

CABINET

Medium Term Financial Strategy

2024/25 – 2028/29

20 February 2024

Report of Chief Finance Officer

PURPOSE OF REPORT				
To provide an update on the Council's Medium Term Financial Strategy (MTFS) forecasts for 2024/25 to 2028/29				
Key Decision		Non-Key Decision	X	Referral from Cabinet Member
Date of notice of forthcoming key decision				

RECOMMENDATION OF COUNCILLOR HAMILTON-COX

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 28 February 2024 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 2024/25. 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 Office for Budgetary Responsibility (OfBR) 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 Bank Rate has been subject to a succession of increases during the current financial year and is believed to have now peaked at 5.25% which has led to a significant forecast increase in investment interest. Bank Rate is forecast to fall during 2024/25 to an anticipated 3.75% by March 2025 whilst the level of amounts available for investment is falling. In addition, the Council has a need to borrow at a time when PWLB and Local Authority lending rates are rising. This places pressures on the affordability of the Council's Capital Programme and the need to consider how it is funded.
- 2.5 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
- 2.6 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.
- 2.7 Central Government released a single-year Finance Settlement resulting in difficulties in forecasting in the medium and longer term which is required when developing the Council's Medium Term Financial Strategy.
- 2.8 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.
- 2.9 On 19th January 2023 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.

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 released on 5 February 2024. The final settlement included an additional £0.190M in the funding guarantee and services grant above that announced in the provisional settlement. The main 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 2024/25
- The freezing of the small Business Rates “multiplier” for 2024/25 with the small and standard Business Rates multipliers now being de-coupled.
- Continuation of a number of funding streams including Revenue Support Grant, which was originally due to cease in 2020/21, Services Grant, although at a reduced level and New Homes Bonus. The future of New Homes Bonus in its current form remains uncertain.
- The Settlement includes a sector-wide Funding Guarantee grant to ensure that all Councils receive a minimum of 4% increase in spending power before making any local decisions on council tax.

3.2 A summary of the final settlement for Lancaster City Council is shown 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

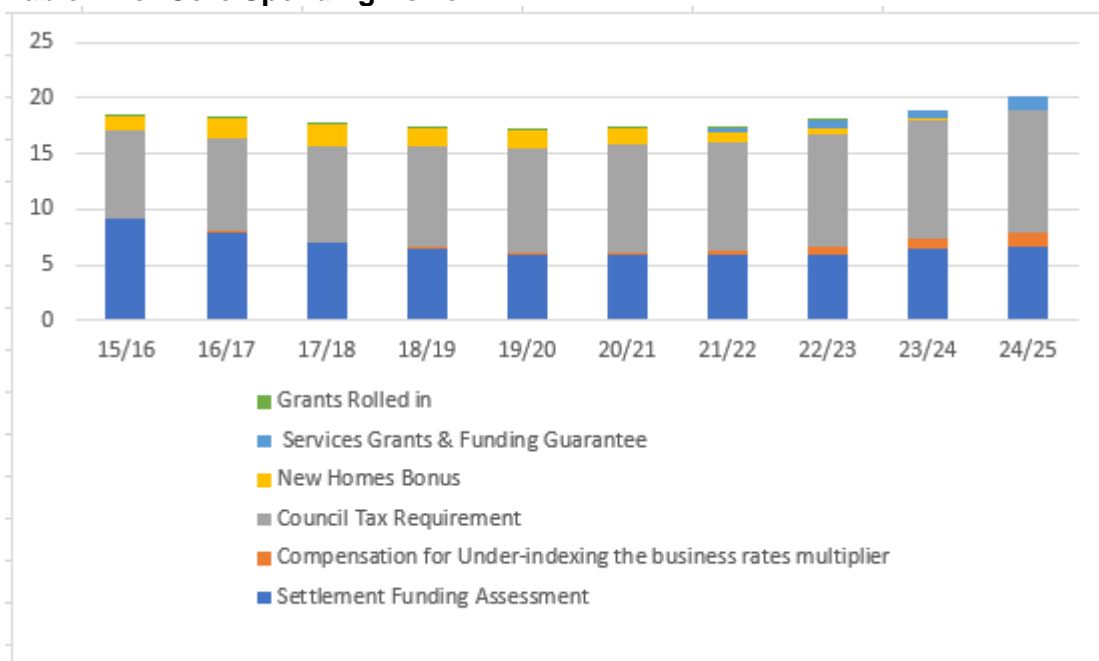
	Final Settlement £000	LCC Forecast £000	Difference £000
Settlement Funding Assessment			
Revenue Support Grant	433	406	27
New Homes Bonus	10	0	10
Funding Guarantee	1,188	605	583
Services Grant	40	232	(192)
Total Government Funding	1,671	1,243	428

