COUNCIL

Budget & Policy Framework
16 December 2020

Report of Cabinet

PURPOSE OF REPORT
This report provides an update on the Council's financial position to help inform the development of corporate planning and budget proposals.
This report is Public

RECOMMENDATION OF CABINET

That Council notes:

(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.

1.0 INTRODUCTION

1.1 This report provides an update on the Council's budgetary position in view of the impact of COVID-19. At the time of writing the Government had only recently announced the outcome of its Spending Review and although the report does provide Members with headline messages officers are still working through the implications. It is hoped further details will be provided following the Local Government Settlement which is due imminently. On this basis the report is an interim update and primarily for information.

1.2 At its meeting on 24 November, Cabinet considered an earlier version of the report of the Chief Finance Officer. The report has been subjected to minor amendments reflecting the Spending Review.

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. Members 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
Sub Total	**19,014**	**20,517**	**(1,505)**
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
Sub Total	**(1,111)**	**(1,121)**	**10**
General Fund Revenue Budget	**17,903**	**19,396**	**(1,495)**
Revenue Support Grant	(203)	(203)	0
Net Business Rates Income	(8,028)	(11,597)	3,569
Council Tax Requirement	**9,672**	**7,596**	**2,078**

3.3 Net Business Rates Income Green Energy Disregard

The Council can 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 in the long term 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 not to utilise this 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 (24 November 2020) and Budget & Performance Panel (01 December 2020) 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.

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

Reserves Statement (Including Unallocated Balances)

	<----- 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**
	£	£	£	£	**£**	**£**	£	£	£	**£**
Unallocated Balances	**(5,713,800)**	**(226,000)**			**(5,939,800)**	**(5,045,000)**	**(225,980)**		2,000,000	**(3,270,980)**
Earmarked Reserves:										
Total Earmarked Reserves	**(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)**
Total Combined Reserves	**(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 to facilitate managing the levels of future uncertainty that remain.

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 in the 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 announced the outcome of its Spending Review, 25 November 2020. However, it has abandoned its long-term review amid the economic uncertainty caused by the COVID-19 pandemic and restricted 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 Details of the impact of the spending review and the Councils approach to balancing the budget is provided in Section 7 below.

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

General Fund Revenue Budget Projections 2020/21 to 2024/25

For Consideration by Council 24 February 2021

BUDGET PROJECTIONS

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Revenue Budget/Forecast as at 26 February 2020	**17,903**	**18,131**	**18,322**	**18,883**	**19,261**
Base Budget Changes					
Operational Changes	1,494	2,538	1,205	1,891	2,289
Latest Budgetary Position	**19,397**	**20,669**	**19,527**	**20,774**	**21,550**
Outcomes Based Resourcing Proposals:					
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	-	-	-	-	-
General Fund Revenue Budget	**19,397**	**20,669**	**19,527**	**20,774**	**21,550**
Core Funding:					
Revenue Support Grant	(203)	-	-	-	-
Net Business Rates Income	(11,597)	(9,995)	(8,467)	(8,556)	(9,055)
Council Tax Requirement	**7,597**	**10,674**	**11,060**	**12,218**	**12,495**
Estimated Council Tax Income - **(Increases based on £x for 21/22 then max allowable)**	**9,672**	**9,881**	**10,140**	**10,453**	**10,771**
Resulting Base Budget (Surplus)/Deficit	**(2,075)**	**793**	**920**	**1,765**	**1,724**
Original MTFS Savings Requirement	***0***	***1,558***	***1,234***	***1,270***	***N/A***
Change	***(2,075)***	***(765)***	***(314)***	***+495***	***N/A***

Outcomes Based Resourcing

7.2 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.

7.3 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.

7.4 All existing Council services will be 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

Service Classification	**Key Questions**
• Trading services • Break-even services • Property holdings • Other income • Support Services • Statutory Services • Required Services • Discretionary Services	• Does service meet our priority aims? • What is impact of service? (what would be the impact of ceasing the service?) • How does cost of service benchmark with other similar authorities? • Could the service be shared / operated via an LATCo or some other vehicle?

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 2020

7.6 The government's Spending Review 2020 (SR20) 25 November 2020 did provide some certainty for Councils next year; however, the long-term outlook remains unclear. Public finances will undoubtedly be under huge strain in the years ahead but investment in our local public services is critical to our national recovery next year and beyond.

7.7 The following paragraphs aim to provide Members with a high-level summary of the key areas of SR20. Full details of SR20 are available via the following link https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/938052/SR20_Web_Accessible.pdf

COVID -19 Funding

7.8 The Chancellor made several announcements to support local authorities in meeting the COVID-19 pressures next year, including £1.55BN to meet additional expenditure pressures as a result of COVID-19, £670M to support households that are least able

to afford Council Tax payments, £762M to compensate for 75 per cent of irrecoverable loss of Council Tax and Business Rates revenues in 2020/21, and extending the existing COVID-19 sales, fees and charges reimbursement scheme for a further 3 months until the end of June 2021.

Business Rates

7.09 Business rates is now a fundamental part of the local government finance settlement and, with council tax, accounts for most of the local government financing. Members will recall Government is undertaking a fundamental review of the business rates system and recently announced that it would delay the move to 75 per cent Business Rates Retention and the implementation of the fair funding review.

7.10 As part of SR20 Government has decided to freeze the business rates multiplier for 2021/22. It is expected that Councils will be fully compensated for this via the existing Cap Compensation adjustment calculation. In addition to the freezing of the multiplier it has decided not to proceed with a reset of business rates baselines in 2021/22 which would have effectively removed all existing growth from the system although no commitment has been given for future timings.

7.11 In addition to those above the impact of COVID-19 on previous forecasts for business rates growth is being revisited. Also as noted previously a risk remains around our classification of Walney Sub Station Extension under the Governments Green Energy disregard scheme.

Council Tax

7.12 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 around 1% for growth within the Council Tax base. Considering current circumstances, we are currently reviewing the potential for growth.

7.13 SR20 reconfirmed the 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. Upper tier Councils such as Lancashire County Council will be able to continue to levy an adult social care precept. In addition, Police and Crime Commissioners (PCCs) will have the flexibility to increase funding in 2021/22 with a £15 council tax referendum limit on a Band D property.

New Homes Bonus

7.14 New Homes Bonus is a reward grant which is calculated from council taxbase figures. The Government will maintain the existing New Homes Bonus scheme for a further year but will consult on reforms with a view to implementing reform in 2022/23.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.

Public Sector Pay Freeze

7.15 Public sector pay rises will be frozen for 2021/22 with workers earning less than £24,000 receiving a minimum £250 increase. An initial uplift of 2% was included for planning assumptions, we are currently working through the details.

Public Works Loan Board (PWLB)

7.16 Alongside the Spending Review, the Government published revised lending terms for the PWLB. These changes will have significant implications for the Capital Programme, and investment for yield may be constrained. A small task and finish team comprising representatives from Property, Investment and Finance, and led by the Directors of Economic Growth and Regeneration and Corporate Services is reviewing the implications of this change on services, and will bring forward a diversified funding proposal alongside clarifying the technical implications of the PWLB change.

7.17 Despite the details provided by SR20 there remains a high level of uncertainty, it is hoped the upcoming Local Government Finance Settlement will provide the level of clarity required.

8.0 OPTIONS AND OPTIONS ANALYSIS

8.1 As the report is for consideration no alternative options are put forward

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 clarity is available following Local Government Settlement details will be shared with Cabinet and presented to Council at the earliest opportunity.