlands	(10.2)	35.1	26.3	9.9	14.4
London	(8.9)	33.1	6.1	(1.1)	3.3
South East	(10.1)	33.5	20.0	6.6	10.9
South West	(4.7)	27.0	14.0	5.9	9.5

3.14 At this stage, it is extremely difficult to accurately predict the impact of the revaluation on the Council's share of income from business rates. Ordinarily an increase in rateable values would provide an increase in the Council's share of business rates income. However, this does not take account of factors such as:-

- any reliefs or exemptions which may be applicable;
- the impact of appeals against the new rateable values, and the adequacy of provisions held in the Business Rates Retention Reserve to meet any appeals;
- the impact of any transitional arrangements the Government will introduce to phase in the effect of changes in rateable values

Heysham Power Stations

3.15 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 on the Council's finances, as currently the rateable value of the reactors accounts for a large proportion of the Council's total rateable value.

3.16 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.

Baseline Reset

3.17 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. 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.

Green Energy Disregard

3.18 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 2023/24, this will be worth £3.547M. Whilst it is evident that this 100% disregard will continue into 2024/25, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

3.19 The table below provides Business Rates forecasts for the next four years incorporating a number of assumptions and sensitivity analysis. Current forecast assumptions are:

- Income in accordance with the revaluation for 2023.
- Heysham 1 reactor to be decommissioned March 2024 with the loss of rating income tapering off over six months in 2024/25.
- Growth of 2% in 2024/25 onwards together with a 2% uplift in baseline and tariff
- Continuation of the green energy disregard in its current form

Table Six: Business Rates Forecasts

	2023/24 £	2024/25 £	2025/26 £	2026/27 £	2027/28 £
Retained Business Rates	6,709,400	6,643,470	-	-	-
Safety Net Payment	-	-	5,927,120	6,045,320	6,166,050
Renewable Energy Disregard Income	3,546,600	3,617,530	3,689,880	3,763,680	3,838,950
Total net retained business rates	**10,256,000**	**10,261,000**	**9,617,000**	**9,809,000**	**10,005,000**

New Homes Bonus

3.20 New Homes Bonus is a reward grant which is calculated from Council Taxbase figures. 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 Seven: New Homes Bonus

	2023/24 £000's	2024/25 £000's	2025/26 £000's	2026/27 £000's	2027/28 £000's
Annual Reward	188	188	188	188	188
Previous MTFS	180	180	180	180	180
Difference Increase/ (Decrease)	8	8	8,	8	8

4.0 GENERAL FUND PROJECTIONS

4.1 The Cabinet report elsewhere on the agenda sets out the significant challenges facing the Council in balancing its revenue budget for 2023/24 and beyond and details proposals identified by the OBR Project Groups to identify savings, efficiency, and income generation opportunities. Table Eight below outlines the current forecast budgetary position for 2023/24 to 2027/28

Table Eight: General Fund Revenue Projections 2022/23 to 2027/28

	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Revenue Budget Forecast as 23 February 2022	**21,943**	**23,479**	**24,766**	**0**	**0**
Base Budget Changes					
Operational Base Budget Changes	2,443	3,697	3,960	30,289	30,990
	24,386	**27,176**	**28,726**	**30,289**	**30,990**
Outcomes Based Resourcing Proposals					
Costs of Asset Repurposing	277	295	450	1,075	790
Changes to Assumptions (Pay)	(203)	63	59	62	58
Additional Income Generation Proposals	(420)	(1,109)	(1,119)	(1,127)	(1,139)
Savings Proposals	(2,423)	(3,333)	(3,446)	(3,543)	(3,634)
Minor Adjustments	62	66	66	69	75
Impact of Review of the Capital Programme	9	269	537	537	570
	21,688	**23,427**	**25,273**	**27,362**	**27,710**
Impact of Provisional Local Government Finance Settlement	(20)	(20)	(20)	(20)	(20)
Contribution to/ (from) Unallocated Reserves	(577)				
General Fund Revenue Budget	**21,091**	**23,407**	**25,253**	**27,342**	**27,690**
Core Funding					
Revenue Support Grant	(406)	(406)			
Prior Year Council Tax Deficit	181				
Net Business Rates Income	(10,256)	(10,261)	(9,617)	(9,809)	(10,005)
Council Tax Requirement	**10,610**	**12,740**	**15,636**	**17,533**	**17,685**
Estimated Council Tax Income					
(Increase Based on 2.99% for 2023/24 then maximum allowable	**(10,610)**	**(11,037)**	**(11,480)**	**(11,942)**	**(12,422)**
Resulting Base Budget (Surplus)/ Deficit	**0**	**1,703**	**4,156**	**5,591**	**5,263**

