

CABINET

Budget & Policy Framework Update

2023/24 – 2027/28

7 February 2023

Report of Chief Finance Officer

PURPOSE OF REPORT			
This report sets out the latest position in respect of the budget and policy framework and Cabinet's proposed General Fund revenue budget for 2023/24			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date of notice of forthcoming key decision			12 th December 2022
This report is public however the Appendix B1 is exempt by virtue of paragraphs 2, 3 & 4 of Part 1 of Schedule 12A of the Local Government Act 1972			

RECOMMENDATION OF COUNCILLOR WHITEHEAD

1. That Cabinet recommends the following for approval to Budget Council:
 - The 2023/24 General Fund Net Revenue Budget and resulting Council Tax Requirement excluding parish precepts (Appendix A) and supporting budget proposals (Appendices B & B1).
 - The Section 151 Officer's statement on the adequacy of reserves and advice that the minimum level of balances remains at £5M, subject to annual review.
 - the resulting position on reserves (Appendix C).
 - the position on budget transfers and use of reserves (Appendix D)
2. That the Finance Portfolio Holder be given delegated authority to finalise the General Fund Revenue budget 2023/24 as updated for Cabinet's final budget proposals, and outcomes of the Final Local Government Settlement for referral on to Council.
3. That Cabinet consider the recommendation put forward by Budget & Performance 01 February 2023 (Section 6)

1.0 INTRODUCTION

- 1.1 Under the Constitution, Cabinet has responsibility for developing corporate planning proposals and a balanced budget for Council's consideration.

- 1.2 The Council meeting on 25 January 2023 considered Cabinet's proposed revenue budget for 2022/23 and approved a City Council Tax increase of 2.99% together with a year-on-year target of the maximum allowable under the Government's local referendum thresholds for future years.
- 1.3 Since that report, further meetings have been held between Cabinet and Senior Leadership Team to review and discuss a number of issues and revisions to that position including:
- Advice received from specialist advisors in regard to the Council's Minimum Revenue Provision (MRP) and requirement to realise the potential windfall benefit.
 - Revisions to the Business Rates Income forecast following the receipt of system parameters from the Council's software provider late January.
 - Confirmation of energy prices for 2023/24 from the Council's supplier
 - A number of minor amendments requested by Cabinet.
- 1.4 This report sets out:
- The Operational and Strategic context in which the budget has been set. **(Section 2)**
 - The Council's General Fund Revenue Budget for 2023/24 **(Section 3)**
 - A summary of the of Council Tax and Business Rates as reflected in the Council's Collection Fund. **(Section 4)**
 - The s151 Officers Assessment of the Adequacy of the Council's Reserves Provision and Balances. **(Section 5)**
- 1.5 The report seeks delegated authority for the Finance Portfolio Holder to finalise the General Fund Revenue budget 2023/24, as updated for Cabinet's final budget proposals, and outcomes of the Final Local Government Settlement for referral on to Council 22 February 2022.

2.0 OPERATIONAL & STRATEGIC CONTEXT

- 2.1 The 2023/24 Budget has once again been set against the backdrop of significant change and economic volatility, which puts significant pressure on the Council's limited resources.
- 2.2 Members will be aware that for a number of years the Council has reported a structural budget deficit, meaning that its planned expenditure exceeds its anticipated income. In addition to this, the current cost of living crisis has compounded matters by exacerbating general and pay inflation together with energy costs, placing considerable additional pressure on the Council's limited resources.
- 2.3 Further uncertainties remain around the future of Heysham 1 & 2 Power Stations and their decommissioning plans. Whilst Central Government provides a mechanism to limit the losses incurred by the Council given, they account for over 30% of the Council's Business Rates income and this remains a considerable risk to the Council's financial position
- 2.4 Nationally, Central Government have attempted to provide Local Government with additional certainty by providing a 2-year Finance Settlement, with both new and continuation of several grant funding streams confirmed. Whilst this is an improvement on previous single year settlements, difficulties remain in forecasting in the medium and longer term which is required when developing the Council's Medium Term Financial Strategy.
- 2.5 All business rateable values in England and Wales have been revalued based on open market rental levels as at 1st April 2021 with the new liabilities taking effect from 1st April 2023. Although the Council has seen a 5% raise in rateable values there remains significant uncertainties around the application reliefs and the potential level of appeals