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 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



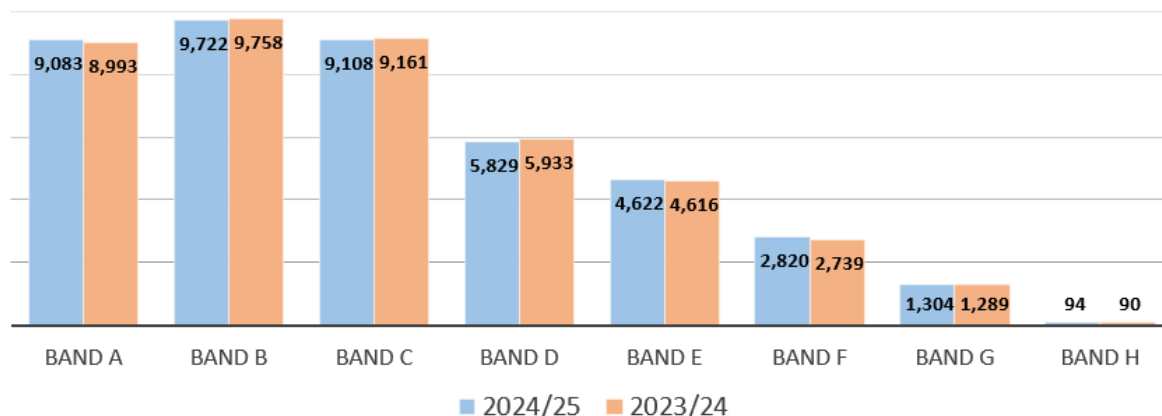
3.5 Table two above compares the historic value of CSP, and shows the Council is now almost entirely reliant on Council Tax and Business Rates, with a small amount of income from central government grants to fund net expenditure and it is, therefore, important to provide regular estimates of these key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

Council Tax

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 2024/25 has been calculated as 42,583 Band D equivalent properties after allowing for a collection rate of 98.68%, the same as in previous years. This equates to a 0.01% increase in the tax base. There are three issues underlying the lack of growth which in previous years has been in the region of 1% increase per annum. Fewer new properties than forecast were completed during 2023/24 and the number of new properties forecast for 2024/25 is also reduced. There has also been an increase in exempt accounts together with an increase in the number of properties eligible for 25% occupancy reductions. From 2025/26 1% growth in the Tax base has been used for forecasting.

Council Tax Base Comparison



- 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 2023/24	Forecast 2024/25	Forecast 2025/26	Forecast 2026/27	Forecast 2027/29	Forecast 2028/29
Council Tax Band D 2.99% increase		£256.63	£264.31	£272.31	£280.35	£288.73
Council Tax Band D (£5 increase)	£249.18	£254.18	£259.18	£264.18	£269.18	£274.18
Tax base (1% growth from 2023/24)	42,579	42,583	43,009	43,439	43,873	44,312
Council Tax Income	£10,610,019	£10,928,285	£11,367,591	£11,824,557	£12,299,892	£12,794,335
Previous MTFS		£11,037,000	£11,480,000	£11,942,000	£12,422,000	£12,422,000
Difference Increase/(Decrease)		(£108,715)	(£112,409)	(£117,443)	(£122,108)	(£122,108)
Scenario 1 – no increase In Council tax over period Of MTFS		(£425,985)	(£762,875)	(£1,117,703)	(£1,489,460)	(£1,380,135)
Scenario 2 – Council Tax Band D £5 increase		(£213,070)	(£332,786)	(£466,120)	(£611,994)	(£272,334)
Scenario 3 – 1.5% increase in tax base growth & 2.99% increase in Council Tax Band D		(£108,715)	(£56,134)	(£79)	£61,469	£627,576