4.2 Table Eight shows that, despite of the work and effort of Officers and Members in identifying opportunities to balance the budget for 2023/24, there still remains a significant challenge for the new administration, with the Council facing a shortfall of £1.703M in 2024/25 with an estimated total shortfall of £5.591M over the 5 year period. This is position is further outlined in section 6

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

Table Nine: 5 Year MTFS Planning Assumptions

	2023/24	2024/25	2025/26	2026/27	2027/28
Council Tax Base Growth	1.00%	2.00%	2.00%	2.00%	2.00%
Council Tax Increase	2.99%	2.99%	2.99%	2.99%	2.99%
Council Tax Collection Rate	98.67%	98.67%	98.67%	98.67%	98.67%
Business Rates Multiplier	Frozen	Frozen	Frozen	Frozen	Frozen
Fees & Charges	Various	Various	Various	Various	Various
Inflation – Pay	4.00%	3.00%	2.00%	2.00%	2.00%
Employer Pensions Contribution	16.30%	16.30%	16.30%	16.30%	16.30%
Inflation – Insurance	10.00%	10.00%	10.00%	10.00%	10.00%
Inflation Utilities	Gas: Current Price	Gas: 3.0%	Gas: 3.0%	Gas: 3.0%	Gas: 3.0%
	Electric: Current Price	Electric: 5.0%	Electric: 5.0%	Electric: 5.0%	Electric: 5.0%
Other inflation (Minor cost centres)	2.40%	2.40%	2.40%	2.40%	2.40%
Interest Rate – investments	3.50%	3.00%	2.00%	2.00%	2.00%
Interest Rate – new borrowing	4.00%	3.30%	3.10%	3.10%	3.10%

Savings and Income Generation Proposals

4.5 The budget savings, or income growth identified as part of the 2023/24 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 table below, with more information included within the Budget and Policy Framework General Fund Revenue Budget 2023/24 item on the agenda.

Table Ten: Directorate Summary Savings Proposals

-	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Senior Leadership Restructure	448	458	463	469	487
Central Services	76	143	145	147	149
Communities & the Environment	445	507	519	527	539
Corporate Services	338	352	362	372	382
Economic Growth & Regeneration	1,116	1,873	1,957	2,028	2,2077
Net Savings	**2,423**	**3,333**	**3,446**	**3,543**	**3,634**

4.6 Failure to deliver these savings will place additional pressure on the Council's resources and so as part of the Council's quarterly monitoring process (Delivering our Priorities), progress by Budget Holders against these targets will be monitored and reported to Members via Cabinet and Budget & Performance Panel.

Revenue Impact of Capital Programme Review

4.7 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 increased the impact that capital projects have on revenue by creating Minimum Revenue Provision (MRP) and interest costs. Details of the estimated additional expenditure incorporated with the MTFS is detailed in the table below:

Table Eleven: Revenue of Additional Expenditure for Capital Programme Repositioning

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Revenue Impact of Capital Programme Review	9	269	537	537	570

5.0 CAPITAL INVESTMENT AND FINANCING

Capital Investment

5.1 Through its capital programme the Council plans net investment of £33.305M 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. Schemes classified as Under Development have had strategic outline business cases approved in principle by Cabinet but **cannot** commence until full business cases have been considered and approved, first by the Capital Assurance Group, and then by Cabinet.

5.3 A number of significant schemes are classified as Under Development including Canal Quarter, general fund housing schemes and renewable energy initiatives. Schemes with are in this section of the Capital Programme which will require significant capital expenditures and borrowing will need a business case to demonstrate that income arising from the capital investment is capable of covering all borrowing costs and delivering a positive return to the Council's revenue budget.

5.4 Summary details of the current 5-year capital programme are given at table twelve below, with further details provided within the Capital Programme & Capital Strategy 2023/24 to 2027/28 paper elsewhere on the agenda.

