

Budget and Policy Framework Update 2020/21 to 2023/24 29 January 2020

Report of Cabinet

PURPOSE OF REPORT

To update Council and gain its feedback on the latest position regarding the development of the budget and policy framework for 2020/21 to 2023/24 and in that context, to seek approval of the level of council tax increase for 2020/21 and for Cabinet's proposed revenue budget for 2020/21.

This report is public.

RECOMMENDATIONS OF COUNCILLOR WHITEHEAD:

1. That Council approves a City council tax increase of £5 for 2020/21, together with a year on year target of the maximum allowable under the Governments local referendum thresholds for future years.
2. That Council considers the proposed revenue budget for 2020/21 as set out in section 4 of this report.

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 seeks a final decision on council tax increases and feedback on Cabinet's proposed balanced revenue budget for 2020/21.
- 1.3 The Cabinet meeting on 5 November considered updated estimates with respect to government funding and council tax and the corresponding impact on the revenue budget gap as well as a timetable for completing the budget for 2020/21 and the Medium Term Financial Strategy for 2020/21 to 2024/25. Since that report the Government has released the Provisional Local Government Finance Settlement and a number of informal meetings have been held between officers and members to consider specific revenue budget proposals for 2020/21. Cabinet agreed a proposed balanced revenue budget for recommendation to Council at its 14 January 2020 meeting.

1.4 This report sets out:

- An update to the estimates in respect of Council funding including Revenues Support Grant, Retained Business Rates, New Homes Bonus following on from the release of the provisional local government finance settlement and the corresponding impact on the budget gap. (Section 2)
- Consideration of options for setting the Council's element of the council tax for 2020/21. (Section 3)
- A summary of the proposed balanced revenue budget for 2020/21. (Section 4)
- An update on the work undertaken in respect of the capital programme for 2020/21 and a longer term Capital Strategy. (Section 5)
- An update on the development of a Medium Term Financial Strategy which will secure the long term financial resilience of the authority and identify resources to meet the Council's ambitions for the next five years. (Section 6)

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 The Government released the provisional local government finance settlement on 20 December 2019. Next year, 2020/21, is a one year settlement following on from the four year settlement for 2016/17 to 2019/20 and preceding the Government's 'Fair Funding' review and a likely 4 year settlement which will cover 2021/22 to 2024/25. A summary of the provisional settlement for Lancaster City Council is provided in table one below.

Table One – Provisional Settlement allocations for Lancaster City Council

	Provisional Settlement	LCC Forecast	Difference
Revenue Support Grant	202,944	203,086	142
Retained Rates	5,736,762	5,740,750	3,988
Settlement Funding Assessment			
New Homes Bonus	1,501,981	1,502,012	31
Total Government Funding	7,441,687	7,445,848	4,161

2.3 As table one shows, the provisional settlement allocates £4k fewer resources than anticipated and this effectively slightly increases the gap for the 2020/21 revenue budget, from that reported to 5 November Cabinet.

2.4 The Government is currently undertaking a Fair Funding review which will look at how Government Funding is distributed from 2021/22 onwards. It is expected that whilst local government as a whole might expect a 'cash flat' settlement, the prioritisation of social care pressures will result in a decrease in funding to district

councils from 2021/22 onwards and this has been reflected in the Medium Term Financial Strategy.

3 COUNCIL TAX

3.1 As part of the provisional finance settlement, the Government published its referendum criteria for council tax. District councils will be permitted to raise their council tax by 1.99% or £5, whichever is higher, without reference to a referendum. Table two below considers the following two options for council tax:

- Option one – an annual 1.99% or £5 increase in council tax (whichever is higher) – for Lancaster City Council, this will be £5 in each of the next four years
- Option two – no increase in council tax

Table Two – Impact of council tax options: 2020/21 to 2023/24

Year	Taxbase (% Annual Increase)	Option One: Annual increase of £5 in Council Tax		Option Two: No annual increase in Council Tax		Additional Income from £5 increase
		Band D	Income	Band D	Income	
2019/20	41,400 (0.49%)	226.95	9,395,679	226.95	9,395,679	0
2020/21	41,700 (0.72%)	231.95	9,672,315	226.95	9,463,815	208,500
2021/22	42,117 (1.00%)	236.95	9,979,623	226.95	9,558,453	421,170
2022/23	42,538 (1.00%)	241.95	10,292,110	226.95	9,654,038	638,072
2023/24	42,963 (1.00%)	246.95	10,609,849	226.95	9,750,453	859,260

3.2 The budget proposals have assumed an increase of £5 in council tax. This will raise an additional £277k. If there was no increase in council tax, income would increase by £68k due to additional properties; the £5 increase resulting in a further £209k in income (shown in the final column above). The table above also shows the difference, in terms of income, between a £5 tax increase and no increase which, over four years, amounts to an additional £859k in income if option one, an annual £5 increase, is adopted.

