

Budget and Policy Framework 2021/22 to 2024/25 24 February 2021

Report of Cabinet

PURPOSE OF REPORT

To present Cabinet's final budget proposals in order that the Council can complete its revenue budget setting for 2021/22.

This report is public.

RECOMMENDATIONS:

- (1) That the General Fund Revenue Budget of £17.774M for 2021/22 be approved, resulting in a Council Tax Requirement of £9.833M, excluding parish precepts, and a Band D basic City Council tax rate of £236.95.
- (2) That the supporting General Fund Revenue Budget proposals be approved, as summarised at Appendices A and B.
- (3) That the budget transfer (virements and carry forwards) limits be approved as set out in 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 £3.5M (an increase of £1.0M), to provide for added uncertainty.

1 INTRODUCTION

- 1.1 Following its meeting on 09 February 2021 Cabinet has now finalised its budget framework proposals for General Fund Revenue Budget for 2021/22. These are all now reflected in the recommendations of this report.

2.0 STRATEGIC OVERVIEW FROM CABINET

- 2.1 All Members will appreciate that the 2021/22 budget has been set at a time of unprecedented change and uncertainty, which has seen the Council react to address a number of urgent priorities resulting in significant redeployment of staff. These levels of uncertainty puts significant pressure on the ability to forecast. External factors such as the COVID-19 pandemic and EU Exit fundamentally alter both the

priorities for and use of Council resources and the context of our income from taxation, rates, fees and charges.

- 2.2 The proposed revenue budget includes a small range of Outcomes Based Resourcing (OBR) based savings, with additional resource requests proposal 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. The proposed budget is balanced, in line with statutory requirements.

3.0 REVENUE BUDGET 2021/22

- 3.1 The General Fund Revenue Budget for 2021/22, summarised in table 1 below, is included at **Appendix A** with more detailed budget proposals in **Appendix B**. Although drawing on the Council's reserves 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 10 February 2021.

Table 1

2021/22 Revenue Budget and Council Tax Requirement	£M	Note
Net Rev. Budget for 2021/22 per MTFS	18.131	} Appendices A&B
Changes made outside annual budget process	1.713	
Savings Proposals	(0.444)	
Additional Resource Requirements	0.559	
Minimum Revenue Provision	0.082	
Less Funding from Reserves	(2.267)	
General Fund Revenue Budget	17.774	
Funded by:		
Revenue Support Grant	(0.204)	
Retained Business Rates	(7.737)	
Council Tax Requirement	9.833	£5 Council Tax Increase Council 27 January 2021

4.0 PROVISIONS, RESERVES & BALANCES

- 4.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and balances.

Provisions

- 4.2 The bad debt and insurance provisions have been reviewed and are considered adequate at this time.

Reserves & Balances

- 4.3 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.

Annual Assessment of Reserves Levels

- 4.4 The Section 151 Officer's annual review of the adequacy of reserve balances is a statutory requirement. Although usable revenue reserve levels have increased in the last two years, continuing uncertainties with respect to COVID-19, BREXIT, Local Government Funding and the outcomes of the Council's OBR process 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 £3.5M, an increase of £1M.**
- 4.5 The Section 151 Officer's latest advice on the adequacy of balances is based on the following observations:
- The General Fund Balance at 31/03/20 was £5.045M, with net in year allocations of £2M. Latest revenue budget monitoring forecasts an underspend of £3.271M in 2020/21. The proposed 2021/22 budget will require £2.267M of funding from unallocated reserves leaving a forecast balance of £4.529M at 31/03/21. Allowing for the s151 Officers recommended minimum level of £3.5M this provides for £1.029M of available balances.
 - The Council's MTFS suggests a structural budget gap in 2022/23 onwards of approximately £2.183M raising to £4.668M. If this is not closed, then balances will be required to make up the difference.
 - There is continuing uncertainty with respect to COVID-19 and BREXIT and how this will impact, directly or indirectly, Council finances.
 - Business rates retention volatility remains a risk to the Council, but this is now managed via the Business Rates Reserve therefore should not impact directly on the General Fund balance.
 - 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.
- 4.6 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 in Table 2 below.