- 2.6 The Council has been successful in agreeing an investment plan with Government (DLUHC) to allocate external funding of over £5M from UK Shared Prosperity Fund (UKSPF) awarded to support building pride in place, supporting high quality skills training, supporting pay, employment, and productivity growth, and increasing life chances across the district. Officers are currently finalising the first round of awards for eight local projects to be delivered collaboratively by the council and its partners, with further rounds of funding awards to follow during the programme's lifespan up to March 2025.
- 2.7 More recently on 19th January this year the Council was successful in its bid to secure £50M from Department for Levelling Up towards the Eden Project Morecambe. This is excellent news and a great boost for the district, Securing Government funding was an important step but much work still remains to be done by Eden and the project partners. It will naturally be some years before the impact of increased income from business rates and tourism filter through. In the meantime, officers are working with Eden and the other partners to implement the required governance and delivery mechanisms to ensure that the full benefits of the project are secured.

3.0 REVENUE BUDGET 2023/24

- 3.1 The General Fund Revenue Budget for 2023/24, summarised in Table 1 below, is included at **Appendix A**, with Directorate summary information given at **Appendix B** and more detailed budget savings proposals in exempt **Appendix B1**. The proposed budget is balanced, in line with statutory requirements, allowing for a draw on the Council's reserves of £0.577M. At the time of writing, the proposed budget does not take account of the final local government finance settlement which is due to be approved by Parliament in "early" February 2023. As such delegated authority is sought to enable the Finance Portfolio Holder and Chief Finance Officer to make amendments as required, prior to consideration by Council 22 February 2023.

Table 1: General Fund Revenue Budget 2023/24

	2023/24 £000	
Revenue Budget Forecast as 23 February 2022		21,943
Base Budget Changes		
Operational Base Budget Changes		2,443
		24,386
Outcomes Based Resourcing Proposals		
Costs of Asset Repurposing	277	
Additional Income Generation Proposals	(420)	
Savings Proposals	(2,423)	
Impact of Review of the Capital Programme	9	
		(2,557)
Other Adjustments		
Changes to Assumptions	(203)	
Minor Adjustments	42	
		(161)
General Fund Revenue Budget Before Core Funding & Use of Reserves		21,668
Contribution to/ (from) Unallocated Reserves		(577)
General Fund Revenue Budget 2023/24		21,091
Core Funding		
Revenue Support Grant	(406)	
Prior Year Council Tax (Surplus)/ Deficit	181	
Net Business Rates Income	(10,256)	
Total Core Funding		(10,481)
Council Tax Requirement		10,610
Council Tax Requirement		(10,610)
2.99% Council Tax Increase Council 25 January 2023		
Resulting Base Budget (Surplus)/ Deficit		0

- 3.2 The proposals set out in the Table 1 above produce a balanced revenue budget for 2023/24, which forms part of the recommendations of this report. Subject to Cabinet agreement, this proposal will then go forward to Council on 22 February 2023.
- 3.3 At its meeting on 23 February 2022 Council set its budget for 2022/23 and the base budget estimates for 2023/24 and future years. At the start of the budget setting process these “base” estimates are reviewed in light of current circumstances and best information available and revised estimates produced before any saving, growth, or re-direction proposals are received. These estimates are under constant review during the budget setting process and often change as information comes forward.
- Base Budget Outcomes Based Resourcing Proposals and Other Adjustments
- 3.4 Operational and Base Budget changes for 2023/24 currently amount to a reduction in expenditure of £0.275M. A summary of these changes is given in the table 2 below:

Table 2 Base Budget, Outcomes Based Resourcing Proposals & Other Adjustments

Base Budget Changes	£M	Reference
Employees	0.868	3.5
Premises Related	2.895	3.6
Transport Related	0.294	3.7
Supplies and Services	0.907	3.8
Support Services	(0.084)	3.9
Capital Financing Costs	0.480	3.10
Appropriations	0.139	3.11
Income	(1.671)	3.12 & 3.13
Reserve Adjustments	(1.385)	3.14
Total	2.443	
Outcomes Based Resourcing Proposals		
Costs of Asset Repurposing	0.277	3.15
Fees & Charges	(0.420)	3.16
Saving Proposals	(2.423)	3.17 & 3.18
Revenue Impact of Capital Programme Review	0.009	3.19
Total	(2.557)	
Other Adjustments		
Changes in Assumptions	(0.203)	3.20 & 3.21
Other Minor Changes	0.042	3.22
Total	(0.161)	
Total	(0.275)	

BASE BUDGET CHANGESEmployees Assumptions £0.868M

- 3.5 As part of the 2022/23 budget setting process, in line with the majority of Councils, an inflationary uplift of 2% was included to salaries across all service areas for all projected years. During the current financial year, a pay award of an increase of £1,925 on all NJC pay points was accepted. When consolidated the composite rate was considerably higher than 2% budgeted. The impact on 2023/24 was initially estimated as an additional £0.868M when considered against the 2% originally included. This estimate has now been revisited and revised to 4% as referenced in paragraph 3.20 below

Premises Related £2.895M

- 3.6 This base budget increase largely represents inflation surrounding energy costs. As has been well documented, the cost of living crisis has massively impacted on the cost of energy. The estimates have been prepared on information available during quarter 3 of 2022/23 and will be closely monitored during the 2023/24 financial year. This estimate has now been revisited as referenced in paragraph 3.21 below

Transport Related £0.294M

- 3.7 This base budget increase largely represents the inflation surrounding fuel costs. Again, the cost of living crisis has massively impacted on the cost of fuel. The estimates have been prepared on information available during quarter 3 of 2022/23 and will be closely monitored during the 2023/24 financial year.

- Supplies and Services £0.907M
- 3.8 The council support a number of housing schemes (resettlement programmes, Changing Futures etc.) where funding for 2023/24 was confirmed during 2022/23. Related expenditure has now been included in the draft revenue budget. These are mainly government funded initiatives and a corresponding adjustment is included within the income section.

- Support Services (£0.084M)
- 3.9 The original budgets within general fund housing accounts included a recharge to other accounts within service. This is no longer required as the costs are now being directly coded to the originating cost centre. There is a corresponding adjustment within the income section.

- Capital Financing Costs £0.480M
- 3.10 This represents the interest cost of new loans required during 2023/24 to support the capital programme.

- Appropriations £0.139M
- 3.11 This represents a net increase in amounts being utilised principally from the revenue grants unapplied reserve which is the repository for grants received without conditions in previous years such as Community Housing and Brownfield/Self Build.

- Income (£1.671M)
- 3.12 As detailed above, a significant proportion of this base budget change relates to the government funding on an array of initiatives where a corresponding amount of expenditure has been included within the supplies and services section.

- 3.13 As part of the 2022/23 budget setting process, a savings item of c.£0.5M was included to reflect the impact of a car parking tariff review. Due to subsequent tariff changes and other factors, this additional income has not been realised. The 2023/24 projection has, therefore, been reduced by that amount as a realistic measure of what income level the council can expect to achieve. New investment property income of c.£0.250M was also included in the original budget. Changes to borrowing requirements have, however prevented the acquisition of properties purely for commercial gain and the income target has subsequently been removed.

- Reserve Adjustments £1.385M
- 3.14 This amount includes £1.1m for roof and cladding works at Gateway, White Lund together with £0.180M and £0.105M for Burrow Beck solar farm feasibility and urgent property maintenance works respectively.