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. There are currently several significant uncertainties which make forecasting and planning extremely difficult, these are set out below. The Council uses its business rates retention reserve to mitigate against significant fluctuations in income levels and provide some budgetary stability.
- 3.11 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%. The potential level of inflation to build in for future years and S31 grant received to compensate for the freezing of the small business rates multiplier can be difficult to forecast with accuracy. The retained business rates calculation is also heavily dependent on the future tariff, baseline and safety net levels which drive it and these change in line with the Local Government Finance Settlement each year.

Heysham Power Stations

- 3.12 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's 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.

Baseline Reset

- 3.13 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 the year against which the reset would be referenced and how this may interact with the potential nuclear power station decommissioning timetable is an unknown.

Green Energy Disregard

- 3.14 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.
- 3.15 The table below provides Business Rates forecasts for the next four years incorporating a number of assumptions. Current forecast assumptions are:
- Heysham 1 reactor to be decommissioned March 2026
 - Growth of 2% in 2025/26 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

	2024/25 £	2025/26 £	2026/27 £	2027/28 £	2028/29 £
Retained Business Rates	9,197,200	9,155,600	-	-	-
Safety Net Payment	-	-	7,333,900	7,556,500	7,731,600
Renewable Energy Disregard Income	3,969,900	4,049,300	4,130,300	4,212,900	4,297,200
Total net retained business rates	13,167,100	13,204,900	11,464,200	11,769,400	12,028,800

New Homes Bonus

- 3.16 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

	2024/25 £000's	2025/26 £000's	2026/27 £000's	2027/28 £000's	2028/29 £000's
Annual Reward	10	90	90	90	90
Previous MTFS	188	188	188	188	188
Difference Increase/ (Decrease)	(178)	(98)	(98)	(98)	(98)

4.0 GENERAL FUND PROJECTIONS

4.1 Table Eight below outlines the current forecast budgetary position for 2024/25 to 2028/29

Table Eight: General Fund Revenue Projections 2024/25 to 2028/29

	2024/25	2025/26	2026/27	2027/28	2028/29
	£000	£000	£000	£000	£000
Revenue Budget Forecast as 23 February 2023	23,407	25,253	27,342	27,690	0
Base Budget Changes					
Operational Base Budget Changes	878	1,524	1,953	2,195	31,035
Local Plan	423	298	0	0	0
	24,708	27,075	29,295	29,885	31,035
Outcomes Based Resourcing Proposals					
Savings & Income Proposals	(1,233)	(1,402)	(1,429)	(1,456)	(1,484)
Growth Proposals	125	51	52	53	54
Impact of Review of the Capital Programme	(105)	(574)	228	228	96
	23,495	25,150	28,146	28,710	29,701
Impact of Final Local Government Finance Settlement	(401)	(311)	(311)	(311)	(311)
Contribution to/ (from) Unallocated Reserves	1,914	1,168	(600)	(500)	
General Fund Revenue Budget	25,008	26,007	27,235	27,899	29,390
Core Funding					
Revenue Support Grant	(433)				
Prior Year Council Tax (Surplus)/Deficit	141				
Prior Year Business Rates (Surplus)/Deficit	(621)				
Net Business Rates Income	(13,167)	(13,205)	(11,464)	(11,769)	(12,029)
Council Tax Requirement	10,928	12,802	15,771	16,130	17,361
Estimated Council Tax Income					
(Increase Based on 2.99% for 2024/25 then maximum allowable	(10,928)	(11,367)	(11,824)	(12,300)	(12,794)
Resulting Base Budget (Surplus)/ Deficit	0	1,435	3,947	3,830	4,567

4.2 Table Eight shows that, despite of the work undertaken by Officers and Members to balance the budget for 2024/25, there still remains a significant challenge, with the Council facing a shortfall of £1.435M in 2025/26 with an estimated total shortfall of £4.567M 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 main assumptions that have been made within the MTFS with further details discussed in later paragraphs.

