

CABINET

Budget and Policy Framework Update 2019/20 to 2023/24 4 December 2018

Report of Interim Head of Financial Services

PURPOSE OF REPORT			
This report provides an update on the Council's budget strategy for 2019/20 and financial outlook up to 2023/24, to help inform development of Cabinet's corporate planning and budget proposals and the development of a revised Medium Term Financial Strategy.			
Key Decision	<input type="checkbox"/>	Non-Key Decision	<input checked="" type="checkbox"/> Referral from Officer
Date of notice of forthcoming key decision			
This report is public.			

RECOMMENDATIONS OF COUNCILLOR WHITEHEAD:

- i. That the draft budgetary position for current and future years be noted, accepting that this is an interim update.
- ii. That Cabinet agree the approach and timetable in respect of the 2019/20 budget as set out in Section 3 of the report.
- iii. That Cabinet agree the approach to updating the Medium Term Financial Strategy set out in Section 4 of the report.
- iv. That the Treasury Management Mid-Year Review attached at Appendix A be noted and referred to Council for information.

1 INTRODUCTION

1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning proposals and a balanced budget for Council's consideration.

1.2 This report sets out:

- Updated estimates in respect of Council funding including Revenues Support Grant, Retained Business Rates, New Homes Bonus and Council Tax and the corresponding impact on the budget gap. (section 2)

- A summary of the strategy and timetable for balancing the 2019/20 revenue budget and capital programme. (section 3)
- A summary of the revisions to be made to the Medium Term Financial Strategy to ensure that the Council pro-actively addresses financial challenges in a way which protects services and focusses on the Council's ambitions. (section 4)

2 FUNDING UPDATE

2.1 The Council's net revenue expenditure is funded from the following sources:

- Settlement Funding Assessment which is divided into Revenue Support Grant and Localised Business Rates
- New Homes Bonus
- Council Tax

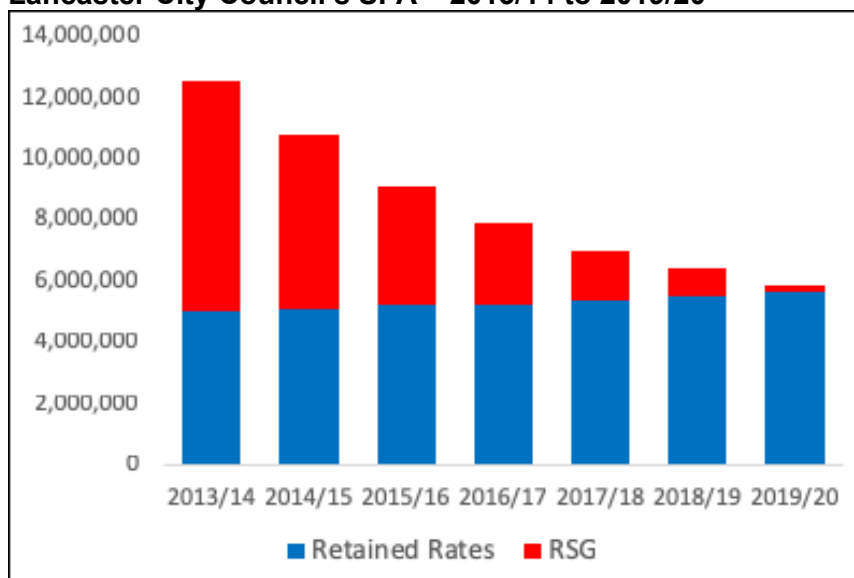
2.2 Next year, 2019/20, is the final year of the Government's four-year settlement and the Council has received provisional allocations for Settlement Funding Assessment and estimates for New Homes Bonus. These figures will be confirmed, and estimates updated, on 6 December 2018 when MHCLG announces the provisional Local Government Finance Settlement.

2.3 The Government is currently undertaking a Fair Funding review which will look at how Government Funding is distributed from 2020/21 onwards. This review will calculate assessed needs for all authorities for the first time since 2013/14 and will also incorporate progression to a 75% business rates retention scheme. These reviews will have significant consequences for the Council's funding from 2020/21.

