

# CABINET

## Budget & Policy Framework 2024/25 – 2028/29 20 February 2024

### Report of Chief Finance Officer

<b>PURPOSE OF REPORT</b>			
This report sets out the latest position in respect of the budget and policy framework and Cabinet's proposed General Fund revenue budget for 2024/25			
<b>Key Decision</b>	<b>X</b>	<b>Non-Key Decision</b>	<b>Referral from Cabinet Member</b>
<b>Date of notice of forthcoming key decision</b>			12 <sup>th</sup> December 2022
This report is public however the Appendices B1 and B2 are exempt by virtue of paragraphs 2, 3 & 4 of Part 1 of Schedule 12A of the Local Government Act 1972			

#### RECOMMENDATION OF COUNCILLOR HAMILTON – COX

That Cabinet recommends the following for approval to Budget Council 28 February

1. That the General Fund Revenue Budget of £25.008M for 2024/25 be approved, resulting in a Council Tax Requirement of £10.928M, excluding parish precepts, and a Band D basic City Council tax rate of £256.63.
- (2) That the supporting General Fund Revenue Budget proposals be approved, as summarised at Appendices A, B, B1 and B2
- (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 £5.0M, 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 24 January 2024 considered Cabinet's proposed revenue budget for 2024/25 and approved a City Council Tax increase of 2.99% together with a year-on-year target of the maximum allowable under the Government's local referendum thresholds for future years.

- 1.3 Since that report, Cabinet considered updates to the General Fund Revenue budget to reflect the best information available, these included:
- Recognition of prior year business rates surplus
  - Increase in net business rates income following completion of Central Government NNDR 1 return.
  - Increase in prior year forecast council tax deficit.
- 1.4 This report sets out:
- The Operational and Strategic context in which the budget has been set. **(Section 2)**
  - Cabinet's final General Fund Revenue Budget proposals for 2024/25 including the outcomes of the Final Local Government Settlement **(Section 3)**
  - A summary of the of Council Tax and Business Rates as reflected in the Council's Collection Fund. **(Section 4)**
  - The s151 Officers Assessment of the Adequacy of the Council's Reserves Provision and Balances. **(Section 5)**

## **2.0 STRATEGIC & OPERATIONAL CONTEXT**

- 2.1 The 2024/25 Budget has once again been set against the backdrop of significant change, economic volatility and instability within the UK and global markets driven by high rates of inflation created by the war in the Ukraine and the challenges in the global supply chain post-pandemic, Brexit and conflicts in the middle east.
- 2.2 Office for Budgetary Responsibility (OBR) has noted that the medium-term fiscal outlook for the UK has materially worsened due to a weaker economy, higher interest rates and higher inflation. Economic activity has slowed considerably in recent years, with 2 successive quarters of negative growth in gross domestic product (GDP) the UK economy officially fell into recession at the end of 2023. Current commentary suggests a shallow recession with a slow upturn during 2024. Current forecasts from the OBR and Bank of England (BoE) anticipate growth of between 0.4% - 0.7% for 2024.
- 2.3 CPI inflation peaked at 11.1% in the final quarter of 2022/23 which was a 40 year high. Current rates and forecasts show inflation has reduced to 4% and is expected to reduce further returning to the 2% target in the following years.
- 2.4 Linked to rising inflation the Bank of England have also raised the interest rates to 5.25% which is the highest level for 14 years. The Bank of England continues to attempt to restrict inflation using monetary policy action. Interest rates are expected to remain at current levels before falling in the medium term once inflation reduces.
- 2.5 Weak activity and higher borrowing costs are expected to weigh heavily on employers' hiring intentions in 2024, with a forecast rise in unemployment over the course of the year. The OBR forecasts unemployment will rise to a peak of 1.6 million people (4.6% of the labour force) by the second quarter of 2025, up from the current level of about 1.5 million (4.2%).
- 2.6 Considering these economic challenges households in the district are especially impacted as they spend greater shares of their income on fuel and food. These include.
- Single people on low incomes (on benefits or in work)
  - Families with children
  - Pensioners
  - Those with disabilities

