COUNCIL

Medium Term Financial Strategy 2021-22 - 2025-2026
15 December 2021

Report of Cabinet

PURPOSE OF REPORT To provide an update on the Council's Medium Term Financial Strategy forecasts for 2021/22 to 2025/26 to help inform the development of corporate planning and its approach to balancing the budget.					
Key Decision	**N**	**Non-Key Decision**	**Y**	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision					
This report is Public					

RECOMMENDATION OF CABINET

That Council notes:

(1) The draft future years estimates as set out in the report as the latest information available, accepting that this is an interim position.

(2) Notes the Council Tax Base for 2022/23 as set out in paragraph 3.12

1.0 INTRODUCTION

1.1 This report provides an update on the Council's general budgetary position for current and future years. Given that at the time of writing, the Local Government Settlement has not been announced, and other budgetary work is not yet scheduled for completion, the report is an interim update only primarily for information.

1.2 This report sets out:

- An updated budget gap analysis taking account of the latest funding outlook and other information on expenditure and income pressures.
- A summary of the budget framework strategy

1.3 Cabinet considered this report in the name of the Chief Finance Officer at its meeting 7 December.

2.0 UPDATED BUDGET GAP ANALYSIS

2.1 Officers have been working with budget holders and Executive Management Team to update the Council's Medium Term Financial position. The review considered latest available information around government funding, other income streams as well as forecast expenditure levels incorporating known budget pressures and aims to provide a baseline position.

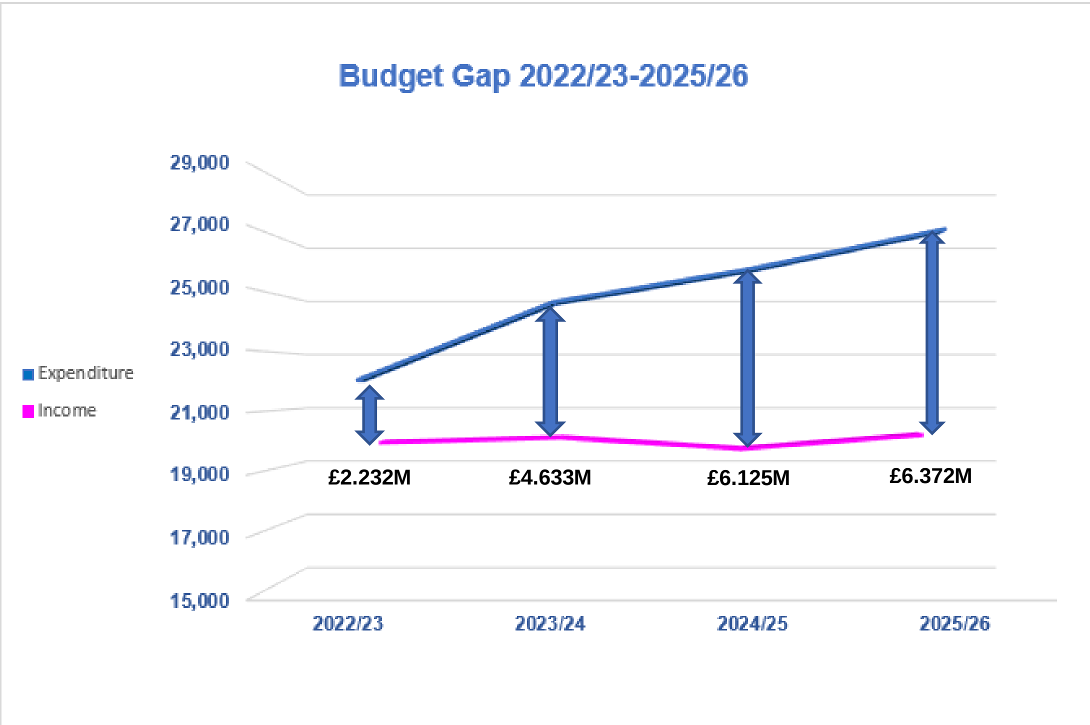
2.2 It should be noted that this forecast is subject to change when more up to date information becomes available and does not reflect the ongoing work being done by Cabinet and Executive Management Team to develop savings and growth proposal, nor does it reflect the revenue impact of any revisions to the capital programme. It sets a baseline position without any further interventions in the Budget setting process. The interventions and actions being planned include:

- A short term range of savings and growth (invest to save) actions aiming to significantly reduce the 22/23 budget gap, to be brought forward in the upcoming Budget and Policy Framework;

- A mid-term Outcomes-Based Resourcing project to realign our expenditure with core duties and priorities; and

- A comprehensive review of our employment base, debt financing, asset base and related policies and processes.

The current budget gap for the next four years is summarised in the graph below. The graph below assumes no intervention but it does highlight the scale of the challenge facing the Council, the reasons for which are outlined in the report.



3.0 GOVERNMENT FUNDING PROSPECTS

3.1 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 was £202k in 2021/22 the final year in which it was due.

3.2 As a result the Council is now almost entirely reliant on Council Tax and Business Rates with a small amount of income from some assets and services to fund net expenditure and it is therefore important to provide regular estimates of these key funding streams.

Comprehensive Spending Review

3.3 Government announced the outcome of its Spending Review on 25 November 2021. It has, however, abandoned its long-term Comprehensive Spending Review (CSR) due to the economic uncertainty caused by the Covid-19 pandemic and is expected to restrict funding to a one-year settlement in 2022/23.

3.4 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.

3.5 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.

3.6 The Spending Review itself only provides useful headline messages regarding Local Government's funding prospects over the next few years but it does not provide information at individual authority level. The level of detail required for Council's to finalise their budgets will not be available until the announcement of the Local Government Finance Settlement, but at the time of writing this report it is not yet known exactly when this is due.

3.7 A further update will be produced for all Members once the Settlement has been announced and its impact assessed. This will be reported into January's Cabinet and Council meetings.

Local Government Finance Settlement

3.8 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.

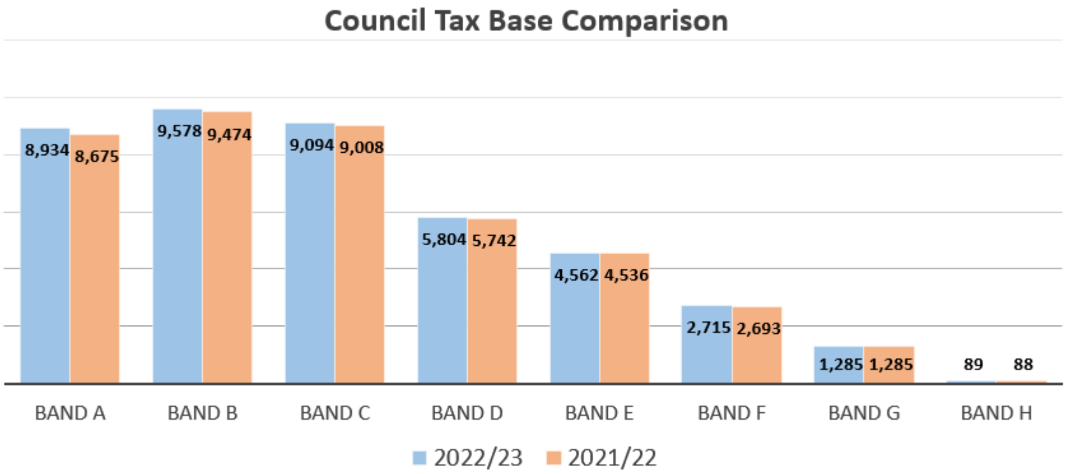
3.9 Nonetheless, some preliminary high-level work has been done to update the budget scenarios, in order that we do not to lose sight of the potential risks and the challenge created by the underlying position.

