

## Lancaster City Council | Report Cover Sheet

<b>Meeting</b>	Cabinet	<b>Date</b>	24 November 2020
<b>Report</b>	Budget and Policy Framework Update - Revision to 2020/21 General Fund Budget		
<b>Report of</b>	Chief Finance Officer		
<b>Purpose of Report</b>			
This report provides an update on the Council's financial position to help inform development of Cabinet's corporate planning and budget proposals			
<b>Key Decision (Y/N)</b>	<b>N</b>	<b>Date of Notice</b>	<b>N/A</b>
<b>Exempt (Y/N)</b>	<b>N</b>		

### Report Summary

This report provides an update on the Council's general budgetary position for current and future years in view of the impact of COVID-19. Given that at the time of writing, neither the Government's Spending Review nor the Local Government Settlement had been announced, and other budgetary work is not yet scheduled for completion, the report is an interim update only primarily for information.

### Recommendations of Councillor Anne Whitehead

That Cabinet considers

- (1) The revised budgetary position 2020/21 which is fixed for future monitoring purposes.
- (2) The draft future years estimates as set out in the report as the latest information available, accepting that this is an interim position.
- (3) That the update be referred on to December Council for information.

### 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(s) where applicable

Climate	Wellbeing & Social Value
Digital	Health & Safety
Equality	Community Safety

The content of this report has no impact in itself.

### Details of Consultation

No specific consultation around this report.

### Legal Implications

No legal implications directly arising from this report.

### Financial Implications

As set out in the report	
<b>Other Resource or Risk Implications</b>	
No other implications directly arising from this report.	
<b>Section 151 Officer's Comments</b>	
The Section 151 Officer contributed to this report in his role as Head of Financial Services.	
<b>Monitoring Officer's Comments</b>	
The Monitoring Officer has been consulted and has no further comments.	
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<b>Links to Background Papers</b>	

## 1.0 INTRODUCTION

- 1.1 This report provides an update on the Council's budgetary position in view of the impact of COVID-19. Given that at the time of writing, neither the Government's Spending Review nor the Local Government Settlement had been announced, and other budgetary work is not yet scheduled for completion, the report is an interim update only primarily for information.

## 2.0 SUMMARY POSITION

- 2.1 In support of the existing Corporate Plan, at Council on 26 February 2020 Members approved the current year's budget at **£17.903M**, excluding parish precepts, giving rise to a council tax requirement of **£9.672M**. Since then, various changes have become apparent through monitoring and more significantly through the impact of COVID-19.
- 2.2 To draw the changes together, an in-depth update of the current year budget has now been completed, the results of which are included at Appendices A and B. We are currently projecting an overall year end surplus against budget of **£2.078M**. However, Members need to be aware that this is a result of a formal statutory adjustment within the Collection Fund to recognise the Green Energy Disregard monies with the Council's General Fund. Member's would be advised to note that this classification is subject to confirmation and so is currently at risk. Further explanation is provided at paragraphs 3.3 – 3.7 below.

### 3.0 GENERAL FUND REVENUE BUDGET: SUMMARY

#### CURRENT YEAR POSITION

- 3.1 The underlying General Fund budget forecast is for net spending of **£19.396M** giving a projected net overspend of (£1.491M). The position is explored further in section 3.4 of this report. This revised position is now fixed and anything that changes now will be treated as an under /overspend.
- 3.2 A summary of the forecast General Fund revenue position for the main service accounts of the Council is set out in table 1 below with further details provided at appendix A.

Table 1 General Fund Service Analysis

	Original Budget 2020/21 £'000	Revised Budget 2020/21 £'000	Projected Variance 2020/21 £'000
Communities and Environment	5,516	6,438	(922)
Economic Growth and Regeneration	4,192	4,076	116
Corporate Services	5,592	6,707	(1,115)
Chief Executive	1,023	974	49
Other Items	2,691	2,322	369
<b>Sub Total</b>	<b>19,014</b>	<b>20,517</b>	<b>(1,505)</b>
Net Recharges to Housing Revenue Account	(1,008)	(1,008)	0
RMS Capital Charges (now Housing Revenue Account)	(113)	(113)	0
Reserve funded items included in above analysis	10	0	10
<b>Sub Total</b>	<b>(1,111)</b>	<b>(1,121)</b>	<b>10</b>
<b>General Fund Revenue Budget</b>	<b>17,903</b>	<b>19,396</b>	<b>(1,495)</b>
Revenue Support Grant	(203)	(203)	0
Net Business Rates Income	(8,028)	(11,597)	3,569
<b>Council Tax Requirement</b>	<b>9,672</b>	<b>7,596</b>	<b>2,078</b>

#### 3.3 Net Business Rates Income Green Energy Disregard

The Council is allowed to retain 100% of any business rates income from renewable energy projects for which they grant planning permission. During the collation of the return (NNDR 1) which determines the relative shares for 2020/21 in January 2020 Walney Sub Station extension was identified as potentially qualifying for the Green Energy Disregard. It was, however, necessary at this stage to obtain both internal and specialist external advice to support the classification. Whilst the City Council dealt with the planning permission it is a national infrastructure project. It was not possible to obtain this within the required timescales for the return.