Settlement Funding Assessment

2.4 Settlement Funding Assessment (SFA) is the amount that the authority receives in Government Funding. It is based on the assessed relative needs of each authority and is made up of Revenue Support Grant (RSG) and Localised Business Rates. Lancaster City Council's SFA since 2013/14 is shown in the graph below.

Lancaster City Council's SFA – 2013/14 to 2019/20



- 2.5 The Council's Settlement Funding Assessment has reduced by £6.704m (53.44%) between 2013/14 and 2019/20 with the Revenue Support Grant reducing from £7.533m in 2013/14 to just £200k in 2019/20.
- 2.6 Settlement Funding Assessment will be reviewed as part of the Government's Fair Funding review and this will determine grant allocations from 2020/21 onwards. Although the Government hasn't yet released definitive control totals for Local Government funding from 2020/21, the 29 October budget indicated modest planned increases in public spending. However, significant increases in NHS and Defence spending are likely to mean that Local Government might expect a 'cash flat' settlement. Furthermore, it is probable that district councils will receive a decreased share of Local Government funding as social care pressures are prioritised over other areas of Local Government expenditure.
- 2.7 For the purposes of forecasting funding from 2020/21 onwards, although speculative, it is not unreasonable to plan for a 10% reduction in Settlement Funding Assessment for district councils in 2020/21. If a reduction in funding of this magnitude was to be implemented this would result in a £478k widening of the Council's budget gap.

New Homes Bonus

- 2.8 Since the implementation of New Homes Bonus in 2013/14, the Government has reduced the reward grant to cover only 4 years (down from 6) and has introduced a threshold below which no reward grant is paid. This has had the effect of reducing the Council's level of grant over the past two years as shown in the table below.

Year	MTFS estimate	Revised estimate	Difference
2018/19	£1.650m	£1.650m	£0
2019/20	£1.805m	£1.650m	-£155k
2020/21	£1.372m	£1.372m	£0
2021/22	£1.172m	£1.172m	£0
2022/23	No estimate	£1.172m	£0
2023/24	No estimate	£1.172m	£0

- 2.9 The revised estimate for 2019/20 is £155k lower than the MTFS forecast which is based on Government estimates. However, new homes growth in 2019/20 appears to be significantly lower than Government estimates.
- 2.10 The future of New Homes Bonus is uncertain with reports that Treasury Ministers are unsatisfied that the reward grant has been effective. Looking to 2020/21 and beyond, there are a number of threats to this funding income. These uncertainties, which will be modelled in more detail in the Medium Term Financial Strategy, include:
- The Government scrapping or significantly reducing New Homes Bonus
 - The Government changing the way the reward is shared between districts and counties. The current 80/20 split in favour of districts might be deemed unfair to County Councils which appear to have more significant problems with respect to financial resilience
 - The Government increases the threshold, the minimum amount of housing growth which is disregarded before paying grant, resulting in reduced allocations
 - The Council's housing growth slows down reducing the level of grant

Council Tax

- 2.11 As part of the provisional Local Government Financial Settlement, Government is expected to confirm its proposals regarding council tax referendum thresholds. It is expected that district councils will be permitted to increase their Band D tax rates year on year by the higher of £5 or 2.99% without reference to a referendum - the Medium Term Financial Strategy and budget forecasts will continue to base forecasts on the higher allowed increase. Forecasts for Council Tax are shown in the table below.

Year	Taxbase (Annual Increase)	Band D Council Tax (annual 2.99% increase)	Council Tax Income
2018/19	41,200 (2.23%)	220.36	9,078,832
2019/20	41,400 (0.49%)	226.95	9,395,679
2020/21	41,814 (1.00%)	233.73	9,773,376
2021/22	42,232 (1.00%)	240.72	10,166,256
2022/23	42,654 (1.00%)	247.92	10,574,929
2023/24	43,081 (1.00%)	255.33	11,000,031

- 2.12 The 2019/20 taxbase of 41,400 is lower, by 400, than anticipated in the Medium Term Financial Strategy which was agreed by Members in February 2018. This means that the revised forecast for Council Tax is £91k lower than previously calculated.
- 2.13 Government has not signalled any intention to introduce referendum thresholds for parish and town councils, but asserts that it is reviewing evidence of whether such councils are applying restraint, if/when setting increases that are not as a result of taking on additional responsibilities. Government has previously indicated it “wishes to ensure that parishes continue to have the flexibility to take on responsibilities from other tiers of government without being unduly constrained by council tax referendum principles”.