3.10 This has taken the updated budget position and reflected several assumptions such as general inflation, the Local Government Pay Award and prospects for retained business rates and council tax yield.

Council Tax

3.11 Council tax is the Council's primary source of funding and is calculated by multiplying the tax base, the number of eligible residential properties (expressed in band D equivalents), by the level of the district council precept which is determined each year.

3.12 The tax base for 2022/23 has been calculated as 42,060 Band D equivalent properties after allowing for a collection rate of 98.68%, the same as in previous years. There has been a reduction in the numbers of void and exempt properties together with a reduction in both the numbers of accounts eligible for discounts and the Council Tax Reduction Scheme. There is also expected to be an increase in new properties for 2022/23 though this is smaller than that seen in 2021/22. From 2023/24 1% growth in the Tax base has been used for forecasting.



3.13 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.

3.14 The table below sets out Council Tax forecasts for the next four years including a sensitivity analysis showing the potential impact on council tax yield of different scenarios:

	Actual 2021/22	Forecast 2022/23	Forecast 2023/24	Forecast 2024/25	Forecast 2025/26
Council Tax Band D (£5 increase)	£236.95	£241.95	£246.95	£251.95	£256.95
Tax base (1% growth from 2023/24)	41,500	42,060	42,481	42,905	43,334
Council Tax Income	**£9,833,425**	**£10,176,417**	**£10,490,584**	**£10,810,017**	**£11,134,790**
Previous MTFS		£10,091,000	£10,403,000	£10,719,000	£11,043,773
Difference Increase/(Decrease)		**£85,417**	**£87,584**	**£91,017**	**£91,017**
Scenario 1 – no increase In Council tax over period Of MTFS		(£124,883)	(£337,222)	(£552,564)	(£775,673)
Scenario 2 – 1% drop in council tax collection rate		(£17,654)	(£18,669)	(£18,471)	(£21,761)
Scenario 3 – 1.5% increase in tax base growth		£85,417	£139,518	£198,312	£257,205

Business Rates

3.15 Business rates is now a fundamental part of the local government finance settlement and, along with Council Tax, accounts for the majority of local government financing. Members will appreciate that despite intervention of central government through various grant funding streams and reliefs the full effects of the pandemic on businesses are not as yet entirely evident. This, along with a number of other significant uncertainties set out below make forecasting and planning extremely difficult.

3.16 We are one of only a small number of Councils with a nuclear power station within its boundary. The rateable value of the Heysham1 and Heysham 2 nuclear reactors accounts for over 30% of the Council's total rateable value. Although the retained business rates scheme does have a safety net mechanism in place to ensure that an authority's income does not drop below more than a set percentage of its index linked spending baseline, the Council is vulnerable to swings in income levels relating to the power station' operations.

3.17 The previous MTFS budgeted at a prudent baseline position as we were at height of pandemic and the impact on local business was unclear. Current information has highlighted a small amount of growth (c£400k) based on monitoring, this is now factored into the forecast for 2022/23 & 2023/24 and we will continue to monitor the position during December & January.

3.18 It was expected that at some point as part of government funding reviews there would be a business rates growth reset effectively removing all growth from the system by setting the business rates baseline to equal actual rates levels. To date this has not taken place and it has been assumed that this would take place in 2023/24 at the earliest. As only a small amount of growth has been modelled for 2022/23 and 2023/24 the impact of any potential reset is mitigated though it has been modelled as part of the sensitivity analysis. Heysham 1 reactor is expected to be decommissioned at some point during 2024 although the exact timing of this is not yet clear. This will have the effect of triggering a safety net payment from Central Government and so growth would only be relevant were it to be significant enough to generate rating income above the baseline.