OUTCOMES BASED RESOURCING PROPOSALS

- Costs of Asset Repurposing £0.277M
- 3.15 As part of their review of the Council's estate, the Asset Group highlighted a number of properties requiring essential maintenance as well as several potential properties for disposal. These costs reflect both the level of required maintenance and loss of income associated with disposal.

- Fees & Charges (£0.420M)
- 3.16 As reported elsewhere on this agenda, fees and charges are subject to annual inflationary rises. Since the previously reported budgetary position, a change has been made to the percentage increase in fees which has a positive impact on the net position of the general fund.

Savings Proposals £2.423M

- 3.17 As noted previously, the OBR groups have identified a number of budget saving proposals for Council to consider. Given the sensitivities around some of the proposals, they have been presented at summary Directorate level at **Appendix B** and more detailed budget savings proposals in exempt **Appendix B1** to enable effective internal and external discussion.
- 3.18 Members should note that failure to deliver these savings, efficiency and income proposals will represent a significant risk to the Council as any shortfall would result in further financial pressures in 2024/25 and beyond.

Revenue Impact of Capital Programme Review £0.009M

- 3.19 Cabinet and Senior Leadership Team have reviewed in detail the Council's existing capital programme and have added, deleted and reprofiled a number of capital schemes in line with its Capital Investment Strategy. This has resulted in a small net cost in 2023/24 for Minimum Revenue Provision (MRP) and interest charges.

OTHER ADJUSTMENTS

3.20 Change in Pay Assumptions £0.542M & Energy (£0.745M)

As noted above, the initial pay planning assumption was for an increase of 2%. Following discussions with Members, and consideration of information received from other Northwest Council's, it was felt that 2% was insufficient. The budget was, therefore, increased to a 4% uplift. This equated to a further £0.542M for 2023/24 and has also created a further burden on future years.

- 3.21 The position reported to Cabinet 17 January included the latest prices available for energy costs. Information has now been received advising that prices have reduced somewhat and the estimate has been revised accordingly. With regard to the stability of these projections it should be noted that some bulk buying in advance has taken place by our suppliers which now eliminates the risk of price change in 2023/24. This has led to a c.£0.745M budgetary reduction from the previously reported position in 2023/24 and future years.

Other Minor Changes £0.042M

- 3.22 This largely relates to the financial impact of Museums staff completing the job evaluation process and the net impact of the Local Government Finance Settlement.

Budget Principles and Assumptions

- 3.23 Within the revenue budget there are several principles and key assumptions underpinning the proposed revenue strategy. These are:
- i. Annually, a balanced revenue budget will be set with expenditure limited to the amount of available resources.
 - ii. No long-term use of balances to meet recurring baseline expenditure.
 - iii. Resources will be targeted to deliver Corporate outcomes and value for money. Any additional investment and spending decisions will be made to reflect Council priorities and strategic commitments.
- 3.24 Table 3 below, lists the major assumptions that have been made for the 2023/24 budget.

Table 3: Major Assumptions within General Fund Revenue Budget 2023/24

	2023/24
Council Tax Base Growth	1.00%
Council Tax Increase	2.99%
Council Tax Collection Rate (Band D Equivalent)	98.67%
Business Rates Multiplier	Frozen
Fees & Charges	Various
Inflation – Pay	4.00%
Employer Pensions Contribution	16.30%
Inflation – General (Minor Cost Centres)	2.40%
Inflation – Insurance	10.00%
Inflation Utilities	Gas: Agreed price Electric: Agreed price
Interest Rate – investments	3.50%
Interest Rate – new borrowing	4.00%

- 3.25 The General Fund Revenue budget presented at Table 1 contains a number of changes from that presented to Cabinet on 17 January, and to Council on 25 January 2023. To assist Members understanding, Table 4 provides a reconciliation between the proposals presented at those earlier meetings and that formally presented within this report