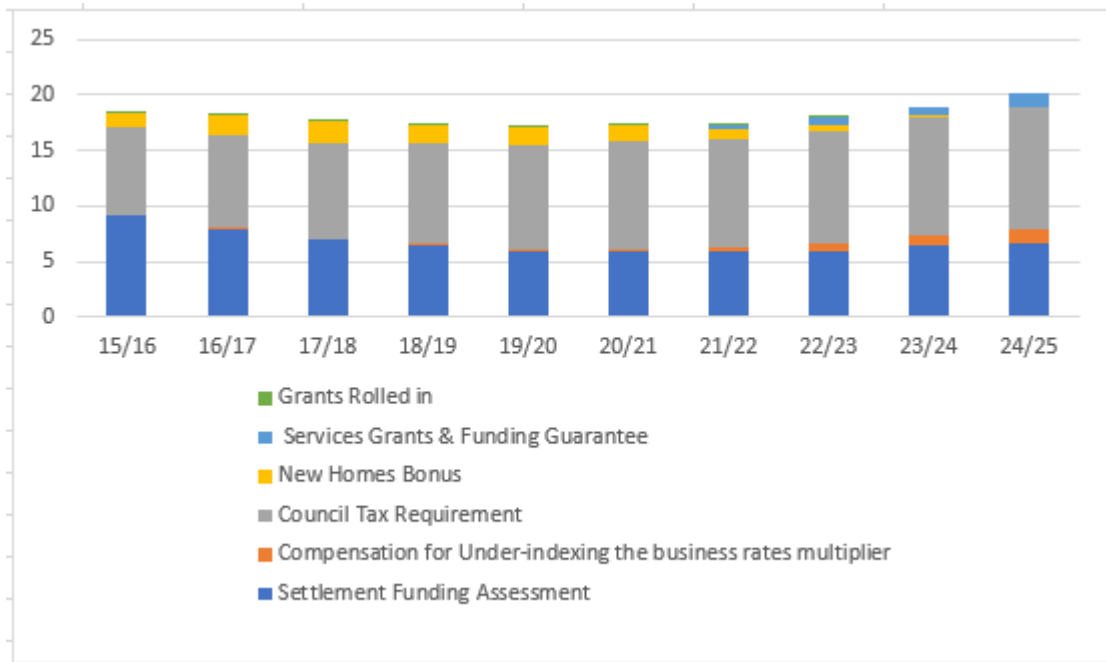
- 2.7 To provide support for those in greatest hardship, Cabinet recently approved the continuation of the Council's 100% Council Tax Support scheme for 2024/25 which means households most in need can apply for full relief from Council Tax. Lancaster City Council will be one of only a handful of local authorities in the Northwest to continue to have a 100% Council Tax Support scheme in 2024/25.
- 2.8 The Final Local Government Finance Settlement was confirmed in February. This was the final year of the two-year settlement announced in February 2023. The national headline message being £4.6 billion extra in Core Spending Power, with the following key announcements.
- An increase in the business rates baseline and revenue support grant– (as well as compensation for the freeze to the small business rates multiplier announced at the Autumn Statement) in line with the September Consumer Price Index (6.7 percent).
  - A core council tax referendum principle of 3 per cent plus an adult social care precept of 2 per cent for councils with social care responsibilities, with shire districts getting the higher of 3 per cent or £5.
  - Increase in social care grants of £1.5 billion of which £1.2 billion is for the Social Care Grant which is ring-fenced for adults and children's social care.
  - A 4 per cent funding guaranteeing. Each council is guaranteed a 4 per cent increase in Core Spending Power before any decisions about council tax increases – amounting to £269 million.
  - Services Grant reduces to £87.4 million compared with £483.3 million last year.
  - The New Homes Bonus at £291 million – similar to last year - with no legacy payments for previous years.
  - An increase of £15 million in the Rural Services Delivery Grant to £110 million.
- 2.9 A summary of the final settlement for Lancaster City Council is show in table one below. Assumptions have been included to estimate Government funding from 2025/26 onwards however actual allocations for this period are currently unknown.

**Table One – Final Settlement allocations for Lancaster City Council**

	<b>Final Settlement £000</b>	<b>LCC Forecast £000</b>	<b>Difference £000</b>
Settlement Funding Assessment			
Revenue Support Grant	433	406	27
New Homes Bonus	10	0	10
Funding Guarantee	1,188	605	583
Services Grant	40	232	(192)
<b>Total Government Funding</b>	<b>1,671</b>	<b>1,243</b>	<b>428</b>

*Core Spending Power*

- 2.10 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.
- 2.11 On the basis of the Final Settlement, the Council's CSP for 2024/25 will increase from £18.93M to £20.09M or 6.1% when compared to CSP in 2023/24 and includes an assumption by Government that Councils will increase their Council Tax by the maximum allowable. This is in comparison to the average increase in CSP for all Councils in England of 7.5%
- Table Two: Core Spending Power**



2.12 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.