3.19 The table below provides Business Rates forecasts for the next four years incorporating a number of assumptions and sensitivity analysis. Current forecast assumptions are:

- Income to remain in line with business rates monitoring during 2021/22 together with a 2% uplift to baseline and tariff in respect of inflation.
- Heysham 1 reactor to be decommissioned in 2024/25

	2022/23 £	**2023/24 £**	**2024/25 £**	**2025/26 £**
Retained Business Rates	6,288,826	6,414,602	-	-
Safety Net Payment	-	-	5,631,304	5,743,931
Renewable Energy Disregard Income	3,011,788	3,071,707	3,133,141	3,195,803
Sub Total	**9,300,614**	**9,486,309**	**8,764,445**	**8,939,734**
Impact of business rates element of Collection Fund forecast outturn for 2021/22	323,980			
Exceptional Deficit declared January 2021 (eligible for spreading)	(443,193)	(443,193)		
Transfer from Business Rates Retention Reserve	443,193	443,193		
Net Impact on General Fund	**9,624,594**	**9,486,309**	**8,764,445**	**8,939,734**
Previous MTFS	8,835,800	8,924,000	9,013,300	9,188,589
Difference: Increase/(Decrease)	**788,794**	**562,309**	**(248,855)**	**(248,855)**
Scenario 1: baseline & tariff frozen for a second year	1,071,246	734,371	(217,523)	(216,897)
Scenario 2: Heysham 1 decommissioned in 2023/24 Rather than 2024/25	788,794	(331,407)	(248,855)	(248,855)
Scenario 3: Baseline reset at 22/23 levels in 23/24	788,794	116,234	(248,855)	(248,855)
Scenario 4: 1% rates income growth from 23/24 onward	788,794	695,870	(248,855)	(248,855)

3.20 Monitoring will continue during November and January which may impact these forecasts. The forecasts remain a best estimate and are dependent on the final local government finance settlement

New Homes Bonus

3.21 New Homes Bonus is a reward grant which is calculated from Council Taxbase figures. As previously reported, the previous years rewards element of the grant is being phased out and no longer applies from 2022/23 onwards. 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.

3.22 The current forecast of levels of New Homes Bonus is set out in the table below. This may be impacted by the finance settlement and the latest data in respect of affordable housing supply in the district which is due to be refreshed in December 2021

	2021/22 £	**2022/23 £**	**2023/24 £**	**2024/25 £**	**2024/25 £**
Annual Reward	234,100	281,200	281,000	281.000	281.000
Previous Years Rewards	635,300	274,200	-	-	-
Total	**869,400**	**555,400**	**281,000**	**281,000**	**281,000**
Previous MTFS	869,400	504,300	230,000	230,000	230,000
Difference Increase/(Decrease)	**-**	**51,100**	**51,000**	**51,000**	**51,000**

4.0 MEDIUM TERM FINANCIAL STRATGEY – CURRENT PROSPECTS TO 2025/26

4.1 Officers have undertaken a detailed review of the current and future years budgets that were reported to Council on 24 February 2021. This review included incorporating approved and known changes together with comprehensive salary and inflation reviews. In addition, the Council’s General Fund capital programme is currently under review in order to reduce the number of schemes funded through unsupported borrowing. This will lessen the charges to revenue for Minimum Revenue Provision and loan interest. Headline details of the budget changes are provided in the following paragraphs and are reflected in the General Fund Revenue Budget Projections 2021/22-2025/26 table at paragraph 4.3.

Operational Changes

4.2 Operational changes included in the base budget for 2022/23 currently amount to an increase in expenditure of £1.032M. The Council budgets for inflation across a number of areas such as gas, electricity, water, insurance, building costs etc as well as general price inflation and seeks the appropriate indices from a number of sources. The impact of inflation increases expenditure by a further £0.086M with further adjustments made to include the potential reimbursement of national insurance contributions and increase in New Homes Bonus. A summary of these changes is given in the table below:

Base Budget Changes

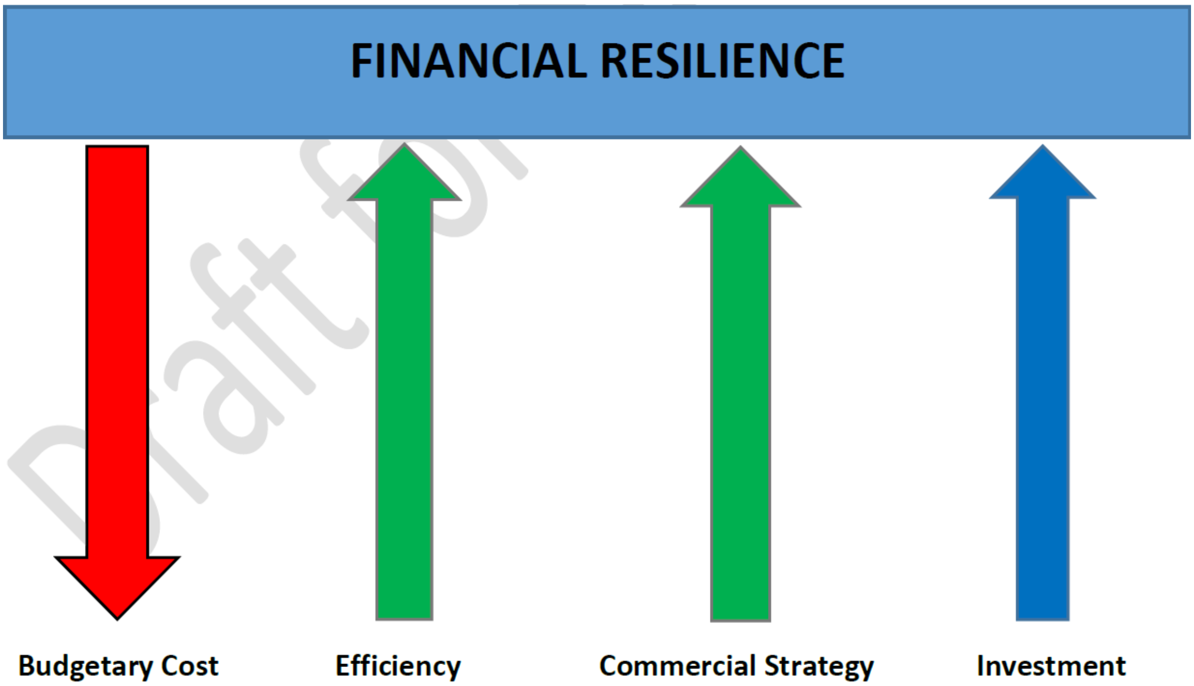
Operational Changes	**£M**
Salaries	0.428
Additional cost pressures	0.401
Net Reduction in Income	0.203
Sub Total	**1.032**
Impact of Inflation	0.086
Settlement Estimate - reimbursement of increase in National Insurance contributions	(0.144)
Potential Increase in New Home Bonus	(0.051)
Total	**0.923**

4.3 General Fund Revenue Budget Projections

General Fund Revenue Budget Projections 2021/22 to 2025/26					
For Consideration by Cabinet 7 December 2022					
	2021/22	2022/23	2023/24	2024/25	2025/26
	£'000	£'000	£'000	£'000	£'000
Revenue Budget/Forecast as at 24 February 2021	17,774	21,110	23,550	24,311	24,311
Base Budget Changes					
Operational Changes		1,032	1,131	1,309	1,567
Settlement Estimates		(144)	(151)	(154)	(159)
New Homes Bonus		(51)	(51)	(51)	(51)
Inflationary Impact		86	131	194	777
Latest Budgetary Position	**17,774**	**22,033**	**24,610**	**25,609**	**26,445**
Outcomes Based Resourcing Proposals:					
Savings Proposals	0	0	0	0	0
Redirection Proposals	0	0	0	0	0
Additional Resource Requirements	0	0	0	0	0
Revenue Implication of New Capital Schemes	0	0	0	0	0
Contribution (to)/from Reserves	319	0	0	0	0
General Fund Revenue Budget	18,093	22,033	24,610	25,609	26,445
Core Funding:					
Revenue Support Grant	(204)	-	-	-	-
Net Business Rates Income	(7,737)	(9,625)	(9,486)	(8,674)	(8,939)
Council Tax Requirement	10,152	12,408	15,124	16,935	17,506
Estimated Council Tax Income - **(Increases based on £5 for 2021/22 then max allowable)**	**9,833**	**10,176**	**10,491**	**10,810**	**11,134**
Resulting Base Budget (Surplus)/Deficit	319	2,232	4,633	6,125	6,372
Original MTFS Savings Requirement	***0***	***2,183***	***4,223***	***4,668***	***N/A***
Change	***+319***	***+49***	***+410***	***+1,457***	***N/A***