3.3 Taxbase growth of 0.72% in 2020/21 is lower than the 1% which was forecast in the MTFS. The proposed increase of £5 is lower than the 2.99% forecast in the MTFS and is a result of the Government reducing the referendum threshold on district council tax from 3% to 2%. Taken together, these two impacts result in council tax income being £101,061 lower than forecast in the MTFS.

3.4 **The recommendation arising from this report is that the Council agree a £5 increase (option one) to the level of the 2020/21 Band D council tax for the Lancaster City Council element.** It is also recommended that option one is selected for the purposes of completing estimates in the Medium Term Financial Strategy.

4 BUDGET PROPOSALS

- 4.1 The 5 November Cabinet report set the approach for considering proposals for a balanced revenue budget for 2020/21. Since the report, a number of informal meetings were held with the Cabinet to develop proposals. Additionally, emerging proposals and detailed information on growth bids and savings plans have been shared with all Councilors.
- 4.2 Proposals for closing the budget gap are shown in table three below and are provided in more detail in appendix one.

Table Three Cabinet's Draft Revenue Budget Proposals – 2020/21

	Sub-total £'000	Total £'000
Budget Gap for 2020/21 reported to Cabinet 5 November		213
Lower than estimated Council Taxbase	16	
Lower than estimated Government Funding	4	
		20
Inescapable cost pressures	646	
Savings/income identified by the budget process	(511)	
Triennial review of pensions	(1,121)	
		(986)
Growth Bids – revenue budget	429	
Growth Bids – funded from reserves	2,478	
Net funding from reserves	(2,154)	
		753
Current Budget Gap		0

- 4.3 The proposals set out in the table above produce a balanced revenue budget for 2020/21, which forms part of the recommendations of this report and will form part of the Budget and MTFS report to the Budget Council Meeting on 26 February 2020.
- 4.4 A significant amount of growth bids will be funded from reserves. The Reserves Strategy requires all proposals for reserves funding to be subject to further scrutiny prior to the release of funds. This scrutiny will seek to ensure that specific effective plans are in place for the use of reserves and that clarity exists in respect of outcomes which will be achieved in respect of the proposals.

5 CAPITAL PROGRAMME

- 5.1 Capital bids have been considered as part of the annual budget process and the revenue budget proposals in the previous section include, where applicable, capital funding costs (known as Minimum Revenue Provision) for those bids where it is anticipated that there will be a net revenue cost.
- 5.2 There are a number of significant capital bids which cover major upcoming corporate priority projects which will be put forward for the capital programme. These ambitious schemes, which cover economic development, regeneration, housing development and meeting the climate emergency will, require significant borrowing but will

generate property income as well as business rates and council tax growth to cover capital costs and also contribute to the Council's longer term revenue budget position.

- 5.3 It is proposed to undertake some informal sessions with Cabinet in order to more closely consider the capital programme for 2020/21 to 2023/24 and a Capital Strategy to cover this period and beyond prior to bringing specific recommendations to the February Cabinet ahead of the Budget Setting Council on 26 February 2020.

6. MEDIUM TERM FINANCIAL STRATEGY

- 6.1 A revised Medium Term Financial Strategy will be considered at the Budget Setting Council. The revision of the MTFS will be important and timely in order to provide sound financial planning processes to underpin the new Council's ambitions. Key considerations of the MTFS include:

- Consideration of the medium term outlook, taking account of the impact of decisions made to balance the 2020/21 budget alongside forecasts for future funding. Table four shows current estimates of the budget gap following on from the proposals to balance the 2020/21 budget.

Table Four – Medium Term Budget Gaps – 2020/21 to 2023/24

	2020/21	2021/22	2022/23	2023/24
Estimated Budget Gap (£'000s)	0	1,662	1,466	1,520

The gap is structural in nature and reflects anticipated changes in Government funding arising from the Fair Funding review which will be implemented from 2021/22.