2.13 Members will be aware that for several years the Council has reported a structural budget deficit, meaning that its planned expenditure exceeds its anticipated income. Although noting a slight easing in some of the economic factors the Council still faces significant pressure on its limited resources.

*Council Tax*

2.14 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. At its meeting 24 January 2024 Council agreed an increase in its Band D precept of 2.99% providing estimated Council Tax income of £10.928M.

*Business Rates*

2.15 Following on from the Chancellor’s autumn statement, the small and standard business rates multipliers have been de-coupled for the first time. The small business rates multiplier has been frozen for the fourth year in a row whilst the standard multiplier has been uprated by the increase in CPI inflation of 6.7%.

2.16 We are one of only a small number of Councils with a nuclear power station within its boundary. The rateable value of the Heysham1 and Heysham 2 nuclear reactors accounts for over 30% of the Council’s total rateable value. Although the retained business rates scheme does have a safety net mechanism in place to ensure that an authority’s income does not drop below more than a set percentage of its index linked spending baseline, the Council is vulnerable to swings in income levels relating to the power station’ operations. Heysham 1 is shortly due to be decommissioned with its operators, EDF currently giving an end of generation date of March 2026 rather than the date of March 2024 previously given. There remains a level of uncertainty around the exact timing and whilst EDF have an ambition to continue generation for a further year past the March 2026 date they have also commented that the March 2026 date may not be achieved and remains dependent on future graphite inspection results.

*Green Energy Disregard*

2.17 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 2024/25, this will be worth £3.970M. There is, however, no absolute guarantee that the Government won't discontinue this advantageous arrangement at some point in the future.

**3.0 REVENUE BUDGET 2024/25**

3.1 The General Fund Revenue Budget for 2024/25, summarised in Table 3, is included at **Appendix A**, with Service summary information given at **Appendix B** and more detailed budget savings proposals in exempt **Appendices B1 & B2**. The proposed budget is balanced, in line with statutory requirements, allowing for a contribution to the Council's reserves of £1.914M. As noted above the proposed budget takes account of the Final Local Government Finance settlement.

**Table 3: General Fund Revenue Budget 2024/25**

	<b>2024/25 £000</b>	
<b>Revenue Budget Forecast Council 22 February 2023</b>		<b>23,407</b>
Base Budget Changes Reported to Cabinet 5 December 2023		671
<b>Revenue Budget Forecast as 5 December 2023</b>		<b>24,078</b>
<b>Base Budget Changes</b>		
Operational Base Budget Changes		630
		<b>24,708</b>
<b>Outcomes Based Resourcing Proposals</b>		
Council Wide Fees & Charges	(838)	
Service Savings Proposals	(395)	
Additional Resource Requirements	125	
		(1,108)
<b>Other Adjustments</b>		
Final Finance Settlement	(401)	
Impact of Review of the Capital Programme	(105)	
		(506)
<b>Sub Total</b>		<b>23,094</b>
Contribution to/ (from) Unallocated Reserves		1,914
<b>General Fund Revenue Budget</b>		<b>25,008</b>
<b>Core Funding</b>		
Revenue Support Grant	(433)	
Prior Year Council Tax (surplus)/ Deficit	141	
Prior Year Business Rates (surplus)/ Deficit	(621)	
Net Business Rates Income	(13,167)	
<b>Total Core Funding</b>		<b>(14,080)</b>
<b>Council Tax Requirement</b>		<b>10,928</b>
<b>Estimated Council Tax Income (Based on 2.99% increase)</b>		<b>(10,928)</b>
<b>Resulting Base Budget (Surplus)/ Deficit</b>		<b>0</b>

- 3.2 The proposals set out in the Table 3 above produce a balanced revenue budget for 2024/25, which forms part of the recommendations of this report. Further details including the latest projections for future years to 2028/29 can be found at **Appendix A**
- 3.3 At its meeting on 22 February 2023 Council set its budget for 2022/23 and the base budget estimates for 2024/25 and future years. At the start of the budget setting process these “base” estimates are reviewed considering current circumstances and best information available and revised estimates produced before any saving, growth, or re-direction proposals are received. These estimates are under constant review during the budget setting process and often change as information comes forward.

