

Budget and Policy Framework 2020/21 to 2023/24 26 February 2020

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 2020/21.

This report is public.

RECOMMENDATIONS:

- (1) That the General Fund Revenue Budget of £17.903M for 2020/21 be approved, resulting in a Council Tax Requirement of £9.672M, excluding parish precepts, and a Band D basic City Council tax rate of £231.95.
- (2) That the supporting General Fund Revenue Budget proposals be approved, as summarised at Appendices A and B.
- (3) That the Reserves Strategy be approved, as set out at 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 increased to £2.5M (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 E

1 INTRODUCTION

- 1.1 Following its meeting on 11 February 2020 Cabinet has now finalised its budget framework proposals for General Fund Revenue Budget for 2020/21. 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 This 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 Plan and its Strategic Priorities, were updated and approved by Council on 29 January 2020 providing the following priorities and cross cutting themes:

Priorities

- A Sustainable District
- An Inclusive and Prosperous Local Economy
- Healthy and Happy Communities
- A Co-operative, Kind and Responsible Council

Cross Cutting Themes

- Climate Emergency
- Community Wealth-Building
- Community Engagement

Revenue Budget

- 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 2020/21.
- 2.4 The General Fund Revenue Budget for 2020/21, summarised below, is included at **Appendix A** with more detailed budget proposals in **Appendix B**. 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 12 February 2020.

2020/21 Revenue Budget and Council Tax Requirement	£000's	Note
Net Rev. Budget for 2020/21 per MTFS	17,700)) Appendices A & B)
Changes made outside annual budget process	228	
Savings proposals	(511)	
Growth proposals	2,356	
Less funding of growth from	(2,096)	
Contribution to Unallocated Reserves	226	
General Fund Revenue Budget	17,903	
Funded by:		
Revenue Support Grant	(203)	£5 Council Tax Increase
Retained Business Rates	(8,028)	
Council Tax Requirement	9,672	

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 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.
- 3.4 The balances described above are managed via the Reserves Strategy which is set out in **Appendix D** but which, in summary, is covered below:
- The Section 151 Officer is statutorily required to undertake an annual assessment on the adequacy of the Council's reserve levels.
 - The reorganisation of earmarked revenue reserves in order to better reflect corporate priorities.
 - The planned use of reserves over the next four years and forecast reserves balances over that period.
 - The governance arrangements for the use of reserves to ensure that they are used effectively in accordance with corporate priorities.

Annual Assessment of Reserves Levels

- 3.5 The Reserves Strategy covers the Section 151 Officer's annual review of the adequacy of reserve balances which is a statutory requirement. Although usable revenue reserve levels have increased significantly in the last two years, continuing uncertainties with respect to Local Government funding remain. **Taking this additional risk into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should be set at £2.5M, an increase of £0.5M.**
- 3.6 The Section 151 Officer's latest advice on the adequacy of balances is based on the following observations:
- The General Fund Balance at 31/03/19 was £5.714M.
 - Latest revenue budget monitoring forecasts an overspend of £322K in 2019/20. This would reduce the General Fund Balance to £5.392M.
 - The Council's MTFS suggests a budget gap in 2021/22 onwards of approximately £1.5M. 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 of 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 considered in the next section and therefore should not impact on the General Fund balance.

- There is continuing uncertainty with respect to Brexit and how this will impact, directly or indirectly, Council finances.
- The MTFS provides forecasts on funding and on net expenditure and sensitivities associated with these forecasts. The Treasury Management Strategy documents collectively provide assurance with respect to the affordability, sustainability and prudence of capital expenditure.

3.7 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 below.