Table 4: Reconciliation Base Budget (Surplus)/ Deficit Positions

	2023/24 £000	
Resulting Base Budget (Surplus)/ Deficit as at 17 January 2023 (Cabinet)	0	Reference
Re-profiling of Minimum Revenue Provision adjustment	(1,500)	3.26
Changes to savings proposals	(16)	3.28
Changes to energy assumptions	745	3.29
Prior year Council Tax deficit	(181)	3.30
Forecast Increase in retained Business Rates	849	3.31
Additional contribution from Council reserves	103	3.32
Resulting Base Budget (Surplus)/ Deficit as at 7th February 2023 (Cabinet)	0	

Re-Profiling of Minimum Revenue Provision Adjustment & Policy Change (£1.500M)

- 3.26 As previously reported, as part of the OBR process, officers commissioned an external review of the Council's MRP policy and historic provision. The review highlighted several historic adjustments, which given the length of time that has elapsed, could generate a significant retrospective *one off windfall* to the Council. Members were advised that to realise this saving, a significant amount of work would be required from officers and that, given resource constraints, balanced with current statutory obligations, work would commence in the second quarter of the 2023/24 financial year.
- 3.27 Following further discussions with the Council's external providers, support and assistance has been offered to facilitate the realisation of the estimated saving in the 2022/23 financial year. Members will note that, as part of the Council's Capital Strategy elsewhere on the agenda, approval is being sought to revise the Council's Minimum Review Provision (MRP) policy, which is also necessary to realise the savings in 2022/23.

Changes to Savings Proposals £0.016M

- 3.28 Two minor adjustments were made to the funding of events within the district, to enable the organisers to have a degree of certainty over funding. This has increased the budget for 2023/24 and for future years

Changes to Energy Assumptions £0.745M

- 3.29 As noted previously, information has now been received advising that energy prices have reduced significantly, and the original estimate has been revised accordingly. As a result, a £0.745M budgetary reduction has been reported from the previous position in 2023/24 and future years.

Prior Year Council Tax Deficit £0.181M

- 3.30 The Council is required to estimate the deficit on the Collection Fund in respect of Council Tax for the current year (2022/23) by 15 January each year. A forecast surplus on the fund would be distributed to the City Council and preceptors during 2023/24 whilst a forecast deficit on the fund is charged to the City Council and preceptors. The forecast deficit on the fund is calculated to be £1.429M with the share due from the City Council being £0.181M, an additional budget pressure. A number of variables give rise to movements in forecast surpluses and deficits including changes in numbers of exempt properties & voids, properties eligible for discounts, second homes and homes subject to the empty home's premium together with changes in anticipated levels of bad debt.

Forecast Increase in Business Rates £0.849M

- 3.31 As previously reported to Members all rateable values in England and Wales have been revalued by the Valuation Office Agency (VOA) as part of the 2023 Revaluation exercise. Unfortunately, at that time the Council's software supplier was unable to provide the relevant systems parameters to enable detailed forecasting to be undertaken, or to prepare for submission of the central government NNDR1 return. This information is now available estimates have been made taking into account

- Applicable reliefs or exemptions;
- The impact of appeals against the new rateable values, and the adequacy of provisions to meet any appeals;
- The impact of transitional arrangements to phase in the effect of changes in rateable values
- The anticipated movements on the Business Rates Retention Reserve

- 3.32 As a result of this re-forecasting the Council has seen a projected increase in its share of business rates income of £0.849M. However, as discussed later in this report there is potential for appeals against the revaluations.

Additional Contribution from Council Reserves £0.103M

- 3.33 The proposals presented to Cabinet 17 January 2023 required a draw on Council reserves of £0.474M to balance the 2023/24 budget. Taking account of the effect of the various adjustments detailed in Table 4, a further draw of £0.103M is required. As a result, the total amount required from reserves in 2023/24 amounts to £0.577M, as seen in Table 1.