**Base Budget Outcomes Based Resourcing Proposals and Other Adjustments**

- 3.4 Initial Operational and Base Budget changes for 2024/25 amounting to net additional expenditure of £0.671M were reported to Cabinet 6<sup>th</sup> December and Council 13<sup>th</sup> December 2023. Since that reporting period further net changes have been required totalling £0.930M. A summary of these changes is given in the table 4 below:

**Table 4 – Adjustments Since December 2023 Reporting to Cabinet & Council**

<b>Base Budget Changes</b>	<b>£M</b>	<b>Reference</b>
Operational Changes	0.191	3.5
Revised Energy Estimates	(0.134)	3.6
Commercial Property Reduction	0.150	3.7
Local Plan	0.423	3.8
<b>Sub Total</b>	<b>0.630</b>	
<b>Outcomes Based Resourcing Proposals</b>		
Council Wide Fees & Charges	(0.838)	Appendices B1 & B2
Service Savings Proposals	(0.395)	
Additional Resource Requirements	0.125	
<b>Sub Total</b>	<b>(1.108)</b>	
<b>Other Adjustments</b>		
Impact of Review of the Capital Programme	(0.105)	3.9
Final Local Government Finance Settlement	(0.401)	3.10
<b>Sub Total</b>	<b>(0.506)</b>	
Contribution to/ (from) Unallocated Reserves	1.914	3.11
<b>Sub Total</b>	<b>1.914</b>	
<b>Total</b>	<b>0.930</b>	

**Operational Changes £0.191M**

- 3.5 Minor operational changes have been identified since the initial draft budget was prepared and these changes have been built into the latest projections.

**Revised Energy Estimates (£0.134M)**

- 3.6 Since the energy budgets were prepared, there has been a further price update within the sector which now seems to have settled allowing for a more accurate budgetary projection. Based on the latest price information available, electricity has been reduced from 29p/kWh to 28p/ kWh and gas has seen a reduction from 8p/ kWh to 5p/ kWh.

Commercial Property Reduction £0.150M

- 3.7 Updated information has since been received from the Housing and Property service team surrounding projected rental income and occupancy levels within the Council's commercial property portfolio. This has resulted in estimated additional budgetary pressure.

Local Plan (£0.423M)

- 3.8 Cabinet, at its meeting of 5<sup>th</sup> December 2023 (minute 46(1) refers) approved the use of the Council's general unallocated reserve to enable the review of the adopted Local Plan for Lancaster District during the remainder of financial year 2023/24 and continuing in 2024/25 and 2025/26 – see also section 3.11.

Impact of Review of the Capital Programme (£0.105M)

- 3.9 Further revisions to the draft capital programme have resulted in savings relating to budgetary provision for minimum revenue provision (MRP).

Final Local Government Finance Settlement (£0.401M)

- 3.10 The Government released the provisional local government finance settlement on 19 December 2023, with the final settlement released on 5 February 2024. The final settlement included an additional £0.190M in the funding guarantee and services grant above the £0.211M announced in the provisional settlement as previously reported.

Contribution to/ (from) Unallocated Reserves £1.914M

- 3.11 The final contribution to unallocated reserves has been increased by £0.190M from the £1.724M reported on 6 February. This represents to impact of the final local government finance settlement referred to in paragraph 3.10.

**Budget Principles and Assumptions**

- 3.12 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 outcomes and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.
- 3.13 Table 5 below, lists the major assumptions that have been made for the 2024/25 budget.

**Table 5: Major Assumptions within General Fund Revenue Budget 2024/25**

	<b>2024/25</b>
Council Tax Increase	2.99%
Council Tax Collection Rate	98.67%
Business Rates Multiplier: Small Business Rates	Frozen
Business Rates Multiplier: Standard	6.70%
Fees & Charges	Various
Inflation – Pay	5.95%
Employer Pensions Contribution	16.30%
Electricity	28p/kWh
Gas	5p/kWh
Inflation – Insurance	10.00%
Other inflation	2.80%
Interest Rate – investments	4.68%
Interest Rate – new borrowing	4.50%

#### **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 have a deficit of £0.141M for 2023/24.
- 4.3 The Council Tax increase of 2.99% agreed by Council on 16 January 2024 means that the City element of Council Tax for a band D property will be £256.63 resulting in expected income of £10.928M for 2024/25.