Table Twelve: Capital Programme

	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000	Total £'000
Approved Schemes							
Communities & Environment	5,999	2,764	5,568	1,927	36	833	17,127
Economic Growth & Regeneration	861	2,527	586	1,463	513	1,080	7,030
Corporate Services	538	965	1,415	130	0	0	3,048
Schemes Under Development	0	5,100	1,000	0	0	0	6,100
Total Net Capital Programme	**7,398**	**11,356**	**8,569**	**3,520**	**549**	**1,913**	**33,305**

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 £98.86M to £110.04M in 2024/25 before decreasing in 2026/27 to £104.28M.

Table Thirteen: Capital Financing Requirement

£M	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
Capital Financing Requirement						
CFR – Non Housing	59.06	63.73	71.87	76.98	76.77	73.30
CFR – Housing	36.18	35.14	34.10	33.05	32.01	30.97
Total CFR	**95.24**	**98.86**	**105.96**	**110.04**	**108.78**	**104.28**
Movement in CFR						
Non Housing	1.34	4.67	8.14	5.11	-0.21	-3.46
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	**0.29**	**3.63**	**7.10**	**4.07**	**-1.26**	**-4.51**

Movement in CFR represented by						
Net financing need for the year (above) re Non Housing	3.49	6.77	11.06	8.53	3.52	0.55
Less MRP/VRP and other financing movements	-3.20	-3.14	-3.96	-4.46	-4.78	-5.06
Net Movement in CFR	**0.29**	**3.63**	**7.10**	**4.07**	**-1.26**	**-4.51**

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 £59.00M to £77.42M later in 2024/25 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 £75.34M reflecting repayments of the HRA self-financing loan. See table fourteen below

Table: Fourteen: Forecast Borrowing Position

	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m
External Debt						
Debt at 1 April	**61.08**	**60.04**	**59.00**	**73.46**	**77.42**	**76.38**
Expected change in Debt	**-1.04**	**-1.04**	**14.46**	**3.96**	**-1.04**	**-1.04**
Other long-term liabilities (OLTL)	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Expected change in OLTL	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Actual gross debt at 31 March	**60.04**	**59.00**	**73.46**	**77.42**	**76.38**	**75.34**
The Capital Financing Requirement	**95.24**	**98.86**	**105.96**	**110.04**	**108.78**	**104.28**
Under Borrowing	**-35.20**	**-39.86**	**-32.50**	**-32.62**	**-32.40**	**-28.94**

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.

5.7 As part of the OBR process officers commissioned an external review of the Council's MRP policy and historic provision. The review highlighted a number of historic adjustments, which given the length of time could generate a significant retrospective windfall to the Council dependant on a change to the Council's MRP policy. Historically the Council has adopted the "Asset life method", where MRP is based on the estimated life of each asset created as a result of the related capital expenditure. The external advisors view is that whilst continuing to reflect the asset life of the asset it would benefit the Council if the MRP charge was calculated using the annuity method using a weighted average useful life. Members will note that, as part of the Council's Treasury Management Strategy elsewhere on the agenda approval is being sought to revise the Council's Minimum Review Provision (MRP) policy, which is also necessary to realise the savings in 2022/23.

5.8 Tables fifteen and sixteen provide forecast levels of annual capital financing charges and their respective proportion of the revenue budget.

Table Fifteen: Revenue Impact of Capital Decisions

	2022/23 Estimate £M	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M
Interest	1.172	2.205	2.447	2.610	2.610	2.610
MRP	2.109	2.923	3.416	3.734	4.014	3.878
Total	**3.281**	**5.128**	**5.863**	**6.344**	**6.624**	**6.488**

Table Sixteen: Ratio of Financing Costs to Net Revenue Stream

	2021/22 Actual %	2022/23 Estimate %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %
General Fund	18.50	14.90	24.31	25.05	25.12	24.23
HRA	19.87	18.57	17.00	16.22	16.25	15.99

5.8 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 25% of the Council's annual net revenue budget. Recent benchmarking work by the Local Government Association (LGA) provided a Northwest average of circa14%. 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.

5.9 The financing of capital projects can be from a variety of sources, such as external grants, the use of reserves, and the application of capital receipts. A significant workstream for the OBR Assets Group is to review and realign the Council's existing asset base to identify those assets which no longer met the Council's objectives and may be able to generate a capital receipt. However, the OBR process does provide a priority order for the use of capital receipts. Firstly, to fund transformation costs, that is costs that are associated with service transformation and delivery of efficiencies. Secondly, investment to reduce costs, which is not necessarily investing in a new asset; and given the levels of current financing costs, consideration also needs to be given to financing existing short life assets such as ICT and vehicles to reduce the MRP burden on the General Fund. Finally, the use of receipts to fund other schemes within the Capital Programme.