Table Nine: 5 Year MTFS Planning Assumptions

	2024/25	2025/26	2026/27	2027/28	2028/29
Council Tax Base Growth	0.001%	1.00%	1.00%	1.00%	1.00%
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%
Small Business Rates Multiplier	Frozen	Frozen	Frozen	Frozen	Frozen
Fees & Charges	Various	Various	Various	Various	Various
Inflation – Pay	5.95%	3.50%	3.00%	3.00%	3.00%
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: Current Price	Gas: Current Price	Gas: Current Price	Gas: Current Price
	Electric: Current Price	Electric: Current Price	Electric: Current Price	Electric: Current Price	Electric: Current Price
Other inflation	2.80%	1.70%	2.50%	2.50%	2.50%
Interest Rate – investments	4.68%	3.00%	2.00%	2.00%	2.00%
Interest Rate – new borrowing	4.50%	3.80%	N/A	N/A	N/A

Savings and Income Generation Proposals

- 4.5 The budget savings, or income growth identified as part of the 2024/25 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 Service in the table below, with more information included within the Budget and Policy Framework General Fund Revenue Budget 2024/25 item on the agenda.

Table Ten: Directorate Summary Savings Proposals

-	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	£'000	£'000	£'000	£'000
Council Wide (Fees & Charges)	(838)	(855)	(872)	(889)	(907)
Communities & Leisure	(113)	(160)	(163)	(166)	(169)
Environment & Place	(77)	(78)	(79)	(80)	(81)
Housing & Property	(15)	(115)	(117)	(119)	(121)
People & Policy	12	12	12	12	12
Planning & Climate Change	(72)	(73)	(74)	(75)	(76)
Resources	(30)	(31)	(32)	(33)	(34)
Sustainable Growth	25	(51)	(52)	(53)	(54)
Net Savings	(1,108)	(1,351)	(1,377)	(1,403)	(1,430)

- 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 Budget Process & Review

- 4.7 Cabinet and Strategic Leadership Team have considered new schemes for inclusion in the Capital Programme via the submission of strategic outline followed by full business cases during the budget process. The Council's previous Capital Programme has also been reviewed with a view to repositioning and reprofiling several capital schemes. This has altered the impact that capital projects have on revenue due to Minimum Revenue Provision (MRP) and interest costs. Details of the estimated additional expenditure or savings are detailed in the table below:

Table Eleven: Revenue Impact of Capital Programme Budget Process & Review

	2024/25	2024/25	2025/26	2026/27	2027/28
	£'000	£'000	£'000	£'000	£'000
Revenue Impact of Capital Programme Changes	(105)	(574)	228	228	96

5.0 CAPITAL INVESTMENT AND FINANCING

Capital Investment

- 5.1 Through its capital programme the Council plans net investment of £32.326M between 2023/24 and 2028/29 with a further £6.883M currently planned up to 20232/33. This investment will support the delivery of its key Strategic Priorities and Outcomes such as Climate Emergency, Housing and Regeneration as well as investing in of existing property, facilities, and equipment 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 Schemes which 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 can cover 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,

Table Twelve: Capital Programme

	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Approved Schemes							
Communities & Leisure	259	976	291	-	-	-	1,526
Environment & Place	1,292	1,301	5,067	630	1,073	1,761	11,124
Housing & Property	2,335	2,524	899	940	328	539	7,565
People & Policy	-	-	-	-	-	-	-
Planning & Climate Change	-	240	2,193	-	-	-	2,433
Resources	1,386	1,341	286	316	326	181	3,836
Sustainable Growth	937	115	530	30	30	0	1,642
Schemes Under Development	-	200	4,000	-	-	-	4,200
Total Net Capital Programme	6,209	6,697	13,266	1,916	1,757	2,481	32,326

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 2023/24 position of £101.04M to £112.54M in 2025/26 before decreasing in 2028/29 to £101.88M.