##### Business Rates

- 4.4 The Council is required to submit its annual business rates return (NNDR1) to the Government by the end of January in which it estimates business rates income for 2024/25 and the estimated deficit or surplus as at the end of 2023/24.
- 4.5 The inherent risk associated with the NNDR1 is that the final outturn surplus or deficit position differs substantially from the estimate, and this has indeed been the case at the Council in recent years. The Business Rates Retention Reserve is, therefore, utilised to safeguard against such fluctuations and to hold the impact of the multi-year flow of accounting entries for the Business Rates Retention Scheme. In this way the General Fund is safeguarded and a steady income stream in respect of Business Rates maintained. As noted in Table 1 the forecast surplus for 2023/24 is £0.621M which will be transferred to the Business Rates Retention Reserve.
- 4.6 Members will be aware of decommissioning plans for the Heysham 1 and Heysham 2 nuclear reactors which will have a significant impact on the Council's finances. Currently the rateable value of the reactor's accounts for a substantial proportion 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. This is currently expected to arise in 2026/27 in line with the current decommissioning date for Heysham 1 of March 2026. EDF Energy have indicated that there



may be some scope to extend generation and are keeping this under review being unable to provide any certainty at this stage.

- 4.7 The local government finance settlement set out the tariff, baseline and safety net levels which drive the retained rates calculation and confirmed the final amount of the technical adjustment to the tariff relating to the 2023 revaluation. The modelling has been completed to reflect these and the impact of ongoing business rates monitoring.
- 4.8 Further work has been undertaken in respect of the forecast Section 31 grant compensation for future business rates under-indexation in future years, and in particular, that related to the years where it is anticipated that a safety net payment will be triggered. This has improved the position for future years, but Members are asked to note that this is not without its own complexity leaving some inevitable uncertainty which will remain subject to ongoing review as the date for the closure of Heysham 1 approaches.
- 4.9 In addition, following on from the Cabinet and Chief Executive decisions in December to allocate £0.728M and £0.912M respectively from unallocated reserves to support development of the local plan and demolition and clearance works at the A1 Supa skips site a transfer of £1.64M is also planned to top up the unallocated reserve to compensate for these expenditures.
- 4.10 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 2024/25, this will be worth £3.970M. 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.
- 4.11 Council’s make provision against future levels of appeals made by businesses against their Rateable Value. The timing and value of appeals is a matter of judgement informed by available data. Following the 2023 revaluation there is a significant amount of uncertainty surrounding potential checks, challenges, and appeals. In addition, there is a disproportionate risk arising around the potential of any appeal or potential for outage at the Heysham Power Station. The uncertainties are managed by keeping the provision under review and retaining a buffer against risk in the business rates retention reserve. The appeals provision as at the end of 2024/25 is estimated at £10.957M with the City Council share being £4.383M.
- 4.12 The table64 below shows the income from the Business Rates Retention Scheme that will be recognised in the General Fund during 2023/24

**Table 6: Income from the Business Rates Retention Scheme**

	<b>2024/25 £M</b>
Retained Business Rates	9.197
Renewable Energy Disregard Income	3.970
City Share of Prior Year Surplus	0.621
<b>Total Retained Business Rates</b>	<b>13.788</b>

## 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.

5.2 The minimum level should be set to enable the Council to 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 general and pay inflation as well as the implications of Fit for the Future on the structural deficit as referenced for several years. It is against this back drop the 2024/25 assessments are made.

### Provisions

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

### Reserves & Balances

5.4 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 or emergency situations.