- 3.4 Expert external advice supported the view that the **£2.085M** income did qualify for the disregard. It was, therefore, included in our final accounts for 2019/20 for the Collection Fund and in the submission of the actual outturn to central government.

- 3.5 Our monitoring position and revised budget reflect the full impact of treating the substation as a green energy property. The resulting favourable variance will help to offset the effect of the exceptional in-year deficit on the Collection Fund created by the impact of COVID-19 and the Council's share of the actual deficit brought forward of **£0.789M**.
- 3.6 Members must be aware that a risk does remain that central government may not agree with the green energy classification. Should our assessment be challenged the **£2.085M** would be reclassified as Business Rates "growth" of which the Council would only be able to retain 40%, c **£0.800M**. Once central government resets the Council's funding baseline this benefit would cease.
- 3.7 Members would be advised not to use this fortuitous gain to fund the current underlying structural deficit and continue to review and address the deficit through the processes prescribed within the Funding the Future Strategy. However, it is accepted that in these exceptional times it is difficult to not to utilise in this and the next financial year as it provides a simplistic opportunity to balance the budget in the short term. Table paragraph 7.1 table 3 incorporates this money for ease of analysis.

#### **4.0 VARIANCE ANALYSIS: WHY HAVE BUDGET PROJECTIONS CHANGED**

- 4.1. It should be noted that the Delivering our Ambitions (DoA) Q2 and revised budget were set in conjunction with each other as the latest known position at that time. The variances have been considered by both Cabinet and Budget & Performance Panel as part of their consideration of the DoA Q2 report.
- 4.2 The forecasting includes the impact of the Government's recent Sales, Fees and Charges (SFC) compensation scheme which involves a 5% deductible rate, whereby the Council will absorb losses up to 5% of our planned 2020/21 sales, fees and charges income. The Government then provides compensation of 75p in every pound of relevant losses.
- 4.3 Projected loss of income from fees & charges is **£5.671M** with estimated compensation **£3.910M** resulting in a forecast loss **£1.761M**. The estimated compensation has been included in the revised estimates.
- 4.4 As at the time of writing the report we have not been made aware of any intention to extend this compensation or any other scheme and so future levels of Sales, Fees and Charges income have been significantly reduced in future years estimates.

#### **5.0 PROVISIONS, RESERVES AND BALANCES**

- 5.1 2019/20 provisional outturn has seen the Councils level of reserves reduce; we are currently projecting the Council's combined level of usable reserves to decrease to **£16.225M** against the budgeted balance of **£16.369M** and so remain relatively healthy. Table 2 below provides summary analysis

Table 2 Reserves

		<----- ORIGINAL BUDGET ----->				<----- PROJECTED OUTTURN ----->					
		31 March 2020	From Revenue	To / (From) Capital	To Revenue	31 March 2021	31 March 2020	From Revenue	To / (From) Capital	To Revenue	31 March 2021
		£	£	£	£	£	£	£	£	£	£
<b>Unallocated Balances</b>		(5,713,800)	(226,000)			(5,939,800)	(5,045,000)	(225,980)	2,000,000		(3,270,980)
<b>Earmarked Reserves:</b>											
<b>Total Earmarked Reserves</b>		(12,846,400)	(1,797,800)	943,000	3,271,700	(10,429,500)	(15,319,700)	(3,743,200)	295,000	5,773,800	(12,954,100)
<b>Total Combined Reserves</b>		(18,560,200)	(2,023,800)	943,000	3,271,700	(16,369,300)	(20,364,700)	(3,969,180)	295,000	7,773,800	(16,225,080)