- Taking account of the above, the MTFS will seek to balance a positive outlook in supporting Council ambitions with the requirement to secure long term financial resilience of the organisation. Continued focus on the Funding the Future Strategy and associated plans will ensure that the Council can seek returns from capital investment and new ways of working whilst managing risk and promoting good governance.
 - The Funding the Future Strategy incorporates a commitment to zero based budgeting and this has been used in this budget process and will be further considered by the Financial Resilience Group alongside ongoing work to embed the Council's new priorities during 2020/21.
 - Incorporation of recent CIPFA guidance in respect of Capital Strategies and prudential borrowing so that the Council is able to pursue ambitious projects which deliver economic prosperity and housing growth which also contribute to the Council's financial resilience and carbon reduction targets.
 - A thorough review of the Reserves Strategy to ensure adequate level of reserves are maintained which balance longer financial sustainability with the deployment of surplus reserves towards Council ambitions.
- 6.2 A full update on the Housing Revenue Account budget and financial outlook will be considered alongside the 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. This update will be reported to the 11 February 2020 Cabinet.

7 DETAILS OF CONSULTATION

- 7.1 As in previous years, 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.

8 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

- 8.1 Options are very much dependent on Council's views regarding spending priorities balanced against council tax levels.
- In respect of the proposed 2020/21 revenue budget (set out in section 4 of the report and Appendix 1), the recommendation reflects the culmination of work completed to date, and so no alternative options are put forward.
 - In respect of council tax, the main options are set out at section 3 of the report.
 - In respect of the Capital Programme (section 5 of this report) and MTFs (section 6 of this report), Council is requested to give feedback and no final decisions are sought at this stage.
- 8.2 In terms of the actual budget position, the Cabinet recommendations produce a balanced revenue budget for 2020/21. The Cabinet proposal was considered by Budget Scrutiny Panel on 21 January 2019 and any feedback from this event considered prior to the agreement of a final budget proposal for Budget Council on 26 February 2020.
- 8.3 Depending on the nature of any alternative proposals put forward by Council, Officers may need additional time to assess them fully prior to detailed consideration by Members. This is to ensure that relevant considerations are taken into account, to support informed and lawful decision-making.

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 has authored this report.

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

Cabinet reports on budget proposals on 3 December 2019 and 14 January 2020

Medium Term Financial Strategy 2020/21 – 2023/24

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Appendix One – Cabinet’s Revenue Budget Proposals – 2020/21

	Sub- total	Total
Original Budget Gap		213
Taxbase lower than forecast	16	
Difference between forecast and LG Settlement	4	20
Triennial pensions review		(1,121)
Inescapable cost pressures		646
Savings / Additional Income Identified		(511)
Job Evaluation (current estimate subject to finalisation)		217
Communities and Environment		
Energy Management including Solar Phase 1	36	
Salt Ayre Boiler Replacement	10	
Two Electric Refuse Vehicles	46	
Electric Fleet Replacement Programme	31	
Pool Cars	18	
Salt Ayre Leisure Centre	(4)	
Mellishaw Park	37	
Customer Services Software	23	197
Economic Growth and Regeneration		
Development Management	20	
Local Plan	96	
Building Control	119	
Prosperity, Skills and Wealth Building	131	
Regeneration	(92)	
Heritage Action	3	
Property Investment	(383)	(107)
Corporate Services		
Staff Development	50	
Member Training	11	
Digital Strategy	54	115
Office of Chief Executive		
VCSE Miscellaneous Grants		6
Gap taking account of the above		(324)
Use of Reserves		
Job Evaluation	293	
Digital Strategy	90	
Culture Strategy and Provision	113	
Economic Prosperity Plan	40	
Economic Development	110	
Housing Feasibility _ Stock Survey and Housing Co.	107	
Committee System Investigation	30	
Energy Management Hardware and Software	50	
Revenue Contribution to Capital: Mellishaw Park	240	
CE Recruitment Costs	30	
Planning Policy: Local Plan	592	
Canal Quarter	124	
Heysham Gateway	279	
Bailrigg Garden Village/Morecambe High Streets	280	
Housing Feasibility Invest to Save	100	
Total Use of Reserves		2,478
Net Funding from reserves		(2,154)