

COUNCIL

Budget & Policy Framework Update 2021/22 – 2024/25 27 January 2021

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 2021/22 and for Cabinet's proposed revenue budget for 2021/22.

This report is Public

RECOMMENDATION OF COUNCILLOR WHITEHEAD

- (1) That Council approves a City Council Tax increase of £5 to the Band D Council Tax (from £231.95 to £236.95) for 2021/22, 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 2021/22 as set out in 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 2021/22.
- 1.3 The Cabinet meeting on 24 November considered updated estimates with respect to government funding and Council tax and the corresponding impact on the revenue budget gap. Since that report, the Government has released the Provisional Local Government Finance Settlement. Cabinet agreed a proposed balanced revenue budget for recommendation to Council at its 14 January 2021 meeting.
- 1.4 All services have been working with the Chief Executive and Finance Team to ensure we achieve a balanced budget aligned with our priorities. Throughout the Summer and Autumn sessions have been held with all services to identify opportunities to address the structural deficit and align expenditure with priority outcomes based on the Funding the Future Strategy.

1.5 Last year's budget, set before the pandemic, presented a highly ambitious programme of revenue and capital growth. The purpose of this was to support and stabilise services which had been reduced beyond their viable capacity levels in areas of Council Priority, to align service priorities with the Council's ambitions around Community Wealth, the Climate Emergency and Community Engagement, and to significantly increase the Council's engagement in Capital Projects in order to achieve these. Many of these changes were long term in their nature, and while significant planning progress has been made, the pandemic has also caused the deferral of many of the Capital Projects to the coming year.

1.6 As such, the Budget presented shows relatively low levels of revenue growth, and a Capital Programme position which reflects both the deferral of projects, and the need to realign those with Council priorities and a changing investment landscape. A small range of Outcomes Based Resourcing (OBR) based-savings have been identified, and additional resource requests have been limited to those which are vital to the successful operation of the Council in continuing to secure income and fees, support efficient and effective service delivery and reporting, offering statutory services at viable levels, and progressing the capital programme. A more detailed explanation of these is provided below.

2 STRATEGIC CONTEXT

2.1 The 2021/22 Budget has been set at a time of unprecedented change, which puts significant pressure on the ability to forecast. We are seeing:

- an accelerated pace of change in the funding regimes, formula and budget and accounting requirements of central government, even pre-pandemic, and this change is continuing.
- fewer system-wide reviews, and a much greater number of issue specific consultations, reviews and changes some of which are resulting in in-year changes, and even retrospective changes to previously agreed budgetary forecasting and funding distribution formula;
- A wide range of single initiative funding opportunities emerging both as a result of the pandemic and more generally, which need to be established within in capacity, dispersal and income accounting, governance and delivery practices; and
- External factors such as the pandemic and EU Exit which fundamentally alter both the priorities for and use of council resources and the context of our income from taxation, rates, fees and charges.

3 OPERATIONAL CONTEXT

3.1 Despite the disruption caused by COVID, and the need to redeploy and reprioritise finance and many other staff workloads to deal with it, in matters such as the dispersal of business grants and community support, OBR principles have already started to be incorporated, and the impact of this can be seen in the overview of savings and identified growth areas, as we realign activities with outcomes.

3.2 This year, activities around reporting and some committee activities have been scaled back to enable officers to focus on the pandemic. Similarly, the accounting and reporting practices associated with pandemic work have needed to be quickly put in place, and this has required significant capacity. This means that a more basic approach to reporting is being taken this year, which, nevertheless, due to its OBR

basis and lessons learned from the more comprehensive, but aspirational activity undertaken last year, should provide greater certainty of deliverability within the context of accelerated change.

4. PRINCIPLES AND ASSUMPTIONS

4.1 The Council is, despite significant challenges due to COVID-19, aiming to deliver a balanced budget plan for 2021/22.

- There remain opportunities to address the underlying structural deficit, by:
 - o Increasing and diversifying income
 - o Improving productivity and securing efficiencies via new ways of working
 - o Developing alternative ways to achieve priority outcomes (e.g. partnership)
- While LGR presents an opportunity to think longer term about the design of services and the budget, work should continue to identify and implement transformation opportunities which place Lancaster in a position of strength irrespective of future scenarios and plans (no 'wait and see' culture).