Table 2

Risk	Symptom of Risk	Balance Required £M
Increased demand for services	3% increase in net revenue expenditure	0.600
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.800
Recession results in additional reduction in Council Tax collection rates than budget	3% reduction in collection rate	0.350
Next years budget savings not achieved	50% under achievement	0.225
Natural disaster such as flood	Additional unexpected expenditure	0.500
Additional uncertainty with respect to Brexit/ COVID	Additional unexpected expenditure	1.000
Aggregate overspend if all of the above risks were to happen		3.475
Estimated General Fund Balance as at 31/03/22		4.529

4.7 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.

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

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

4.9 The estimated combined reserves balances are shown in **Appendix C** and are summarised in table 3 below

Table 3

	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M
Balance brought forward	(20.365)	(19.681)	(15.596)	(14.563)	(13,413)
Impact of 2021/22 budget decisions	0	2.267	0.104	0.010	0.010
Impact of previous decisions	0.684	1.818	0.929	1.140	(0.374)
Balance carried forward	(19.681)	(15.596)	(14.563)	(13.413)	(13.777)

4.10 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.

4.11 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 on the Use of Reserves

4.12 The Council's Reserves Strategy sets out 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.

5.0 OPTIONS & OPTIONS ANALYSIS

Revenue Budget

5.1 Cabinet may adjust its revenue budget proposals, so long as the overall budget for 2021/22 balances and fits with the proposed Council Tax level.

Other Budget Framework Matters (Reserves and Provisions / MTFS)

5.2 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. Overall, however, previous arrangements have worked reasonably well, and so no other fundamental changes are proposed.

Section 151 Officer's Comments and Advice

5.3 Council is required to note this formally in the minutes of the meeting, hence it is reflected in the recommendations

5.4 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.

6.0 CONCLUSION

6.1 This report addresses the actions required to complete the budget setting process for 2021/22, 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.

Robustness of Estimates and Adequacy of Council's Reserves

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 s151 Officer.

Provisions, Reserves and Balances

Specific earmarked reserves and provisions are satisfactory at the levels currently proposed.

Unallocated balances of £3.5M for General Fund are reasonable levels to safeguard the Council's overall financial position, given other measures and safeguards proposed. This level has been increased by £1.0M compared with last year to reflect increased uncertainty with respect to the on-going COVID -19 pandemic, Brexit and reflects the sensitivity of some of the underlying savings and income levels 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 such as levels of future Government funding for the pandemic and other areas.
- 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 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 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 levels of "prudential borrowing" or CFR over the period to 2024/25. The bulk of this relates to schemes to support delivery of the Council's key Strategic Priorities and Outcomes such as Climate Emergency, Economic Prosperity and Regeneration and Housing as outlined in the Capital Programme.

Like all Councils, Lancaster City faces increased financial pressures and uncertainty because of the impact of COVID-19 and Brexit. Over several years, the Council has managed to build up a level of reserves and will benefit from the significant green energy disregard, both of which offers a degree of protection from volatilities.

An underlying structural budget deficit was identified several years ago and although this deficit has increased, current spending plans are sustainable in the short term through the prudent allocation of funding from reserves.

However, in the medium term based on current projections they are not sustainable, and it is of the utmost importance that Members and Officers work together to support the Council's Funding the Future Strategy. Outcomes Based Resourcing is a core priority for all Officers in the coming financial year, and it will be expected to deliver significant inroads into the deficit.

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 3 section1 constitution) of the Council Procedure Rules, and accordingly a recorded vote should be taken.

BACKGROUND PAPERS

Cabinet Papers

19 January 2021 & 09 February 2021

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