

**Budget Framework 2019 to 2023
Revenue Budget 2019/20
27 February 2019**

Report of Cabinet

PURPOSE OF REPORT

To present Cabinet's final budget proposals in order that the City Council can complete its revenue budget setting for 2019/20.

This report is public.

RECOMMENDATIONS:

- (1) That the General Fund Revenue Budget of £15.937m for 2019/20 be approved, resulting in a Council Tax Requirement of £9.396m, excluding parish precepts, and a Band D basic City Council tax rate of £226.95.**
- (2) That the supporting General Fund Revenue Budget proposals be approved, as summarised at Appendices 1 and 2.**
- (3) That the Reserves Strategy be approved, as set out at Appendix 4.**
- (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 increased to £2m (an increase of £0.5m), to provide for added uncertainty.**
- (5) That the budget transfer (virements and carry forwards) limits be approved as set out in Appendix 5**

1 Introduction

- 1.1 Following its meeting on 12 February 2019 Cabinet has now finalised its budget framework proposals for General Fund Revenue Budget for 2019/20. These are all now reflected in the recommendations of this report.

2 Strategic Overview from Cabinet

- 2.1 In strategic terms the main challenge of budget setting is to match priorities and corporate planning objectives against what is affordable financially.
- 2.2 Last year we undertook a strategic review of the Council's existing priorities and services, including performance, as well as looking at options to innovate and

modernise. The Council's Corporate Plan, *Ambitions*, was approved during 2017/18 with the following priorities:

- Clean and Safe Neighbourhoods
- Healthy and Happy Communities
- A Thriving and Prosperous Economy
- An Ambitious and Forward-Thinking Council.

- 2.3 Revenue growth bids have been assessed in terms of corporate priorities and the proposals in this report provide for a balanced revenue budget for 2019/20.

Revenue Budget

- 2.4 The general fund revenue budget for 2019/20, summarised below, is included at **Appendix 1** with more detailed budget proposals in **Appendix 2**. The proposed budget is balanced, in line with statutory requirements, and takes account of the final local government finance settlement which was approved by Parliament on 5 February 2019.

2019/20 Revenue Budget and Council Tax Requirement	£000	Note
Net Rev. Budget for 2019/20 per 2018/19 MTFS	16,664) Appendices 2 & 3)
Changes made outside annual budget process	47	
Savings proposals	(1,083)	
Growth proposals	669	
Less funding of growth from reserves	(360)	
General Fund Revenue Budget	15,937	
Funded by:		
Revenue Support Grant	(200)	
Retained Business Rates	(6,341)	
Council Tax Requirement	9,396	2.99% CT Increase

- 2.5 At £15.937m, the General Fund Net Revenue Budget for 2019/20 is 1.6% lower than for 2018/19.

- 2.6 Individual growth bids and savings proposals are shown in **Appendix 3**.

3. Provisions, Reserves, and Balances

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

Provisions

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

Balances – General Fund Balance

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

- The General Fund Balance at 31/03/18 was £5,069m.

- Latest revenue budget monitoring forecasts a very modest overspend of £13k in 2018/19. This would reduce the General Fund Balance to £5,056m.
- The Council's MTFS suggests a budget gap in 2020/21 onwards in excess of £2m. If this is not closed then balances will be required to make up the difference.
- There is a significant level of uncertainty with respect to Council funding particularly in respect to both retained rates and New Homes Bonus and there is a possibility that the Council's funding will be reduced as a result of the Fair Funding Review.
- Business rates retention volatility remains a risk to the Council but this is now managed via the Business Rates Reserve and therefore should not impact on the General Fund balance.
- There is continuing uncertainty with respect to Brexit and the impact that decisions made might impact, directly or indirectly, on Council finances.
- The MTFS provides forecasts on funding and on net expenditure and sensitives associated with these forecasts. Moreover, the Capital Strategy documents collectively provide assurance with respect to the affordability, sustainability and prudence of capital expenditure.