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 2023/24 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 seventeen

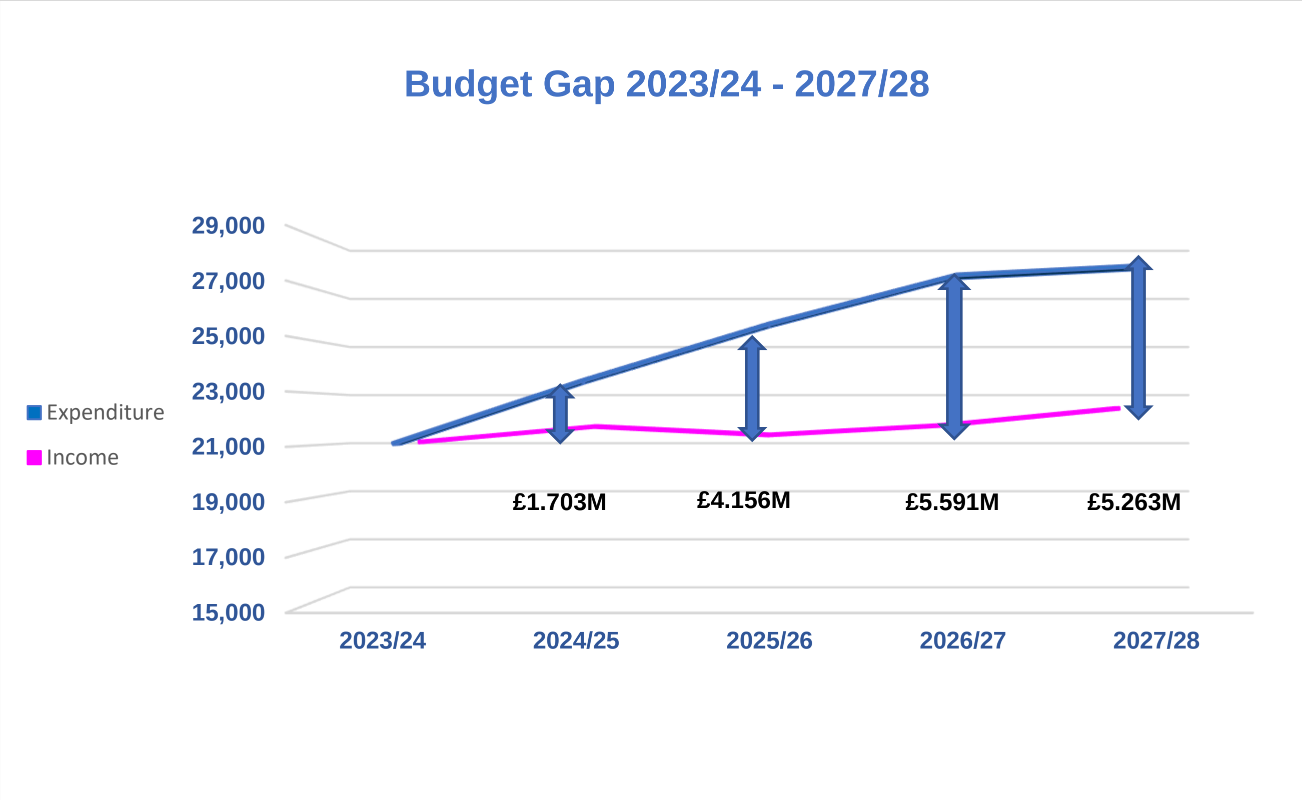


Table Seventeen: Cumulative Deficit as Percentage of Revenue Budget

	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000	2027/28 £'000
Revenue Budget (Estimate 7 February 2023)	21,091	23,407	25,253	27,342	27,690
Budget Gap (Incremental)	*0*	*1,703*	*4,156*	*5,591*	*5,263*
Percentage of Net Revenue Budget (Incremental)	0%	7%	16%	20%	19%

6.2 The forecast gaps are 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 over the short and medium term. It is imperative that the Council's OBR project continues. This will be fundamental 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 OBR 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.