Table Thirteen: Capital Financing Requirement

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
Capital Financing Requirement							
CFR – Non-Housing	63.56	66.95	70.47	80.54	77.81	74.99	73.00
CFR – Housing	35.13	34.09	33.05	32.00	30.96	29.92	28.88
Total CFR	98.69	101.04	103.52	112.54	108.77	104.91	101.88
Movement in CFR							
Non-Housing	4.50	3.38	3.52	10.07	-2.73	-2.82	-1.99
Housing	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04	-1.04
Net Movement in CFR	3.46	2.34	2.48	9.03	3.77	-3.86	-3.03

Movement in CFR represented by

Net financing need for the year (above) re Non-Housing	4.61	6.02	6.53	13.26	1.92	1.75	2.48
Less MRP/VRP and other financing movements	-1.15	-3.68	-4.05	-4.23	-5.69	-5.61	-5.51
Net Movement in CFR	3.46	2.34	2.48	9.03	-3.77	-3.86	-3.03

- 5.4 Based on the capital programme, the overall physical borrowing position of the Council is projected to increase by £21.87M over the next three years from its estimated current position of £59.00M to £80.88M at the end of 2025/26 in order to finance the Council's capital ambitions. It is then forecast to reduce slightly year on year reflecting repayments of the HRA self-financing loan. See table fourteen below.

Table: Fourteen: Forecast Borrowing Position

	2022/23 Actual £m	2023/24 Estimate £m	2024/25 Estimate £m	2025/26 Estimate £m	2026/27 Estimate £m	2027/28 Estimate £m	2028/29 Estimate £m
External Debt							
Debt at 1 April	60.05	59.01	63.97	71.93	80.88	79.84	78.80
Expected change in Debt	-1.04	4.96	7.96	8.95	-1.04	-1.04	-1.04
Other long-term liabilities (OLTL)	0.00	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	0.00
Actual gross debt at 31 March	59.01	63.97	71.93	80.88	79.84	78.80	77.76
The Capital Financing Requirement	98.69	101.02	103.52	112.54	108.77	104.91	101.88
Under Borrowing	-39.69	-37.07	-31.59	-31.66	-28.93	-26.11	-24.12

- 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 will be asked to formally approve the annual Treasury Management Strategy.
- 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 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

	2023/24 Estimate £M	2024/25 Estimate £M	2025/26 Estimate £M	2026/27 Estimate £M	2027/28 Estimate £M	2028/29 Estimate £M
Interest	1.568	1.541	2.098	2.106	2.114	2.123
MRP	2.638	3.010	3.194	4.653	4.567	3.474
Total	4.206	4.551	5.292	6.759	6.681	5.597

Table Sixteen: Ratio of Financing Costs to Net Revenue Stream

	2022/23 Actual %	2023/24 Estimate %	2024/25 Estimate %	2025/26 Estimate %	2026/27 Estimate %	2027/28 Estimate %	2028/29 Estimate %
General Fund	5.90	19.94	18.20	20.20	24.65	23.79	22.30
HRA	18.79	17.00	16.22	16.25	15.99	15.75	15.75

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 just under a quarter of the Council’s annual net revenue budget. 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 currently 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, giving consideration 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 2024/25 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