5 FUNDING UPDATE

5.1 Government released the provisional local government finance settlement on 17 December 2020. This a one-year settlement following on from its Spending Review, 25 November 2020 abandoning its long-term review reflecting the economic uncertainty caused by the COVID-19 pandemic.

5.2 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 £000	LCC Forecast £000	Difference £000
Settlement Funding Assessment			
Revenue Support Grant	204	0	204
Retained Rates	5,737	5,737	0
New Homes Bonus	867	1,333	(466)
Total SFA	6,808	7,070	(262)
Lower Tier Services Grant	244	0	244
COVID - 19 Expenditure Pressures	852	0	852
Total Government Funding	7,904	7,070	834

5.3 As table one shows, the provisional settlement allocates £834K more resources than anticipated and this effectively slightly reduces the gap for the 2021/22 revenue budget.

6 COUNCIL TAX

6.1 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 2% 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 2% 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: 2021/22 to 2024/25

Year	Taxbase (% Annual Increase)	Estimated Annual Movement	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	
2020/21	41,700	0.72%	231.95	9,672,315	231.95	9,672,315	0
2021/22	41,500	-0.48%	236.95	9,833,387	231.95	9,625,888	207,499
2022/23	41,707	0.50%	241.95	10,091,091	231.95	9,674,017	417,073
2023/24	42,124	1.00%	246.95	10,402,624	231.95	9,770,758	631,866
2024/25	42,546	1.00%	251.95	10,719,378	231.95	9,868,465	850,913

- 6.2 The budget proposals have assumed an increase of £5 in Council Tax. This would raise an additional £161K from 2020/21 values. If there was no increase in Council Tax, income would decrease by £45k due to the reduction in properties. Overall a £5 increase would result in a further £207k 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 £851k in income if option one, an annual £5 increase, is adopted.
- 6.3 The reduction in the taxbase of 0.48% is lower than the 1% growth which was originally forecast for 2021/22 in the MTFS. This has resulted in Council Tax income being lower than forecast in the MTFS.
- 6.4 **The recommendation arising from this report is that the Council on 27 January 2021 agree a £5 increase (option one) to the level of the 2021/22 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.

7 BUDGET PROPOSALS

- 7.1 The 24 November Cabinet report set the approach for considering proposals for a balanced revenue budget for 2021/22. Since the report in-year changes and ongoing changes to accounting, forecasting and funding formula for support and grant activity have caused a change in the budgetary position for this budget from that stated in November 2020. The key changes are:
- New Homes Bonus changes have caused a decrease in the forecasted funds available to spend.
 - Business Rates due from the Walney Substation Extension still require significant work to identify, secure and incorporate in restated budgets. However, they provide a very important current and future diversification to the Council's income and have substantially strengthened the Council's position.
 - The ongoing changes being introduced in reaction to the pandemic, and the extension of many schemes into next financial year have also needed to be accounted for. It is important to note that this may also increase uncertainty and the requirement for in-year adjustments due to these unprecedented times;

- Changes to PWLB require a different approach to capital investment, and while, given the social motives of the Council, the majority of the planned schemes appear eligible, further work will be needed to ensure the alignment of the programme with the new criteria, and to reflect the changes in our accounting and Treasury practices;
- A structural deficit remains for future years, and work to align strategic priorities with available resources via our OBR and related work in the coming year based on the four pillars identified in the Funding the Future strategy will be vital in securing a stable financial position for the Council. However, across the majority of benchmarks, and unusually for a lower-tier Authority of our size, we are in a relatively robust position, in terms of our performance in maintaining essential services, our dispersal of grants and other community support and our relative financial security. This does not mean that we are in a position of being able to expand capacity and resources, but it does mean that the requirements for significant, immediate reductions and / or urgent risks of financial instability are less acute than for some other Authorities.

7.2 Proposals for closing the budget gap are shown in table three below and are provided in more detail in appendices A, B & C.

Table Three Cabinet’s Draft Revenue Budget Proposals – 2021/22

	Sub-total	Total
	£’000	£’000
Budget Gap for 2021/22 reported to Cabinet 24 November		793
Lower than estimated Council Taxbase	48	
Business Rates & Collection Fund Adjustments	2,258	
Accounting Adjustments	141	
Increased Government Funding inc RSG	(834)	
Effect of Public Sector Pay Freeze	(336)	
	<hr/>	1,277
Savings/ Income identified by the budget process	(444)	
Additional Resource Requirements	547	
	<hr/>	103
Budget Gap before Application of Reserves		2,173
Funding from Reserves		(2,173)
Current Budget Gap		0

7.3 The proposals set out in the table above produce a balanced revenue budget for 2021/22, which forms part of the recommendations of this report.