5.0 **REALISING THE FUNDING THE FUTURE STRATEGY**

5.1 In December 2018 Council adopted its Funding the Future Strategy (FtF) “a strategy for building financial resilience”. The strategy consists of 4 elements or pillars which were intended to be taken together to address the underlying structural deficit.



5.2 Each element complemented the others and in combination were designed to lead to financial resilience.

<u>Investing for a Return, or to Reduce Costs</u>

5.3 In January 2019 Council approved a Property Investment Strategy which set out requirements and governance arrangements for the purchase of assets to deliver a positive contribution to the Council’s budget. In November 2020, however, HM Treasury revised the rules governing the Council’s access to PWLB borrowing to fund the acquisition of assets primarily for yield. Prior to this announcement the Council purchased assets totalling c£14M which are now delivering approximately £1M positive contribution to the Council’s revenue budget.

5.4 CIPFA has recently sought views on a number of proposals which continue to further restrict the ability of Councils to undertake what it views as speculative investments using public funds. Recent proposals may make it a statutory requirement to set aside each year an amount to repay debt, known as Minimum Revenue Provision (MRP) on commercial assets.

5.5 Members can be assured that the s151 Officer and the finance team have already adopted an approach that has ensured that this Council is already fully compliant with the potential changes and will not see any adverse impact.

Commercial Strategy

5.6 This pillar sets out to improve internally delivered services and establish new delivery models such as:

- Contracts and partnerships with other public bodies, for example, shared service arrangements.
- Contracts and joint ventures with the private sector e.g. joint ventures, outsourcing, public-private partnerships.
- New public sector and non-public entities e.g. joint commissioning boards and companies limited by shares or guarantees.

5.7 The Council recently extended its joint operation of Revenues and Benefits with Preston City Council and currently operates a shared Corporate Fraud Team with Fylde and Preston City Council's. In order to deliver ICT leadership and technical capacity it recently entered into a sharing agreement with Blackpool Borough Council, and to ensure there is an Internal Audit function it recently contracted with Mersey Internal Audit Agency.

5.8 In March 2021 the Council established More Homes for the Bay its first Local Authority Trading Company (LATCo) which, as a separate legal entity, is afforded several strategic freedoms and options not currently available to the Council.

5.9 Currently the Council is developing a business case which will frame the LATCo's activities, its administrative and financing arrangements. These decisions require consideration and approval by its Directors, the Shareholder Committee. Once the business plan has been agreed financial modelling can start to be undertaken to assess the value of the operation to the Council.