4.0 COUNCIL TAX & BUSINESS RATES

Council Tax

- 4.1 Legislation requires that separate estimates be made for any Collection Fund surpluses or deficits on the Collection Fund relating to the Council Tax and Business Rates.
- 4.2 For Council Tax, it is confirmed that the Collection Fund is expected to have a deficit for 2022/23. As noted in paragraph 3.3 this is £0.181M.
- 4.3 The Council Tax increase of 2.99% agreed by Council on 25 January 2023 means that the City element of Council Tax for a band D property will be £249.18.

Business Rates

- 4.4 The Council is required to submit its annual business rates return (NNDR1) to the Government by the end of January in which it estimates business rates income for 2023/24 and the estimated deficit or surplus as at the end of 2022/23.
- 4.5 The inherent risk associated with the NNDR1 is that the final outturn surplus or deficit position differs substantially from the estimate, and this has indeed been the case at the Council in recent years. The Business Rates Retention Reserve is, therefore, utilised to safeguard against such fluctuations and to hold the impact of the multi-year flow of accounting entries for the Business Rates Retention Scheme. In this way the General Fund is safeguarded and a steady income stream in respect of Business Rates maintained.
- 4.6 The table 5 below shows the income from the Business Rates Retention Scheme that will be recognised in the General Fund during 2023/24

Table 5: Income from the Business Rates Retention Scheme

	2023/24 £M
Retained Business Rates	6.709
Renewable Energy Disregard Income	3.547
Total Retained Business Rates	10.256

- 4.7 Members will be aware of the recent announcements regarding the decommissioning plans for the Heysham 1 and Heysham 2 nuclear reactors. This announcement will have a significant impact across the district as a whole and will inevitably have a significant impact on the Council's finances. Currently the rateable value of the reactor's accounts for a substantial proportion of the Council's total rateable value. Central Government operates a "safety net" system to protect those Councils which see their year-on-year business rate income fall by more than 7.5 per cent. Given the Council's exposure it is expected that it will inevitably fall into a safety net scenario and will need to rely on the Business Rates Retention Reserve to smooth operational shortfalls in the short term.
- 4.8 The Council receives a 'disregard' for renewable energy hereditaments which means that 100% of the business rates for these properties is retained by the authority. It is estimated that in 2023/24, this will be worth £3.547M. Whilst it is evident that this 100% disregard will continue into 2024/25, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.
- 4.9 Information provided by the Council's external advisors suggests a lower level of checks, challenges, and threats against the 2017 rating list, whilst the risk of a back dated appeal from Heysham Power Station continues to dwindle. A reduction in the 2017 list appeals provision is planned as part of the 2022/23 outturn. However, there remains a risk that the

Power Station may appeal against the new rateable values and an increased potential for outages as the reactors reach the end of life.

- 4.10 In addition, should any of the hereditaments subject to the renewable energy disregard appeal, the Council will be heavily impacted as it currently receives 100% of the rates from these. Although there is a lack of information regarding potential appeals against the 2023 rating list, it is usual for appeals to be higher in the first year of revaluation. The appeals provision is currently £15.909M with the City Council share being £6.364M. This endeavours to take account of all the variables outlined and reflect adequate provision for all of the 2010, 2017 and 2023 revaluation lists. Members should be assured that this is provision is kept under review as actual pattern of appeals emerge.

5.0 PROVISIONS, RESERVES & BALANCES

- 5.1 Under current legislation the Section 151 Officer is required to give explicit advice to Council on the minimum level of reserves and balances. At its meeting 09 November 2022 Council approved amendments to its Reserves Strategy. The Strategy put forward a number of revisions including,

- The transfer of £5.913M into the Council's General Fund unallocated reserve to boost financial resilience and to facilitate rationalisation of the application of these resources
- Endorsement of the s151 Officers advice to increase the minimum level of General Fund unallocated reserve to £5M
- Revisions to the governance arrangements for the approval of reserves expenditure

- 5.2 These revisions were required to enable the Council to better meet the current and forecast financial pressures it faces in regard to the ongoing cost of living crisis, uncertainty in the energy markets, together with other factors including general and pay inflation as well as the implications of OBR on the structural deficit as referenced for several year. It is against this back drop the 2023/24 assessments are made.