7.4 The Council’s Reserves Strategy requires all proposals for reserves funding to be subject to further scrutiny prior to the release of funds. This scrutiny ensures 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.

8 CAPITAL PROGRAMME

- 8.1 The capital programme has also been impacted by COVID, with the timescales for key milestones on many projects now reaching into 2021/22. An overview of the Capital programme will be presented in future by the Director of Economic Growth and Regeneration working in Partnership with the Executive Team as part of the Forward Plan.
- 8.2 Several projects are being brought forward that support the Council's Carbon Zero+ strategy; most notably works on Salt Ayre Leisure Centre which would include solar farm, air sourced heat pump and various retrofit improvements. The Council submitted a bid for £6.8M to cover the full costs of these works with an announcement shortly.
- 8.3 There are currently two main types of capital project – those which relate to investment in operational assets to directly enhance council services, and those which relate to assets to achieve external socioeconomic and environmental outcomes and / or generate income. While the Investment Strategy primarily focused on the latter, we can expect to see future capital programmes taking a more integrated approach to delivering the Council's priorities while building community wealth.
- 8.4 Changes to PWLB borrowing will also 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 Director 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.
- 8.5 Recognising the changing investment landscape and the shift to a more integrated approach to identifying return on investment based on broader sustainable development goals, we will seek to bring forward a more comprehensive pipeline approach to projects at concept, development, delivery and impact stages, engaging members at each stage to ensure alignment with council priorities, including the appropriate governance milestones and applying an integrated appraisal to each stage. This will be reflected in our work to put in place an updated Investment Strategy and in our implementation of the Funding the Future Strategy. As part of this we aim to develop working arrangements which enable the council to cover the development costs of programme activity via capitalisation and the operating costs via management fees and other relevant charges.

9 MEDIUM TERM FINANCIAL STRATEGY

- 9.1 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 2021/22 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 – 2021/22 to 2024/25

	2021/22	2022/23	2023/24	2024/25
Estimated Budget Gap (£'000s)	0	1,696	3,347	3,808

The gap is structural in nature and reflects anticipated changes in Government funding and the uncertainties presented by the current pandemic.

- Taking account of the above, the MTFS will seek to balance 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 OBR 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 and outcomes during 2021/22.
- 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, housing growth and address the Climate Emergency 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.

9.2 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 09 February 2021 Cabinet.

10 DETAILS OF CONSULTATION

10.1 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.

11 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

11.1 Options are very much dependent on Council's views regarding spending priorities balanced against Council Tax levels.

- In respect of the proposed 2021/22 revenue budget (set out in section 7 of the report and Appendix A), 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 6 of the report.
- In respect of the Capital Programme (section 8 of this report) and MTFS (section 9 of this report), Council is requested to give feedback and no final decisions are sought at this stage.

11.2 In terms of the actual budget position, Cabinets recommendations produce a balanced revenue budget for 2020/21. The Cabinet proposal was considered by Budget and Performance Panel on 26 January 2021 and any feedback from this event considered prior to the agreement of a final budget proposal for Budget Council on 26 February 2020.

11.3 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.

Appendices

- **Appendix A General Fund Revenue Budget Projections 2021/22 to 2024/25**
- **Appendix B Budget Proposals 2021/22 to 2024/25**
- **Appendix C Budget Proposals 2021/22 to 2024/25 (Explanatory Note)**

<p>RELATIONSHIP TO POLICY FRAMEWORK The budget should represent, in financial terms, what the Council is seeking to achieve through its Policy Framework.</p>	
<p>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.</p>	
<p>LEGAL IMPLICATIONS Legal Services have been consulted, but at this stage there are no legal implications arising.</p>	
<p>FINANCIAL IMPLICATIONS As set out in the report.</p>	
<p>SECTION 151 OFFICER’S COMMENTS The Section 151 Officer has co-authored this report.</p>	
<p>MONITORING OFFICER’S COMMENTS The Monitoring Officer has been consulted and has no comments to add.</p>	
<p>BACKGROUND PAPERS Cabinet reports on budget proposals 24 November 2020 and 19 January 2021</p>	<p>Contact Officer: Paul Thompson Telephone: 01524 582603 E-mail: pthompson@lancaster.gov.uk</p>