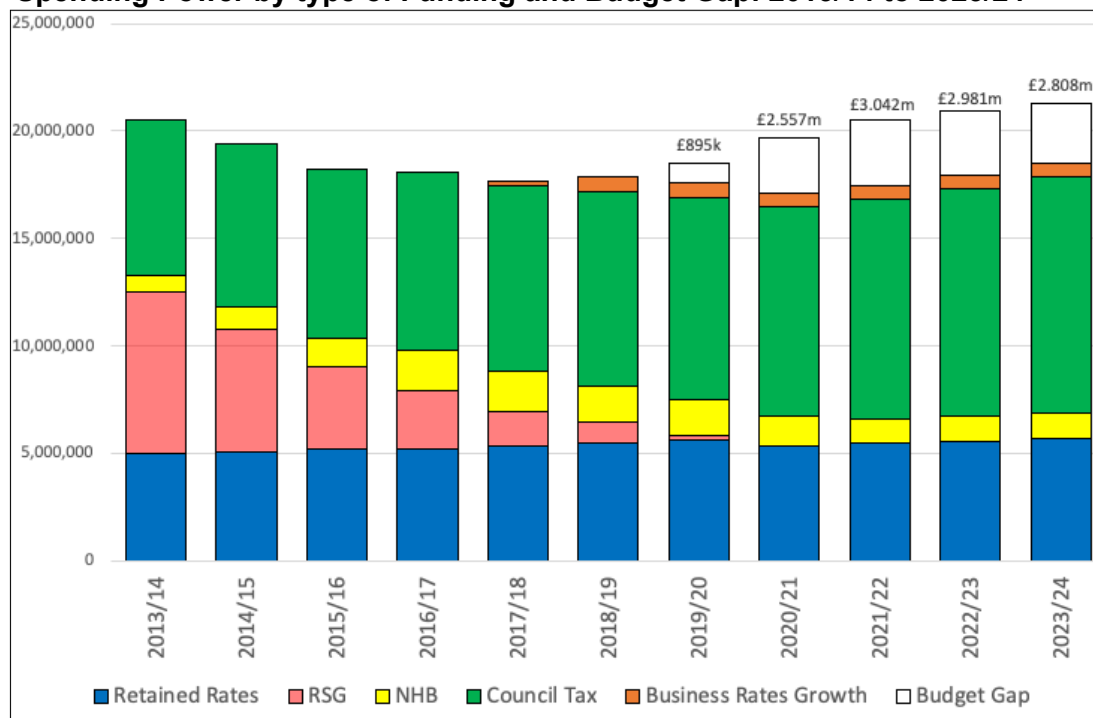
Business Rates Growth

- 2.14 In addition to the business rates income retained as part of Settlement Funding Assessment, Councils benefit from growth above a business rates baseline which was set in 2013/14. This continues to be a complex and uncertain calculation for the Council due to the risks associated with Heysham Power Station. The Council manages the fluctuations associated with these risks through a Business Rates Equalisation Reserve which as at 31 March 2018 had a value of £4.602m.
- 2.15 For budgeting purposes, forecasts will continue to budget a small inflationary increase in business rates income with growth or rates decline managed through the equalisation reserve. However, as part of the Medium Term Financial Strategy, a review of reserves will consider the balance of the Business Rates Equalisation Reserve and the levels required to support business rates income in the medium term. It is anticipated that this review might identify an opportunity for a proportion of the reserve to be available for other purposes.

Spending Power

- 2.16 The elements of Spending Power covered above, when taken together, show the financial difficulties which the Council has faced since 2013/14 as illustrated in the graph below.

Spending Power by type of Funding and Budget Gap: 2013/14 to 2023/24



The graph above shows a number of things in respect of the Council's financial position.