Provisions

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

Reserves & Balances

- 5.4 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

- 5.5 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, the Council faces significant inescapable financial pressures as noted above. Continuing uncertainties in respect of BREXIT, Local Government Funding levels and the results of the Council's OBR process also remain. **Taking all of these risks into account, the Section 151 Officer's advice is that the minimum level of balances held in the General Fund should remain at £5M.**

- 5.6 The Section 151 Officer's latest advice on the adequacy of balances is based on the following observations:

- The General Fund Balance at 31/03/22 was £6.032M, Quarter 2 revenue budget monitoring forecasts an overspend of £2.965M in 2022/23. Although preliminary indications from Quarter 3 monitoring suggest a decrease in the overspent position. This will need to be met from unallocated reserves.

- Although the Council has now embarked on its Outcomes Based Resourcing programme and identified a series of savings in order to deliver the 2023/24 budget, the Council's current MTFs suggests a structural budget gap in 2024/25 onwards of approximately £1.703M raising to £5.591M. If this is not closed, then balances will be required to make up the difference.
- Although Business rates retention volatility remains a risk to the Council in particularly the timing of the decommissioning of the Heysham nuclear reactors. This is managed via the Business Rates Retention Reserve, therefore, should not impact directly on the General Fund balance.

5.7 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 6 below.

Table 6: Risk Assessment

Risk	Symptom of Risk	Balance Required £M
Increased demand for services	3% increase in net revenue expenditure	0.625
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	0.925
Recession results in additional reduction in Council Tax collection rates than budget	3% reduction in collection rate	0.325
Budget savings not achieved	25% under achievement	0.625
Natural disaster such as flood etc	Additional unexpected expenditure	0.500
Additional uncertainty with respect to Cost of Living	Additional unexpected expenditure	2.000
Aggregate overspend if all of the above risks were to happen		5.000

5.8 The analysis shows that, in the 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.

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

5.10 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.

5.11 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

5.12 The estimated levels of General Fund Unallocated and combined Earmarked reserves balances are shown in **Appendix C** with the impact of the inclusion of forecast overspends summarised in tables 7 and 8 below

Table 7: Estimated Level of General Fund Unallocated Reserves

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Balance brought forward	(6.032)	(9.145)	(8.568)	(6.865)	(2.709)	2.883
Forecast Overspend	1.465	0.000	1.703	4.156	5.591	5.263
Other Adjustments	1.335	0.000	0.000	0.000	0.000	0.000
Contributions	(5.913)	0.000	0.000	0.000	0.000	0.000
Impact of 2023/24 budget decisions	0.000	0.577	0.000	0.000	0.000	0.000
Balance carried forward	(9.145)	(8.568)	(6.865)	(2.709)	2.883	8.145

Table 8: Estimated Combined Level of Reserves

	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M
Balance brought forward	(28.885)	(24.031)	(24.416)	(24.598)	(25.018)	(25.538)
Impact of 2023/24 budget decisions	0.000	0.577	0.000	0.000	0.000	0.000
Impact of other decisions & outturn	4.854	(0.962)	(0.182)	(0.420)	(0.520)	0.000
Forecast Overspend	0.000	0.000	1.703	4.156	5.591	5.263
Balance carried forward	(24.031)	(24.416)	(22.895)	(19.159)	(14.088)	(8.825)

- 5.13 These tables clearly highlight the significant pressure the Councils reserves are under should funding of the forecast level of overspend in future year is not addressed.