7.4 At its meeting 09 November 2022 Council approved amendments to its Reserves Strategy. The Strategy put forward a number of revisions including,

- The transfer of £5.913M into the Council's General Fund unallocated reserve to boost financial resilience and to facilitate rationalisation of the application of these resources
- Endorsement of the s151 Officers advice to increase the minimum level of General Fund unallocated reserve to £5M
- Revisions to the governance arrangements for the approval of reserves expenditure

7.5 These revisions were required to enable the Council to better meet the current and forecast financial pressures it faces in regard to the ongoing cost of living crisis, uncertainty in the energy markets, together with other factors including the implications of OBR on the structural deficit as referenced for several years.

7.6 The graph and Table eighteen below provide details of our current forecast level of General Fund Balances including the impact of funding the forecast deficit from reserves.

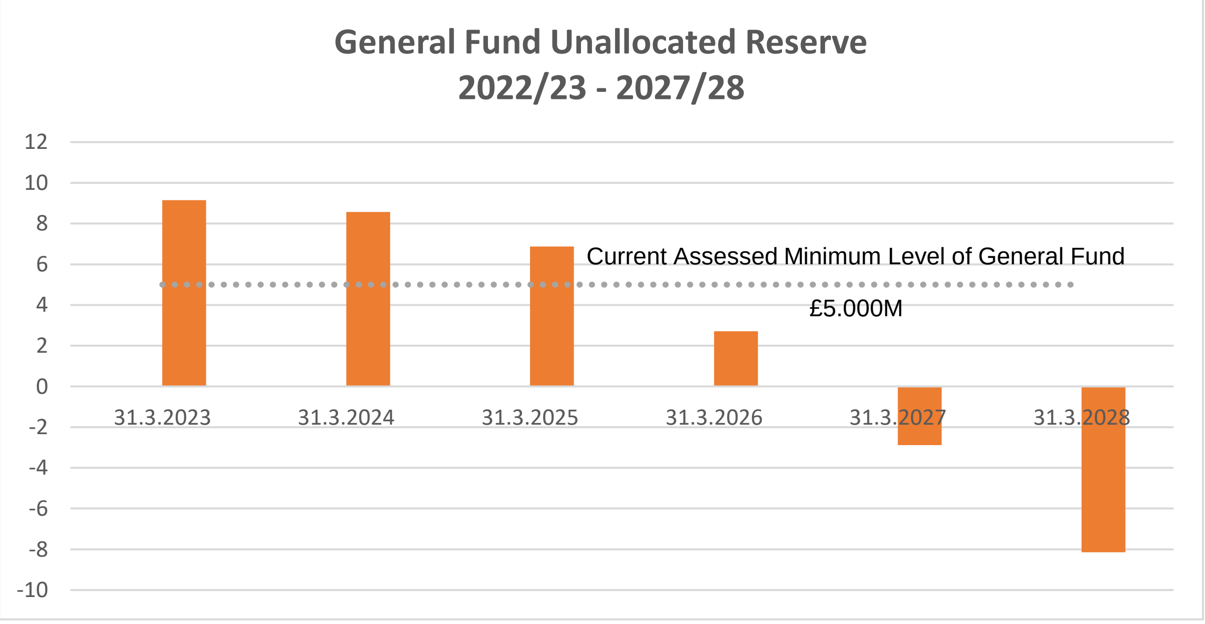


Table Eighteen: Estimated Level of General Fund Unallocated Reserves

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Balance brought forward	(6.032)	(9.145)	(8.568)	(6.865)	(2.709)	2.883
Forecast Overspend	1.465	0.000	1.703	4.156	5.591	5.263
Other Adjustments	1.335	0.000	0.000	0.000	0.000	0.000
Contributions	(5.913)	0.000	0.000	0.000	0.000	0.000
Impact of 2023/24 budget decisions	0.000	0.577	0.000	0.000	0.000	0.000
Balance carried forward	**(9.145)**	**(8.568)**	**(6.865)**	**(2.709)**	**2.883**	**8.145**

7.7 The graph and Table nineteen below provide details of our current forecast level of all available Council reserves. The analysis excludes a number of reserves such as s106 and Reserves held in perpetuity it does include reserves such as Business Retention and Renewals Reserves.