### Annual Assessment of Reserves Levels

5.5 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, the Council still faces significant inescapable financial pressures. Continuing uncertainties in respect of Local Government Funding levels, pay and general inflation and other factors creating the cost of living as well as the results of the Council's Fit for the Future process also remain. **Taking all of these risks into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should remain at £5M.**

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

- The General Fund Balance at 31/03/23 was £11.678M, Quarter 3 revenue budget monitoring forecasts an overspend of £0.611M in 2023/24. With preliminary indications from Quarter 3 monitoring suggesting an increase in the overspent position to £0.677M and drawing on unallocated reserves of c£3M.
- Although the Council is embarking on the second phase of its Outcomes Based Resourcing programme, Fit for the Future and identified savings to deliver the 2024/25 budget, the Council's current Medium Term Financial Strategy (MTFS) suggests a structural budget gap in 2025/26 onwards of approximately £1.435M raising to £4.567M. If this is not closed, then balances will be required to make up the difference.
- Although Business rates retention volatility remains a risk to the Council in particularly the timing of 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.

5.7 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 7: Risk Assessment**

Risk	Symptom of Risk	Balance Required £M
Increased demand for services	3% increase in net revenue expenditure	0.750
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.950
Recession results in additional reduction in Council Tax collection rates than budget	5% reduction in collection rate	0.500
Budget savings not achieved	50% under achievement	0.150
Natural disaster such as flood etc	Additional unexpected expenditure	0.500
Additional uncertainty with respect to Cost of Living	Additional unexpected expenditure	2.000
<b>Aggregate overspend if all of the above risks were to happen</b>		<b>4.850</b>

5.8 The analysis shows that, in the 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.

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

5.10 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.

5.11 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**

5.12 The estimated levels of General Fund Unallocated and combined Earmarked reserves balances are shown in **Appendix C** with the impact of the inclusion of forecast overspends summarised in tables 8 and 9 below.

**Table 8: Estimated Level of General Fund Unallocated Reserves**

	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Balance brought forward	(11.678)	(8.620)	(8.412)	(7.699)	(3.752)	0.078
Forecast Overspend	0.677	0	1.435	3.947	3.830	4.567
Contributions (to)/from	2.381	0.458	(0.722)	0	0	0
Impact of 2023/24 budget decisions	0	(0.250)	0	0	0	0
<b>Balance carried forward</b>	<b>(8.620)</b>	<b>(8.412)</b>	<b>(7.699)</b>	<b>(3.752)</b>	<b>0.078</b>	<b>4.645</b>

**Table 9: Estimated Combined Level of Reserves**

	<b>2023/24</b> <b>£M</b>	<b>2024/25</b> <b>£M</b>	<b>2025/26</b> <b>£M</b>	<b>2026/27</b> <b>£M</b>	<b>2027/28</b> <b>£M</b>	<b>2028/29</b> <b>£M</b>
All Reserves excl Ring Fenced	(22.308)	(19.085)	(20.005)	(19.836)	(15.785)	(11.950)
Contributions from/(to) Reserves	2.546	(0.670)	(1.266)	0.104	0.005	(0.495)
Estimated Additional Call on Reserves	0.677	0	0	0	0	0
Forecast Deficit Funded From Reserves	0.000	(0.250)	1.435	3.947	3.830	4.567
<b>Balance carried forward</b>	<b>(19.085)</b>	<b>(20.005)</b>	<b>(19.836)</b>	<b>(15.785)</b>	<b>(11.950)</b>	<b>(7.878)</b>

5.13 These tables clearly highlight the significant pressure the Councils reserves are under should funding of the forecast level of overspend in future year is not addressed.

#### **Governance Arrangements on the Use of Reserves**

5.14 Given the continuing financial pressures and the need for the prudent use of reserves the following arrangements exist for the approval of reserves expenditure:

- All applications will need to be supported by a bid document setting out how expenditure funded from Reserves will deliver corporate priorities with a clear costing statement schedule of specific outcome measures. Details of the bid proforma document is attached at appendix A
- Reserve bids should be agreed by Portfolio Holder in consultation with relevant Chief Officer.
- Once received bids will need to be formally agreed by the Leader of the Council, Chief Executive, Portfolio Holder for Finance and Resources, Monitoring Officer and the s151 Officer before expenditure is authorised and can be incurred.

5.15 These arrangements will be reviewed again as part of the annual revenue budget process.

## **6.0 DETAILS OF CONSULTATION**

6.1 Cabinet's initial budget proposals were presented for scrutiny to Budget and Performance Panel at its meeting 18 January 2024, to Council 25<sup>th</sup> January and subject to public consultation 31<sup>st</sup> January 2024.

6.2 At the Budget and Performance Panel meeting 18 January, many questions were raised and answered, and in addition the following feedback points were noted in the draft minutes.