Governance Arrangements on the Use of Reserves

- 5.14 Given the continuing financial pressures and the need for the prudent use of reserves the following arrangements exist for the approval of reserves expenditure:
- All applications will need to be supported by a bid document setting out how expenditure funded from Reserves will deliver corporate priorities with a clear costing statement schedule of specific outcome measures. Details of the bid proforma document is attached at appendix A
 - Reserve bids should be agreed by Portfolio Holder in consultation with relevant Director.
 - Once received bids will need to be formally agreed by the Leader of the Council, Chief Executive, Portfolio Holder for Finance and Resources, Monitoring Officer and the s151 Officer before expenditure is authorised and can be incurred.
- 5.15 These arrangements will be reviewed again as part of the annual revenue budget process

6.0 DETAILS OF CONSULTATION

- 6.1 Cabinet's initial budget proposals were presented at the Council meeting 25 January 2023 and the meeting of Budget and Performance Panel 01 February 2023.
- 6.2 At the Budget and Performance Panel meeting, many questions were raised and answered, and in addition the following feedback points were noted in the draft minutes.

That Cabinet be asked to revisit the Platform issue contained within the budget proposals

7.0 OPTIONS & OPTIONS ANALYSIS

Revenue Budget

- 7.1 Council may adjust its revenue budget proposals, so long as the overall budget for 2023/24 balances and fits with the proposed Council Tax level.

Other Budget Framework Matters (Reserves and Provisions)

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

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

- 7.4 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.

8.0 OFFICER PREFERRED OPTION (AND COMMENTS)

Revenue Budget 2022/24 and Reserves Position

- 8.1 To agree the recommendations as presented as the proposals to be put forward by Cabinet should fit with any external constraints and the budgetary framework already approved. The recommendations as set out meet these requirements; the detailed supporting budget proposals are then a matter for Members.

9.0 CONCLUSION

- 9.1 This report addresses the actions required to complete the budget setting process for 2023/24, and for updating the Council's associated financial strategy.

RELATIONSHIP TO POLICY FRAMEWORK

The budget framework in general sets out a financial plan for achieving the Council's corporate priorities and outcomes which incorporate the above cross cutting themes. Equalities impact assessments are undertaken for the relevant activities which are reflected in the budget.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability etc)

The proposed budget incorporates measures to address the climate emergency and digital improvements as well as activities to address wellbeing, health, and community safety.

FINANCIAL IMPLICATIONS

As set out in the report

SECTION 151 OFFICER'S COMMENTS

Robustness of Estimates and Adequacy of Council's Reserves

The Local Government Act 2003 places 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 £5M for General Fund are reasonable levels to safeguard the Councils overall financial position, given other measures and safeguards proposed. This level assessment is consistent with that noted by Council 25 October 2023 and represents an increase of £1.5M from 2022/23. It reflects the uncertainty around the current economic climate and 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 2027/28. 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 the ongoing cost of living crisis and the effect it has on significant areas of expenditure such as energy costs as well as general and pay inflation. The Council has a level of reserves and benefits 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 whilst this budget round has been difficult and puts forward a number of difficult savings proposals, the Council still has to draw £0.577M from reserves to produce a balanced budget.

Current spending plans are sustainable in the short term through the prudent allocation of funding from reserves. However, the current Medium Term Financial Strategy suggests a structural budget gap in 2024/25 onwards of approximately £1.703M raising to £5.591M. This size of deficit is not sustainable and if not addressed by significant interventions and balances used, they will be quickly depleted. It is therefore of the utmost importance that Members and Officers work together and continue to support the Outcomes Based Resourcing programme as it must remain a core priority for the Council as it will be expected to deliver significant inroads into the deficit.

LEGAL IMPLICATIONS

Legal Services have been consulted and have no further comments.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments

BACKGROUND PAPERS

Appendix A General Fund Revenue Budget 2023-24
Appendix B Directorate Summary
Appendix B1 Exempt
Appendix C Reserves Summary
Appendix D Budget Transfers Virements Carry
Forwards

Cabinet Papers

[Agenda for Cabinet on Tuesday, 17th January 2023,
6.00 p.m. - Lancaster City Council](#)

Budget & Performance Papers

[Agenda for Budget and Performance Panel on
Wednesday, 1st February 2023, 6.00 p.m. - Lancaster
City Council](#)

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Ref: N/A