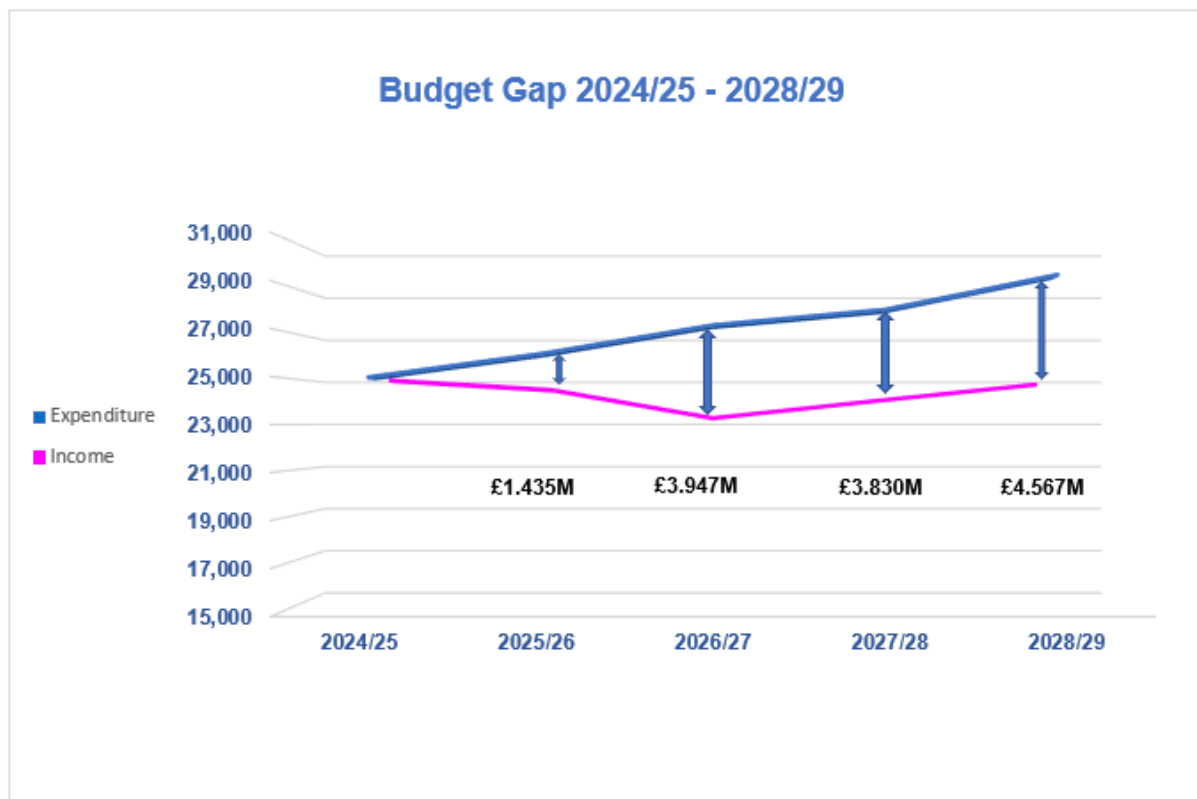


Table Seventeen: Cumulative Deficit as Percentage of Revenue Budget

	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	£'000	£'000	£'000	£'000
Revenue Budget (Estimate 20 February 2024)	25,008	26,007	27,235	27,899	29,390
<i>Budget Gap (Incremental)</i>	0	1,435	3,947	3,830	4,567
Percentage of Net Revenue Budget (Incremental)	0%	6%	14%	14%	16%

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 process continues into its next phase – Fit for the Future. This will be fundamental in driving down budget gaps from 2024/25 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 the extent 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 process. 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. In accordance with the S151 Officers advice the minimum level of General Fund unallocated reserve is £5M.

7.4 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 this reserve.