- Green waste subsidy – Cabinet to re-consider the subsidy being provided for the service. This will encourage households to compost their garden waste.
- Salt Ayre Leisure Centre – Cabinet to consider benchmarking with other similar facilities to see what is achievable and ways to achieve excellence at reasonable cost.
- Council Tax information – Cabinet to consider ensuring that, for the meeting with the public, details of the Council Tax % increase and share for each organisation is provided. To show the excellent value provided by the City Council.
- Savings already identified – ask Cabinet to consider bringing forward savings already identified, in line with the rules Cabinet has set itself, if possible.

- 6.3 The feedback was considered by Cabinet 6 February 2024 with the following recorded withing the minutes.

*With regard to the green waste subsidy, it was noted that the costs of this were difficult to determine and removing the subsidy would likely impact on the number of subscribers. Work continues to take place at Salt Ayre to ensure value for money can be evidenced along with its contribution to Council priorities. This includes benchmarking, performance management and consideration of best practice.*

## **7.0 OPTIONS & OPTIONS ANALYSIS**

### Revenue Budget

- 7.1 Council may adjust its revenue budget proposals, so long as the overall budget for 2024/25 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.

- 7.4 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.

## **8.0 OFFICER PREFERRED OPTION (AND COMMENTS)**

### Revenue Budget 2024/25 and Reserves Position

- 8.1 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.

## **9.0 CONCLUSION**

- 9.1 This report addresses the actions required to complete the budget setting process for 2024/25, and for updating the Council's associated financial strategy.

## **RELATIONSHIP TO POLICY FRAMEWORK**

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

## **CONCLUSION OF IMPACT ASSESSMENT**

(including Diversity, Human Rights, Community Safety, Sustainability etc)

The proposed budget incorporates measures to address the climate emergency and digital improvements as well as activities to address wellbeing, health, and community safety.

## **FINANCIAL IMPLICATIONS**

As set out in the report

## **SECTION 151 OFFICER'S COMMENTS**

### **Robustness of Estimates and Adequacy of Council's Reserves**

The Local Government Act 2003 places 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 £5M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed. This level assessment is consistent with that noted by Council 22 February 2023 and represents an increase of £1.5M from 2022/23. It reflects the uncertainty around the current economic climate and 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 2028/29. 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 the ongoing cost of living crisis and the effect it has on significant areas of expenditure such as energy costs as well as general and pay inflation. The Council has a level of reserves and benefits from the significant green energy disregard, both of which offers a degree of protection from volatilities.

Current spending plans are sustainable in the short term through the prudent allocation of funding from reserves. However, the current Medium Term Financial Strategy suggests a structural budget gap in 2025/26 onwards of approximately £1.435M raising to £4.567M. This size of deficit is not sustainable and if not addressed by significant interventions and balances used, they will be quickly depleted. It is therefore of the utmost importance that Members and Officers work together and continue to support the Outcomes Based Resourcing/ Fit for the Future programme as it must remain a core priority for the Council as it will be expected to deliver significant inroads into the deficit.

### **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 comments.

### **BACKGROUND PAPERS**

Appendix A General Fund Revenue Budget 2024-25  
Appendix B Service Summary

**Contact Officer:** Paul Thompson

**Telephone:** 01524 582603

**E-mail:** pthompson@lancaster.gov.uk

Appendix B1 Exempt  
Appendix B2 Exempt  
Appendix C Reserves Summary  
Appendix D Budget Transfers Virements Carry  
Forwards

**Cabinet Papers**

[Agenda for Cabinet on Tuesday, 6th February 2024,  
6.00 p.m. - Lancaster City Council](#)

[Agenda for Cabinet on Tuesday, 16th January 2024,  
6.00 p.m. - Lancaster City Council](#)

[Agenda for Cabinet on Tuesday, 5th December 2023,  
6.00 p.m. - Lancaster City Council](#)

**Budget & Performance Papers**

[Agenda for Budget and Performance Panel on  
Wednesday, 31st January 2024, 6.00 p.m. - Lancaster  
City Council](#)

[Agenda for Budget and Performance Panel on  
Thursday, 18th January 2024, 6.00 p.m. - Lancaster  
City Council](#)

[Agenda for Budget and Performance Panel on  
Thursday, 7th December 2023, 6.10 p.m. - Lancaster  
City Council](#)

Ref: N/A