- Government funding has decreased, in money terms, by £6.704m (53.44%) between 2013/14 and 2019/20
 - Consequently, Council Tax is now the main source of funding for the Council.
 - Based upon the current understanding of budgets and Government funding arrangements, the Council has a budget gap in 2019/20 of £895k rising significantly in 2020/21 and 2021/22 to £2.557m and £3.042m respectively
- 2.17 The provisional Local Government Finance Settlement to be issued on 6 December 2019 will provide further clarification with respect to Government funding including provisional New Homes Bonus allocations for 2019/20. It will also provide an indication of the Government's capping criteria for Council Tax.
- 2.18 The table below updates the revenue budget gap for the next five years from that which was reported in the previous Medium Term Financial Strategy approved by Council in February 2018. The revised figures are based upon latest estimates as covered earlier in this section. The figures in the table do not take account of growth bids, savings and changes to fees and charges which are currently being considered as part of this year's budget process covered in section 3.

	2019/20	2020/21	2021/22	2022/23	2023/24
Budget Gap per MTFS agreed by Council Feb 2018	£0.649m	£1.942m	£2.403m	No estimate	No estimate
Reduced Council Tax Income (para. 2.12)	£0.091m	£0.137m	£0.161m		
Estimated reduction in Baseline Funding following Fair Funding Review (para. 2.7)		£0.478m	£0.478m		
Estimated reduction in New Homes Bonus (para. 2.9)	£0.155m				
Revised Draft Budget Gap	£0.895m	£2.557m	£3.042m	£2.981m	£2.808m

- 2.19 The above analysis reveals the continuing financial challenge faced by the Council. Following years of funding reductions, it is becoming increasingly difficult for the Council to identify further savings without impacting on services. The Medium Term Financial Strategy will be constructed to support an alternative approach to balancing future budgets as set out in the *Funding the Future Strategy* which is considered separately on this Cabinet agenda. This is explored in more detail in section 4. The more immediate priority of setting a balanced budget for 2019/20 is covered in section 3 below.

3. BUDGET 2019/20

Revenue Budget

- 3.1 Work is currently underway in respect of the 2019/20 revenue budget. In terms of approach the following is proposed:
- Continued focus on efficiency, income generation and minimisation of growth
 - Closer scrutiny of budget changes made during 2018/19 to ensure that increased budgets are subject to the same process as growth bids and where savings/increased income is sustainable and has potential for continued improvement in future years
 - Consideration of all inflation allowances and removal of inflation where it is deemed that services can manage with 'cash flat' budgets
 - Review of past budget performance and challenge in respect of those budget lines where budget has been underspent by more than £1,000 in each of the last three years
 - Review of incomes to ensure that stretching though realistic targets are pursued
 - Consideration of whole authority spend in areas where a procurement exercise may drive further authority wide savings
 - Consideration of savings which will arise from early adoption in 2019/20 of *Funding the Future* projects and reorganisation reviews

Capital Programme

- 3.2 A full review of the Capital Programme is being undertaken as part of the budget setting process. A capital bidding process has been introduced which requires all new and existing bids to be assessed and scored against corporate ambitions.

Housing Revenue Account

- 3.3 A full update on the HRA budget and financial outlook will be considered alongside the revenue budget, in January, 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.