3.4 **Given the increase in uncertainty set out above, particularly with respect to the Fair Funding review, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be set at £2m, an increase of £0.5m. This is reflected in Recommendation 4.**

Earmarked Reserves

3.5 The Council's earmarked reserve balances have increased over the last few years, mainly due to the retention of business rates growth held in reserve to manage the ongoing risks to the Council inherent in the business rates retention scheme. The Reserves Strategy in **Appendix 4** sets out to balance the use of earmarked reserves between managing financial risks whilst providing for future 'one off' expenditures to meet corporate priorities or deliver ongoing savings.

3.6 The Reserves Strategy includes the following recommendations:

- All bids for the use of reserve balances should be supported by a business case outlining how funding will be used along with a summary of measurable outcomes and impacts.
- The Budget Support Reserve's purpose should be extended to include any upfront costs which are attributable to work in undertaking in respect of Funding the Future. Any such bid to the reserve should be accompanied with a business case showing the need for intervention and outcomes and impact arising from the use of the reserve.
- Following the year end, the balance on the Business Rates Reserve should be reviewed and any surplus funds, over and above those required to provide funding certainty, are redesignated towards the delivery of corporate priorities as set out in the Council Plan or accompanying strategic documents.

4 Options and Options Analysis (including risk assessment)

4.1 Revenue Budget

Council may adjust its General Fund Revenue Budget proposals, as long as the overall budget for 2019/20 balances and fits with its approved council tax level.

Similarly, Council could consider alternative budget proposals for the HRA, but it cannot change rent levels.

4.2 Other Budget Framework Matters (Reserves and Provisions / MTFS)

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. On the whole, however, previous arrangements have worked reasonably well and so no other fundamental changes are proposed.

4.3 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

4.4 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.

5. CONCLUSION

5.1 This report addresses the actions required to complete the budget setting process for 2019/20, and for updating the Council's associated financial strategy.

RELATIONSHIP TO POLICY FRAMEWORK

The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.

CONCLUSION OF IMPACT ASSESSMENT

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

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

LEGAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

As set out in the report.

OTHER RESOURCE IMPLICATIONS

Human Resources / Information Services / Property / Open Spaces:

Various budget proposals have resource implications and these have been taken account of in Cabinet's consideration of budget options as far as possible at this stage. Their implementation would be in accordance with council policies and procedures, as appropriate.

SECTION 151 OFFICER'S COMMENTS

The Local Government Act 2003 placed explicit requirements on the s151 Officer to report on the robustness of the estimates included in the budget and on the adequacy of the Council's reserves; this requirement is addressed below. Previous Cabinet reports have already included some relevant details of this advice, together with the risks and assumptions underpinning the budget process so far.

Provisions, Reserves and Balances

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.
- Unallocated minimum balances of £2.0m for General Fund is a reasonable level to safeguard the Council's overall financial position, given other measures and safeguards in place, taking a medium to longer term view.

The above advice regarding unallocated balances is dependent upon other provisions and reserves remaining broadly at proposed levels, unless a specific policy change indicates otherwise. It is dependent upon Council not varying substantially the budget proposals as set out.

As a very simple measure, the inherent value of the risks facing the Council by far exceeds the total of all reserves and balances. Whilst it is not the case that all these risks could fall due immediately, Members should appreciate the need for holding balances and reserves more generally, and using them wisely. It is inappropriate to view simply the level of funds held, without considering the reasons as to why those funds might be needed.

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;
- 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. Furthermore, arrangements are in hand to assess capacity needs and programming to help ensure successful delivery of key projects. Coupled with sound programming, the Budget Support Reserve provides scope to help address any shortfalls in capacity etc.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer reminds Council that the decisions (recommendations 1 and 2) fall within the Local Authorities (Standing Orders) (Amendment) (England) 2014 and Rule 19.7 (Part 4 section1 constitution) of the Council Procedure Rules, and accordingly a recorded vote should be taken.

BACKGROUND PAPERS

Equality Impact Assessments for budget proposals.

Contact Officer: Dan Bates

Telephone: 01524 582138

E-mail: dbates@lancaster.gov.uk