- 5.2 General Fund Unallocated Balances are forecast to reduce from the budgeted position of **£5.940M** to **£3.271M** to reflect the Council's allocation of **£2M** to support vulnerable people and local businesses during the pandemic and the impact of 2019/20 outturn. Members should note this does not include the appropriation into reserves of the forecast surplus. Current s151 officer advice would be to transfer any 2020/21-year end surplus into unallocated reserves.
- 5.3 Earmarked Reserves are showing a projected balance of **(£12.954M)**, an overall increase against budget **(£10.430M)** of **£2.525M**.
- 5.4 The use of the Council's reserves to manage fluctuations in expenditure and income will be key to the delivery of the Council's stated priorities and outcomes over the next 4 years and will be kept under review by Officers and Members.
- 5.5 In addition the s151 Officer is required to make an annual assessment of the adequacy of the Council's level of reserves as well as setting a minimum level of unallocated reserves, which is currently set at **£2.5M**.
- 6.0 GOVERNMENT FUNDING PROSPECTS**
- 6.1 Members will be aware that Local Government funding has changed significantly over recent years. Significant reductions in central funding have taken place and Revenue Support Grant which accounted for more than half of Lancaster City Council's funding in 2010/11.
- 6.2 As a result the Council is now almost entirely reliant on Council Tax and Business Rates to fund net expenditure and it is therefore important to provide regular estimates of these important funding streams.
- Comprehensive Spending Review
- 6.3 Government are due to announce the outcome of its Spending Review, 25 November 2020. However, it has abandoned its long-term Comprehensive Spending Review (CSR) amid the economic uncertainty caused by the Covid-19 pandemic and will restrict the announcement to a one-year settlement.
- 6.4 The decision to limit this year's Spending Review to a single year, rather than the usual three or four, could be considered a sensible one. The uncertainties created by COVID-19 are too great to provide a realistic set of spending plans for the next three or four years as inevitably they will need to be revisited.

- 6.5 However, setting budgets for only one year significantly reduces the level of certainty needed to plan effectively and efficiently, and arguably adds to the large degree of uncertainty already hanging over both the public sector and the wider economy.
- 6.6 The CSR itself only provides useful headline messages on what Local Government's funding prospects are over the next few years but it does not provide information at individual authority level. The level of detail required for Council's be gained through the Local Government Settlement, but at the time of writing this report it was not yet known when it is due to be announced.
- 6.5 A briefing note will be produced for all Members once the Settlement has been received and its impact assessed and will be reported into January's Cabinet meeting.

## 7.0 BALANCING THE BUDGET TO 2024/25

- 7.1 Officers have undertaken a detailed review of the current and future years budgets reported to Council 26 February 2020. This review included incorporated approved and known changes as well as, a comprehensive salary and inflation reviews. The outcome of this review and the current draft position are provided in table 3 below.

Table 3: General Fund Revenue Budget Projections

<b>General Fund Revenue Budget Projections 2020/21 to 2024/25</b>							
For Consideration by Council							
		2020/21	2021/22	2022/23	2023/24	2024/25	
		£'000	£'000	£'000	£'000	£'000	
<b>Revenue Budget/Forecast as at 26 February 2020</b>		17,903	18,493	19,066	20,091	20,493	
<b>Base Budget Changes</b>							
Operational Changes		1,491	2,176	461	683	523	
Latest Budgetary Position		<b>19,394</b>	<b>20,669</b>	<b>19,527</b>	<b>20,774</b>	<b>21,016</b>	
<b>BUDGET PROJECTIONS</b>	<b>Outcomes Based Resourcing Proposals:</b>						
	Maintaining Service at Functional Levels		-	-	-	--	
	Savings/Growth Proposals		-	-	-	--	
	Contributions from Reserves re Budget Proposals		-	-	-	--	
	Revenue Implication of New Capital Schemes		-	-	-	--	
			-	-	-	--	
	Contribution to/(from) GF Unallocated Reserve		-	-	-	--	
	<b>General Fund Revenue Budget</b>		<b>19,394</b>	<b>20,669</b>	<b>19,527</b>	<b>20,774</b>	<b>21,016</b>
	Core Funding:						
	Revenue Support Grant		(203)	-	-	-	-
Net Business Rates Income		(11,597)	(9,995)	(8,467)	(8,556)	(9,055)	
<b>Council Tax Requirement</b>		<b>7,594</b>	<b>10,674</b>	<b>11,060</b>	<b>12,218</b>	<b>11,961</b>	
<b>Estimated Council Tax Income -</b> (Increases based on £x for 21/22 then max allowable)		<b>9,672</b>	<b>9,881</b>	<b>10,140</b>	<b>10,453</b>	<b>10,771</b>	
<b>Resulting Base Budget (Surplus)/Deficit</b>		<b>(2,078)</b>	<b>793</b>	<b>920</b>	<b>1,765</b>	<b>1,190</b>	
<i>Original MTFS Savings Requirement</i>		<i>0</i>	<i>1,558</i>	<i>1,234</i>	<i>1,270</i>	<i>N/A</i>	
<i>Change</i>		<i>(2,078)</i>	<i>(765)</i>	<i>(314)</i>	<i>+495</i>	<i>N/A</i>	