Risk	Symptom of risk	Balance required £000
Increased demand for services	3% increase in net revenue expenditure	530
Recession results in reduced fees and charges income	10% reduction in major fees and charges income	1,300
Recession results in reduced council tax collection rates	3% reduction in collection rate	300
New Homes Bonus scrapped	Significant reduction in funding income	1,300
Next year's budget savings not achieved	50% under achievement	250
Next year's commercial income target not achieved	30% under achievement	120
Natural disaster such as flood	Additional unanticipated expenditure	500
Uncertainty with respect to Brexit	Additional unanticipated expenditure	500
Aggregate overspend if all above risks were to happen		4,800
Estimated General Fund Balance as at 31/03/20		5,392

3.8 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

3.9 Usable revenue reserves have increased significantly over the last two years, mainly due to business rates growth. The strategy sets out the change in reserves and compares this with other districts as a benchmark. As at 31 March 2019, Lancaster had 114% of its net revenue expenditure held in reserve (increased from 62% 31 March 2017) which is equal to the Lancashire districts average.

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

Re-organisation of Earmarked Reserves

3.11 Cabinet adopted a revised Reserves Strategy on 1 October 2019 following on from a review by the Financial Resilience Group. The revised Strategy set out the key changes:

- The transfer of the Budget Support Reserve balance into a new Corporate Priorities Reserve and the transfer of any committed balances from the Canal

Quarter, Capital Support, Economic Growth, Welfare Reforms, Morecambe Area Action Plan and Amenity Improvements into this reserve.

- The calculation of the level of Business Rates Reserve required to support the budget, over the medium term, should business rates income fall to safety net levels and the transfer of any surplus funds to the new Corporate Priorities Reserve.

3.12 The updated Reserves Strategy included in **Appendix D** calculates a requirement of £3.569M to support the budget over the next four years should business rates fall to safety net levels. This means that £2.348M can be transferred to the Corporate Priorities reserve. It is also recommended that the balances of the Canal Quarter, Capital Support, Economic Growth, Welfare Reforms, Morecambe Area Action Plan and Amenity Improvements are transferred to the Corporate Priorities reserve at the financial year end.

Planned use of reserves and estimated reserve balances over the medium term

3.13 The estimated reserves balances are shown in **Appendix C** and are summarised below

	2019/20	2020/21	2021/22	2022/23	2023/24
Balance brought forward	20,557	18,560	15,917	15,189	14,764
Net transfer to revenue	(1,409)	(1,700)	(278)	(35)	(57)
Net transfer to capital	(588)	(943)	(450)	(390)	(364)
Balance carried forward	18,560	15,917	15,189	14,764	14,343

3.14 It should be noted that the above analysis reflects allocated use of reserves which are subject to the completion and authorisation of a reserves bid template to ensure the effective use of resources to meet corporate priorities. If no bid is made or the bid is rejected then allocations will not be used.

3.15 It should also be noted that any business rates growth above budget and/or returns from invest to save projects will, all other things being equal, increase reserves balances from those set out in the above analysis.

Governance Arrangements

3.16 The Reserves Strategy sets out improved arrangements for the approval of reserves expenditure which include:

- a requirement to complete a bid document setting out how reserves expenditure will deliver corporate priorities with a clear costing statement and schedule of outcome measures
- a process to ensure that all use of reserves are approved by Cabinet either as part of the annual budget or via consideration of bids during the year, usually as part of strategy or project approval Cabinet report
- decision limits to ensure that Cabinet approval of reserves bids is delegated appropriately

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 2020/21 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 2020/21, 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.

FINANCIAL IMPLICATIONS

As set out in the report.

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.

SECTION 151 OFFICER'S COMMENTS

The Local Government Act 2003 placed 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 Section 151 Officer.

Provisions, Reserves and Balances

- Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.
- Unallocated balances of £2.5M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed, and taking a medium to longer term view. This level has been increased by £0.5M compared with last year to reflect increased uncertainty with respect to government funding after the Fair Funding review and Brexit and reflects the sensitivity of some of the underlying savings and income targets 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.
- 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 particular 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 (and should be) 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 an increase in "prudential borrowing" or CFR over the period to 2023/24. The bulk of this relates to schemes to support delivery of the Council's key Strategic Priorities as outlined in the Capital Programme.

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

Cabinet reports on budget proposals 14 January 2020 & 11 February 2020

Medium Term Financial Strategy 2020/21 – 2023/24

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