Budget Timetable

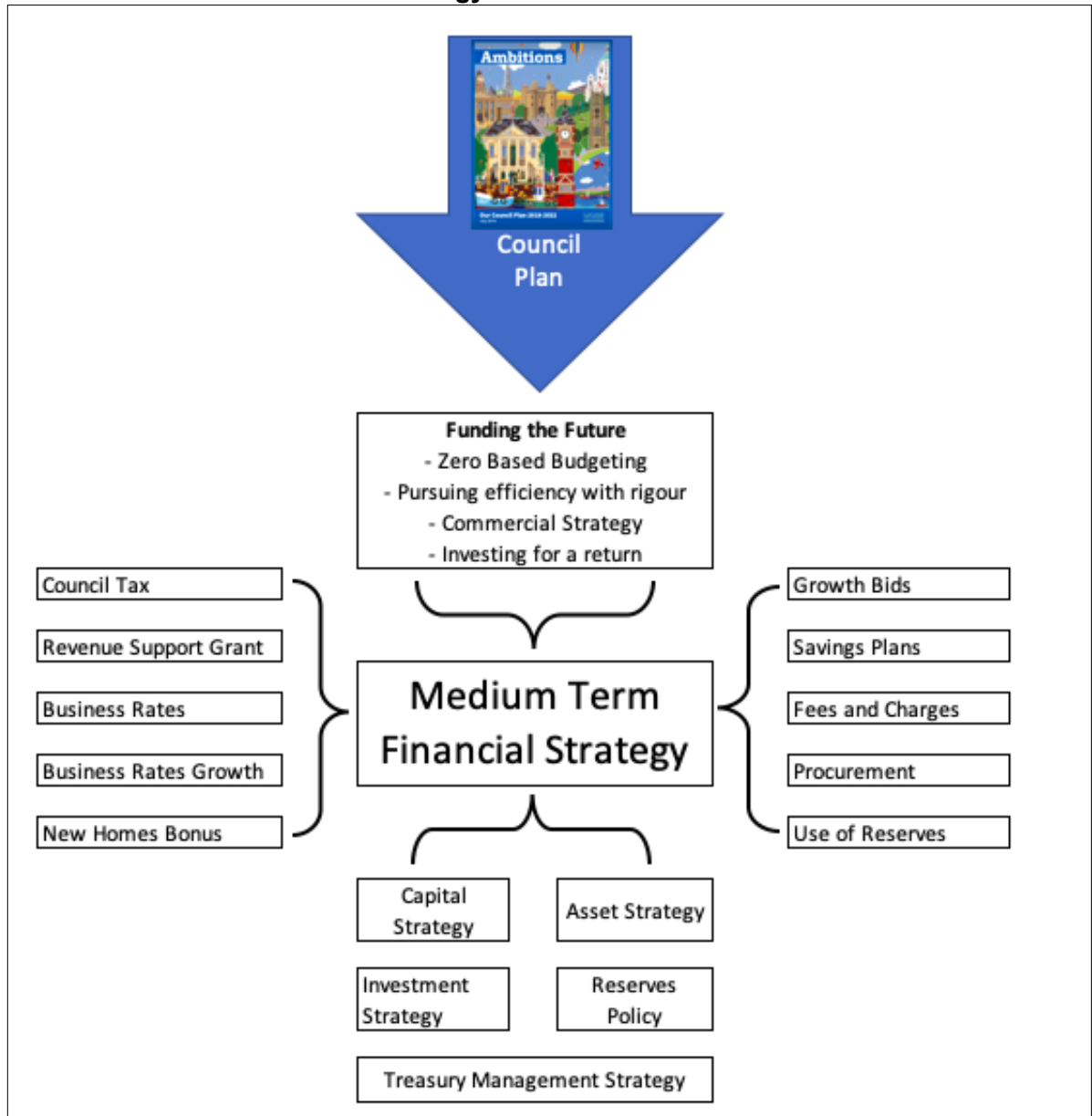
- 3.4 A summary of the budget approach and timetable is detailed below.

Date	Action
End of November	Budgetholders to have completed all growth bids, savings plans and income proposals
4 December	Cabinet to receive position statement with respect to all options for growth, savings and other budget adjustments
6 December	Provisional Local Government Finance Settlement will confirm funding allocations and Council Tax referendum limits
w/c 17 December	Political Groups to receive briefings on options for balancing budgets including summary of all growth bids, saving plans, income options and other budget adjustments
15 January	Cabinet to determine preferred option for 2019/20 budget and capital programme
February	Council to approve 2019/20 budget, capital programme and updated Medium Term Financial Strategy

4 MEDIUM TERM FINANCIAL STRATEGY UPDATE

- 4.1 The Council Plan sets out ambitious plans for enhancing the economy, wellbeing and presence of Lancaster City and District. However, as the previous sections have covered, the Council continues to operate with significant financial challenges. In order to deliver its priorities with lower levels of funding, the Council has developed *Funding the Future* which is considered as a separate item on this Cabinet agenda.
- 4.2 *Funding the Future* takes a pro-active approach to balancing future budgets without reducing services by focusing efforts around efficiency, increasing income from commercialism and investment and taking a zero based outcomes approach to budgeting.
- 4.3 In order to support the Council's ambitions, it is necessary that the Medium Term Financial Strategy is fit for purpose and capable of developing plans and processes for identifying and measuring improvement projects. Additionally, the Strategy needs to develop the building blocks to support new projects whilst having regard to good financial control, risk management and governance. The update will develop key strategies in order that the council can follow good practice in pursuing the *Funding the Future* strategy.
- 4.4 The key elements of the Medium Term Financial Strategy are set out in the figure below.