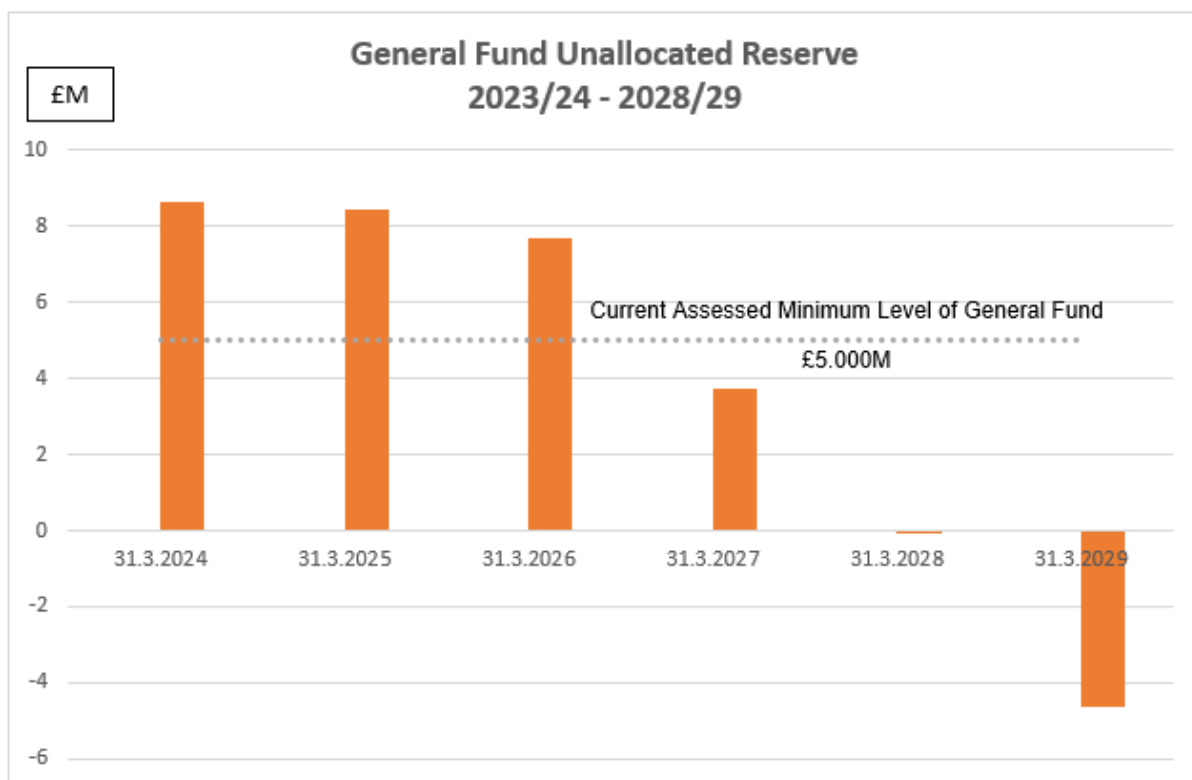


Table Eighteen: Estimated Level of General Fund Unallocated Reserves

	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	0.000	1.435	3.947	3.830	4.567
Contributions (to)/from	2.381	0.458	(0.722)	0.000	0.000	0.000
Impact of 2023/24 budget decisions	0.000	(0.250)	0.000	0.000	0.000	0.000
Balance carried forward	(8.620)	(8.412)	(7.699)	(3.752)	0.078	4.645

- 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 essentially ring-fenced reserves such as s106, reserves held in perpetuity, revenue grants unapplied & elections 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 manage the risk of fluctuations in business rates income, including changes in the Council's appeals provision and movements in forecast prior year surpluses or deficits. Whilst the transfers can be made to the general fund it is required to be maintained at a prudent level to manage the 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 resource not only the general fund.