7.8 The Business Rates Retention Reserve is a mandated reserve, its purpose is to safeguard against the inherent risk of significant fluctuations in forecast surpluses and deficits on the Collection Fund which impact across multiple years and to maintain a steady income stream in respect of retained business rates. Whilst the transfers can be made to the general fund it is required to be maintained at a prudent level to manage the impact of significant risks with business rates and not to support ongoing budget deficits. On this basis the graph below is used to underline the serious of the current situation against the Council's entire general fund and collection fund resource.

Table Nineteen: Estimated Combined Level of Reserves (excluding S106 Reserves & Reserves Held in Perpetuity)

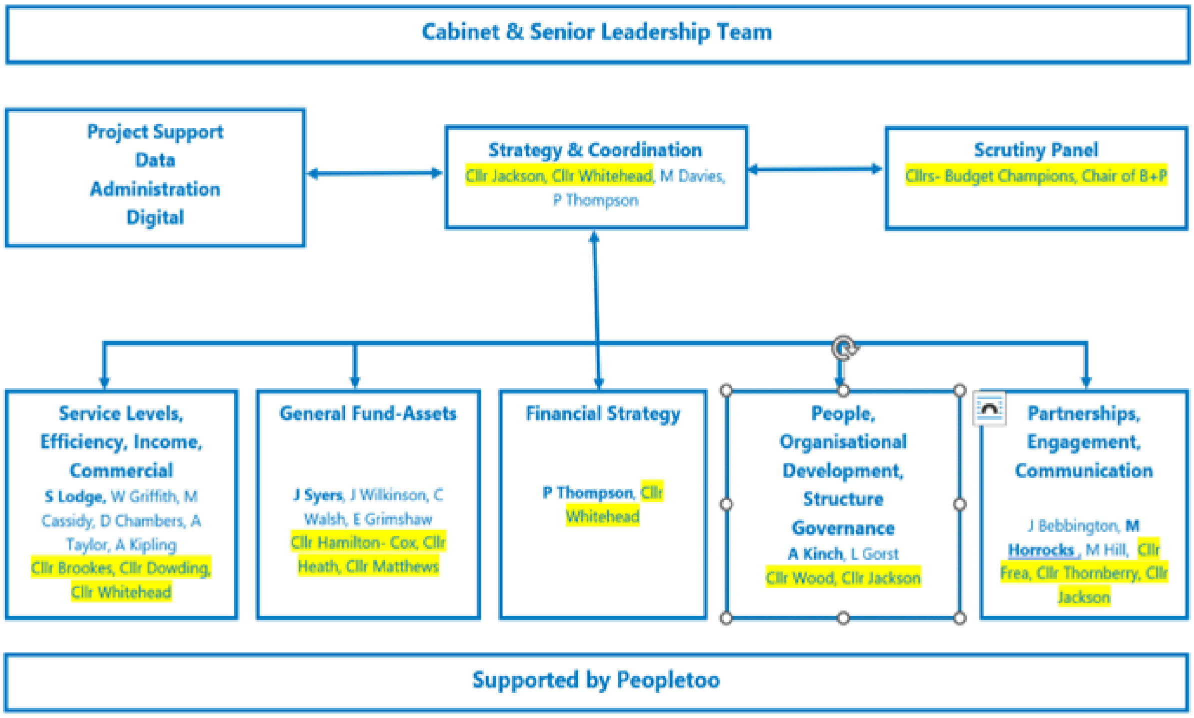
	2022/23 £M	**2023/24 £M**	**2024/25 £M**	**2025/26 £M**	**2026/27 £M**	**2027/28 £M**
Balance brought forward	(27.421)	(19.020)	(19.268)	(17.548)	(13.612)	(8.341)
Impact of 2023/24 budget decisions	0.000	0.577	0.000	0.000	0.000	0.000
Impact of other decisions & outturn	8.401	(0.825)	0.017	(0.220)	(0.320)	0.000
Forecast Overspend	0.000	0.000	1.703	4.156	5.591	5.263
Balance carried forward	**(19.020)**	**(19.268)**	**(17.548)**	**(13.612)**	**(8.341)**	**(3.078)**

7.7 Whilst this position represents an improvement on the previously reported position, these tables clearly highlight the significant pressure the Councils reserves are under should funding from reserves be required due to the forecast level of overspend in future years not being addressed.