The Medium Term Financial Strategy



- 4.5 It is essential that the Medium Term Financial Strategy underpins the Council Plan and that financial resources, revenue and capital, as well as property holdings are deployed in pursuit of the Council's ambitions. In order to achieve this, the following key documents will be updated and/or developed.

Capital Strategy

- 4.6 Having regard to CIPFA's recently revised Prudential Code, the Capital Strategy will set out how the Council makes capital expenditure in support of its ambitions whilst having regard to other key matters such as stewardship, value for money, prudence, sustainability and affordability. The Strategy will underpin a longer term view of capital expenditure, asset management and investment set out in the strategies outlined below.

Treasury Management Strategy

- 4.7 Closely linked to the Capital Strategy, the Treasury Management Strategy sets out the plans and processes for the optimum management of the Council's cashflows, its banking, borrowing and investing activities, the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
- 4.8 As the Council starts to consider investing in property to make a return it will need to ensure that the funding of the associated capital expenditure is affordable, prudent and sustainable and that when making investment decisions adequate provision is made for the servicing of interest payments as well as the repayment of debt.
- 4.9 Members are requested to note the Treasury Management Mid-Year Review for 2018/19 attached at Appendix A and refer on to Council for information. This is a requirement of the Council's existing Treasury Management Strategy which is in accordance with CIPFA's Prudential Code.

Asset Strategy

- 4.10 The Asset Strategy will aim to ensure that the Council's property holdings are managed strategically and in accordance with the Council's ambitions and property needs. The Strategy will ensure that the best use is made of all Council assets both financially and with respect to outcomes and seek to establish a sound purpose for each property holding. The Strategy will incorporate an Asset Management Plan which will aim to ensure that revenue and capital expenditure and income is optimised in respect of all assets.

Investment Strategy

- 4.11 The Investment Strategy will ensure that where the Council makes property investments with a view to making a return, that it does so having regard to financial yield, sound risk management, good governance and delivery of Council ambitions particularly in respect of community wealth building.

Reserves Policy

- 4.12 The Reserves Policy will ensure that the Council is making the best use of its limited financial reserves by understanding the minimum level required to ensure ongoing financial resilience whilst earmarking the use of reserves for 'one-off' investment designed to make a positive financial return or/and in terms of ambitions.

5 DETAILS OF CONSULTATION

- 5.1 As in previous years, planned public drop-in events, the usual high level consultation with relevant stakeholders on the budget will be undertaken prior to Budget Council in February. More specific consultation may be required depending on the budget savings options being considered. Consultation on council housing matters will be undertaken through the District Wide Tenants' Forum.

6 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 6.1 Regarding the budget strategy, Cabinet may approve the proposals as set out, or require changes to be made to the suggested approach. The overriding aim of any

budget setting process is to approve a balanced budget by statutory deadlines, allocating resources to help ensure delivery of the Council's corporate and service objectives. The proposed approach is in line with that broad aim, drawing on various strategic matters. Any changes that Cabinet puts forward should also be framed in that context.

- 6.2 In term of the actual budget position, this report is primarily for information, to assist Cabinet in its budget deliberations. No specific decisions are sought at this time.

RELATIONSHIP TO POLICY FRAMEWORK The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.	
CONCLUSION OF IMPACT ASSESSMENT (including Diversity, Human Rights, Community Safety, Sustainability etc) None directly arising in terms of the corporate nature of this report – any implications would be as a result of specific decisions on budget proposals affecting service delivery, etc.	
FINANCIAL IMPLICATIONS As set out in the report.	
SECTION 151 OFFICER'S COMMENTS The section 151 Officer (as Interim Head of Financial Services) has produced this report as part of his responsibilities.	
LEGAL IMPLICATIONS Legal Services have been consulted, but at this stage there are no legal implications arising.	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no comments to add.	
BACKGROUND PAPERS None.	Contact Officer: Daniel Bates Telephone: 01524 582117 E-mail: dbates@lancaster.gov.uk