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

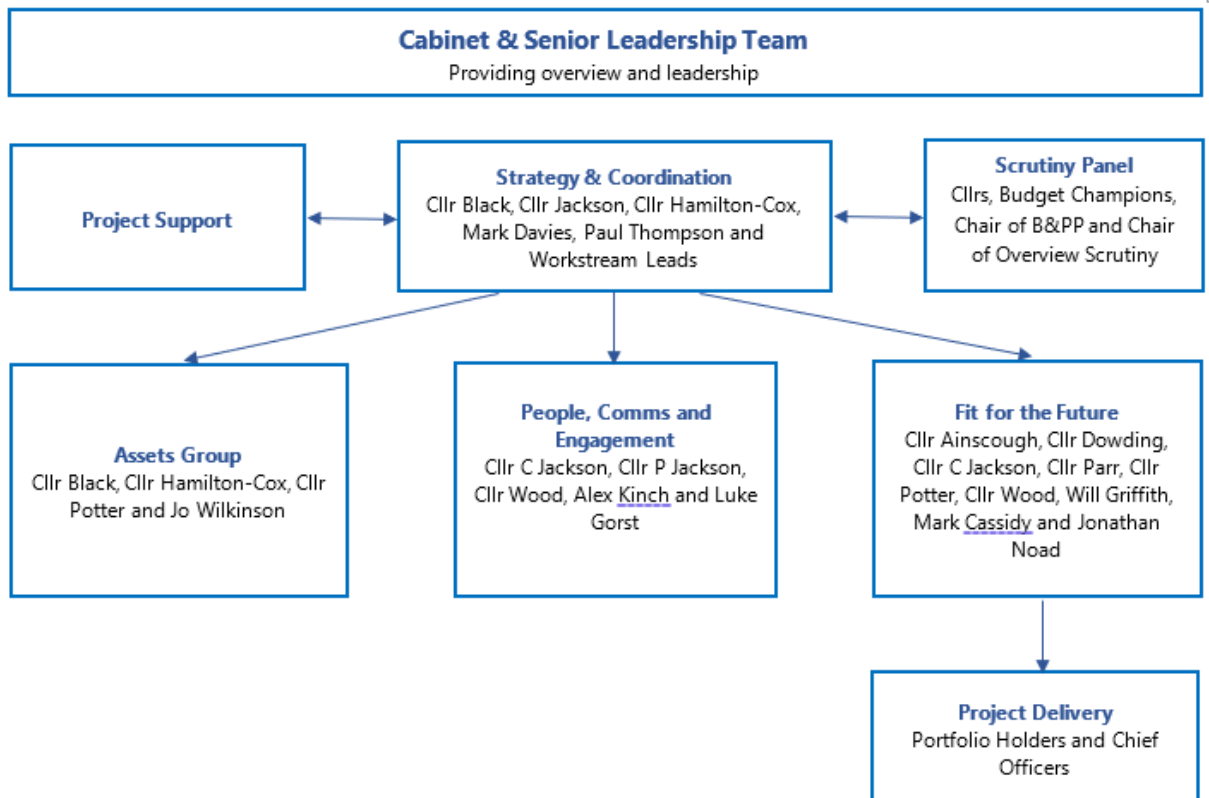
	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M
Balance brought forward	(22.308)	(19.085)	(20.005)	(19.836)	(15.785)	(11.950)
Forecast Overspend/Deficit	0.677	0	1.435	3.947	3.830	4.567
Contributions (to)/from	2.546	(0.670)	(1.266)	0.104	0.005	(0.495)
Impact of 2023/24 budget decisions	0	(0.250)	0	0	0	0
Balance carried forward	(19.085)	(20.005)	(19.836)	(15.785)	(11.950)	(7.878)

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 2028/29

8.1 The Council embarked on its OBR process in 2022/23 with its intention to ensure that funds are allocated according to a set of predefined outcomes, or priorities in order to ensure 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.

8.2 The table below shows the operational structure of OBR – Fit for the Future process and its governance processes along with the key Member and Senior Officer involvement. The process is split into 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. 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 Cabinet and Senior Leadership Team have agreed on principles and common goals as they continue to work through the OBR – Fit for the Future process.

- We need to continue tackle the structural deficit over the short medium and long term.
- We need to use reserves carefully to transition.
- We want to continue to deliver services that residents/ businesses need and rely on
- We want to achieve positive outcomes for our district.

- 8.5 The proposed actions through the OBR – Fit for the Future process currently include:
- Exploration of 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

8.5 These proposals will form part of a wider consolidated Medium Term Financial Strategy to be presented to Cabinet and Council in March 2024

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 as a result of National and International concerns. Local Government funding remains a key challenge for the Council as well as 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

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](#)

[Agenda for Council on Wednesday, 13th December 2023, 6.00 p.m. - Lancaster City Council](#)

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Ref: N/A