8.0 BALANCING THE BUDGET TO 2027/28

8.1 Although originally committed to in 2018 the Council embarked on its OBR project earlier this year. 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. Given the financial situation the Council faced earlier in the year, this work has been slightly reprofiled whilst the Council undertook a number of immediate actions. The outcomes of the work to date have been included in to 2023/24 budget and MTFS projections going forward

8.2 The table below shows the operational structure of OBR project and its governance processes along with the key Member and Senior Officer involvement. The project is split into 5 task groups each charged with a discreet area of responsibility.



8.3 Given the size of the ongoing financial issues the Council faces this fundamental reshaping of the Council's services and realigning against its priorities through the OBR process will be key to shrinking the estimated £5.591M budget gap and securing the financial sustainability of the Council going forward. It is imperative that the OBR work, or similar principles continues under the new administration. The application of OBR across the Council will be a significant piece of work and to fully achieve its stated aims will take an estimated further 12 to 24 months. In light of this, balancing the budget both in the short and the medium term will be a tough task and all Members must recognise that despite the hard work undertaken to date they will face a number of difficult but key decisions over the coming financial years which will affect the manner in which services are delivered.

8.4 Whilst recognising that the Council will be subject to a new administration following the forthcoming election in May, Officers are currently working with Cabinet and will seek early engagement following the election to agree a series of actions to address this issue as a matter of urgency. The proposed actions currently include:

- Seeking a mandate from Cabinet for Officers to continue to develop proposals in the run up to the election
- Exploration of alternative service delivery models including closer working and collaboration with other Councils, Public Sector Bodies and Partner Institutions
- Application of alternative funding to deliver key Council outcomes
- Detailed review and sensitivity analysis on all key and significant income streams
- Further rationalisation work on the Council's asset base
- Expansion of the investment to reduce cost principle
- The potential use of capital receipts to finance existing projects
- Capitalisation of transformation costs where appropriate
- Development of a series of efficiency targets for Chief Officers to deliver

8.5 These proposals will form part of a wider consolidated strategy to be presented to Cabinet and Council in the new financial year

8.6 Many of the financial pressures identified within the Councils General Fund are also present within the Housing Revenue Account (HRA). A full update on the HRA budget and financial outlook will be considered alongside the General Fund 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.

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 The Council continues to face unprecedented levels of financial and economic uncertainty in terms of Local Government funding, pandemic recovery, and the cost of living crisis.. This and specific local issues such as those surrounding decommissioning plans for Heysham power station do hamper the degree of confidence with forecasts can be made and inevitably some key estimates and assumptions are likely to change in the coming months

11.2 Despite the work to date by Officers and Members to deliver on the Council's OBR programme, a significant budget gap remains which cannot be met from Council reserves. The overall size of the challenge the Council faces in addressing its underlying structural deficit and in formulating a balanced budget over the medium and longer term must be recognised as does the need to deliver considerable future savings.

11.3 The Council continues to deliver high-quality frontline services to the District's residents. Continued focus on 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 ,however, 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.***

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
(including Diversity, Human Rights, Community Safety, Sustainability etc)
None identified at this stage

FINANCIAL IMPLICATIONS
As set out in the report

S151 OFFICER COMMENTS
The s151 Officer has contributed to the writing of this report

LEGAL IMPLICATIONS
Legal Services have been consulted and have no further comments

MONITORING OFFICER'S COMMENTS
The Monitoring Officer has been consulted and has no further comments

BACKGROUND PAPERS	**Contact Officer:** Paul Thompson **Telephone: 01524 582603** **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A
Council – MTFS Agenda for Council on Wednesday, 27th February 2019, 6.00 p.m. Agenda for Council on Wednesday, 26th February 2020, 6.00 p.m. Agenda for Council on Wednesday, 24th February 2021, 6.00 p.m. Agenda for Council on Wednesday, 23rd February 2022, 6.00 p.m. Agenda for Council on Wednesday, 14th December 2022, 6.00 p.m. - Lancaster City Council Cabinet – Delivering our Priorities Q2 Agenda for Cabinet on Tuesday, 6th December 2022, 6.00 p.m. - Lancaster City Council Cabinet – Updated Reserves Strategy Agenda for Cabinet on Tuesday, 25th October 2022, 6.00 p.m. Council - Updated Reserves Strategy Agenda for Council on Wednesday, 9th November 2022, 6.00 p.m.	