- 7.2 Further supporting details are provided at Appendix B

### Outcomes Based Resourcing

- 7.3 In line with the Council's Funding the Future Strategy we have commenced with Outcomes Based Resourcing (OBR). This is a method of budgeting which funds are allocated according to a set of predefined outcomes, or priorities using a zero-based approach, that is to say as if the decision is being made as if for the first time.
- 7.4 Like most Council's we have applied incremental budgeting techniques for many years, and this can encourage a restrictive mindset limiting ambition in respect of what we can afford. OBR turns incremental thinking on its head and first considers ambition and then directs resources towards those ambitions, diverting them from areas which are no longer the priority they were.
- 7.5 All existing Council services will sub-divided into one of eight areas within each subjected to several key questions. Service subsets and example questions are provided at table 4 below

Table 4

<b>Service Classification</b>	<b>Key Questions</b>
<ul style="list-style-type: none"><li>• Trading services</li><li>• Break-even services</li><li>• Property holdings</li><li>• Other income</li><li>• Support Services</li><li>• Statutory Services</li><li>• Required Services</li><li>• Discretionary Services</li></ul>	<ul style="list-style-type: none"><li>• Does service meet our (circles) aims?</li><li>• What is impact of service? (what would be the impact of ceasing the service?)</li><li>• How does cost of service benchmark with other similar authorities?</li><li>• Could the service be shared / operated via an LATCo or some other vehicle?</li></ul>

- 7.5 Based on the results of these questions the Council might wish to consider the following actions to those services
- Grow the service(s)
  - Sustain / Protect the service(s)
  - Re-focus – retain budget but change focus towards corporate priorities
  - Retreat – managed withdrawal
  - Stop

### Comprehensive Spending Review

- 7.6 Given that the Settlement announcement is imminent, and the current level of uncertainty there is little benefit to be gained from spending significant time on modelling different funding scenarios; real information is needed at this stage in the process
- 7.7 Nonetheless, some preliminary high-level work has been done to update the budget scenarios, in order that we do not to lose sight of how uncertain and challenging the underlying position is.

- 7.8 This has taken the updated and revised budgets as reflected several assumptions such as general inflation and the Local Government Pay Settlement as well as sources of financing.

#### Council Tax

- 7.9 Council tax is the Council's primary source of funding and is calculated by multiplying the taxbase, the number of eligible residential properties (expressed in band D equivalents), by the level of the district council precept which is determined each year. Previous forecasts have included 1% of growth within the Council Tax base. Considering current circumstances, we are currently reviewing the potential for growth.
- 7.10 Government's referendum criteria which limits increases in the Council's element of Council Tax to 2% or £5, whichever is greater. For the purposes of forecasting, it has been assumed that the Council will increase council tax by £5, the maximum allowed, in each of the next three years.

#### Business Rates

- 7.11 Business rates is now a fundamental part of the local government finance settlement and, with council tax, accounts for the majority of local government financing.
- 7.12 The Government delayed its fair funding review and it was expected to implement from 2021/22. It is unclear if this is still proceeding or when implementation will happen. Several assumptions could arise from this review these need to be modelled into future forecasts including
- Reductions in Settlement Funding Assessment (SFA)
  - Removal or variations to Cap compensation
  - A business rates growth reset which will effectively remove all existing growth from the system.
- 7.13 In addition to those above the impact of COVID-19 on previous forecasts for business growth needs revisited as previous assumption have been for continued growth of between 0.5% - 1%.
- 7.14 As noted previously a risk remains around our classification of Walney Sub Station Extension under the Governments green energy classification. Modelling will undertaken to reflect both scenarios.

#### New Homes Bonus

- 7.15 New Homes Bonus is a reward grant which is calculated from council taxbase figures. There is a risk that the Government will seek to further reduce the grant in future years which would increase the budget gap at the Council.

## **8.0 OPTIONS AND OPTIONS ANALYSIS**

- 8.1 As the report is for consideration no alternative options are put forward, the Cabinet could make supplementary recommendations regarding any matters.

## **9.0 CONCLUSION**

There remain significant uncertainties in terms of Local Government funding over the next couple of years these uncertainties have been exacerbated by current COVID-19 situation. Once more clarify is available following the CSR and Local Government Settlement more detail will be shared with Cabinet and presented to Council at the earliest opportunity.