Pursuit of Efficiency with Vigour

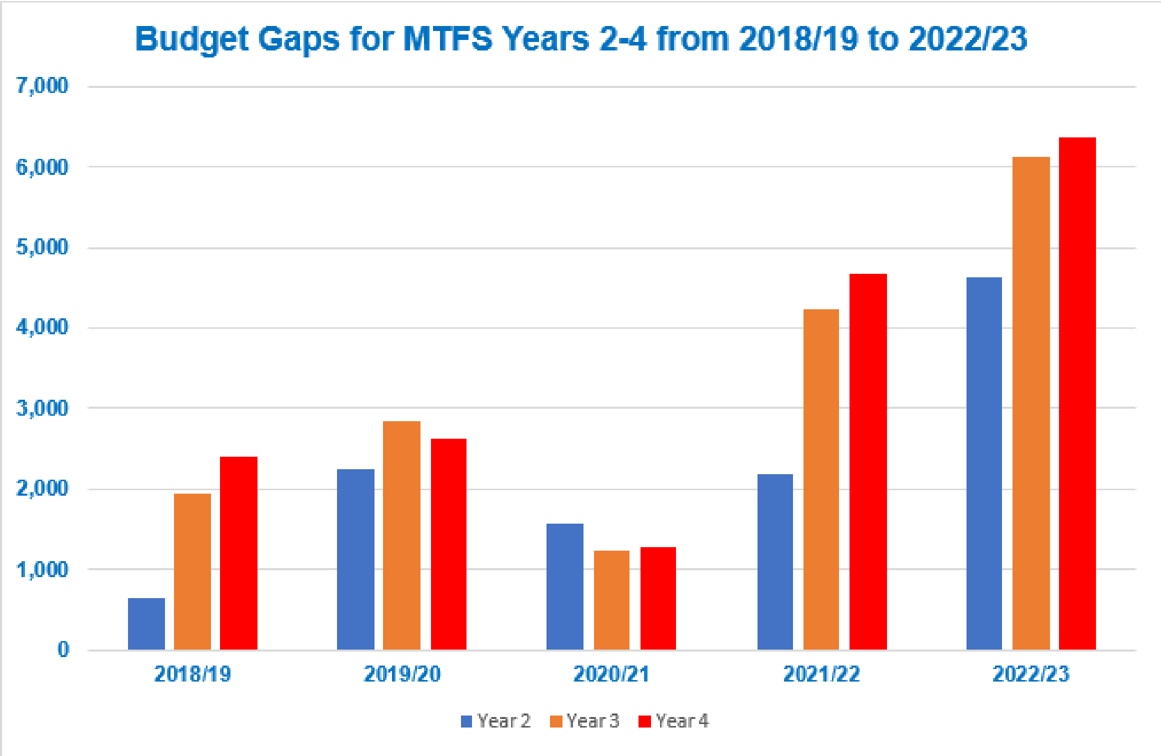
5.10 In order to improve the efficiency of operations a programme of "Lean Reviews" were intended to re-engineer activities in order to reduce costs and improve productivity. The most recent activity in this area has been the P2P project which has delivered significant operational and process savings both within Exchequer Services and out at service. The next phase is due for rollout before the end of the financial year, with the final phase concluded in 2022/23. Other areas where re-engineering has yielded efficiencies include Human Resources and Void Management. It still remains the intention that all key service processes will be subject to review over a three year period.

5.11 Outcomes Based Resourcing

This initiative originally committed to in 2018 has been delayed and had been due to commence early in the 2021/22 financial year having been set back by the Covid 19 pandemic.

5.12 Its intention is to ensure that funds are allocated according to a set of predefined outcomes, or priorities using a zero-based approach rather than applying incremental uplifts to an existing set of services each year. This effectively ensures that funds are directed toward the Council's key ambitions and statutory functions and away from areas which contribute less or not at all against the predetermined objectives. Given that investment opportunities are now limited this pillar of the strategy has grown in importance and will be required to appropriately target resources to key services whilst shrinking the budget gap.

5.13 Despite the work to date to realise the funding the future strategy the budget gap has widened as the following table shows. The impact of having to remove material levels of investment income and reduce some of the income stretch targets that had been budgeted during 2020/21 in light of the pandemic can clearly be seen below.



6.0 PROVISIONS, RESERVES AND BALANCES

6.1 A Council's reserves are an essential part of good financial management. They help the Council to cope with unpredictable financial pressures and plan for future spending commitments. Council's generally hold two types of reserves, "Unallocated" to meet short term unexpected cost pressures or income reductions and "Earmarked". These can be held to provide for some future anticipated expenditure for identified projects, particularly in respect of corporate priorities, address specific risks such as business rates, provide up-front costs which specifically result in future efficiencies, cost savings or increased income, or to hold funding from other bodies, mainly Government, for specified purposes.

6.2 By their nature reserves are finite and within the existing statutory and regulatory framework, it is the responsibility of the s151 Officer to advise the Council about the level of reserves that it should hold and to ensure that there are clear protocols for their establishment and use.

6.3 The 2020/21 provisional outturn has seen the Councils level of reserves increase and whilst the General Fund unallocated reserve is currently healthy if the current level of budget gaps remain it will be required to fund them, whilst still leaving a current minimum required level of £3.5M. Whilst the required level of individual reserves is assessed annually the overall impact is illustrated in the tables below

	31 March 2021 £	31 March 2022 £	31 March 2023 £	31 March 2024 £	31 March 2025 £	31 March 2026 £
Unallocated Balances	(7,808,400)	(5,222,400)	(4,538,400)	(3,500,000)	(3,500,000)	(3,500,000)
Earmarked Reserves:						
To Support Revenue & Capital Expenditure	(6,676,200)	(1,065,100)	(765,000)			
Total ring-fenced/held against risk	(18,961,000)	(12,345,200)	(11,644,000)	(9,781,600)	(6,153,400)	*(680,200)*
Total Earmarked Reserves	(25,637,200)	(13,410,300)	(12,409,000)	(9,781,600)	(6,153,400)	(680,200)
Total Combined Reserves	(33,445,600)	(18,632,700)	(16,947,400)	(13,281,600)	(9,653,400)	(4,180,200)

6.4 The Council has plans to use £6.7M of its reserves to support feasibility work in respect of regeneration projects and housing, to finance some capital projects, to deliver the culture strategy and provide support to businesses and the vulnerable through the Covid 19 pandemic. A review is currently on going into all the planned allocations from Council reserves.

7.0 BALANCING THE BUDGET TO 2025/26

7.1 It must be reiterated that the current forecasts do not include any interventions by Cabinet, or Executive Management Team, however they highlight potential cumulative budget deficits over the next 4 years and so balancing the budget both in the short and the medium term will be a tough task.

7.2 The Council's FtF strategy advocates a balanced and systematic approach based on sound principles around increased income streams, commercialisation, pursuing efficiency with vigour and cost management. As outlined previously in this report progress has been made to realise this strategy, income streams have been derived from investments made prior to November 2020, a number of efficiencies have been delivered, although there remain further aspects of this agenda to explore. Utilisation of the strategic freedoms presented by the creation of LATCo's are expected to deliver returns through using our assets to best advantage, but these aspirations are more likely to be realised over the medium to longer term horizons.

7.3 A number of workshops have been held between Executive Management Team and Cabinet to explore savings and redirection proposals, ensuring that underlying cost pressures are mitigated as far as possible and that growth in service is limited to that which is strictly necessary. The Council's capital programme is being reviewed a revised governance structure developed to reduce the revenue impact of MRP and interest charges whilst facilitating delivery of the Council's priorities. To support the level of Council reserves a comprehensive review is underway.

7.4 It is now imperative that a thorough and detailed review of our cost base is undertaken through application of OBR, or other similar budget principles. This will have a particularly important part to play in driving down budget gaps from 2023/24 and beyond and in realising financial sustainability. The application of OBR across the Council will be a significant piece of work and will inevitably require an objective and sensitive approach and work is currently underway to engage external expertise to commence this work within the current financial year.

7.5 Progress against all of these areas will be reported to Members together with any implications of the Local Government Settlement as part of January update.

8.0 OPTIONS AND OPTIONS ANALYSIS

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