

CABINET

Budget & Policy Framework Update 2024/25 – 2028/29 16 January 2024

Report of Chief Finance Officer

PURPOSE OF REPORT

To provide an update on the Council's budget strategy for 2024/25 and financial outlook up to 2028/29. Specifically, the report considers the budget and Council Tax proposals for 2024/25

This report is public.

RECOMMENDATION OF COUNCILLOR HAMILTON-COX

- 1. That Cabinet make recommendations to Council regarding the Lancaster City Council element of the Council Tax as set out in paragraph 3.3 (option one) of this report which is a 2.99% increase to the Band D Council Tax (from £249.18 to £256.63).**
- 2. That Cabinet makes recommendations regarding its initial budget proposals as set out in section 5 and Appendix A of this report.**
- 3. That the recommendations and proposals in this report be referred to Council on 24 January for initial consideration as well as being presented for scrutiny by Budget and Performance Panel on 18 January, in order that any feedback can be provided to Cabinet at its 06 February meeting.**

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 At its meeting on 05 December 2023 Cabinet considered updated estimates in respect of the Government's Autumn Statement together with consideration of assumptions in respect of various sources of income and expenditure and the corresponding impact this would have on the 2024/25 revenue budget gap and beyond. Members will, therefore, be aware of the financial challenges faced by the Council.**
- 1.3 Since that report, the Government has released the Provisional Local Government Finance Settlement (18 December 2023). Several workshops have been held between Cabinet and Senior Leadership Team to explore initial proposals from the OBR task groups.**

- 1.4 This report sets out:
- An update to the estimates of Central Government funding including Revenue Support Grant, Funding Guarantee & New Homes Bonus following on from the release of the provisional local government finance settlement and the corresponding impact on the budget gap. **(Section 2)**
 - Consideration of options for setting the Council's element of the Council Tax for 2024/25. **(Section 3)**
 - An update to the retained Business Rates forecast following on from the release of the finance settlement, adoption of the 2023 Non-domestic rating bill and review of latest monitoring information & movements on the business rates reserve. **(Section 4)**
 - A summary of the proposals for achieving a balanced revenue budget for 2024/25. **(Section 5)**
 - An update on the work undertaken in respect of the capital programme for the remainder of 2023/24 to 2028/29, and a longer-term Capital Strategy. **(Section 6)**
 - An update on the development of a Medium-Term Financial Strategy which will secure the long term financial resilience of the authority and identify resources to meet the Council's priority outcomes for the next five years. **(Section 7)**

2.0 LOCAL GOVERNMENT FUNDING UPDATE

- 2.1 Details of the provisional Local Government Finance Settlement for 2024/25 were announced on 18th December 2023. The Provisional Settlement is subject to consultation, with the Final Settlement announced towards the end of January/early February. Values may, therefore, be subject to change. Any changes will be reflected in the final budget and policy framework reports presented to Cabinet, and ultimately Council 28 February.
- 2.3 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

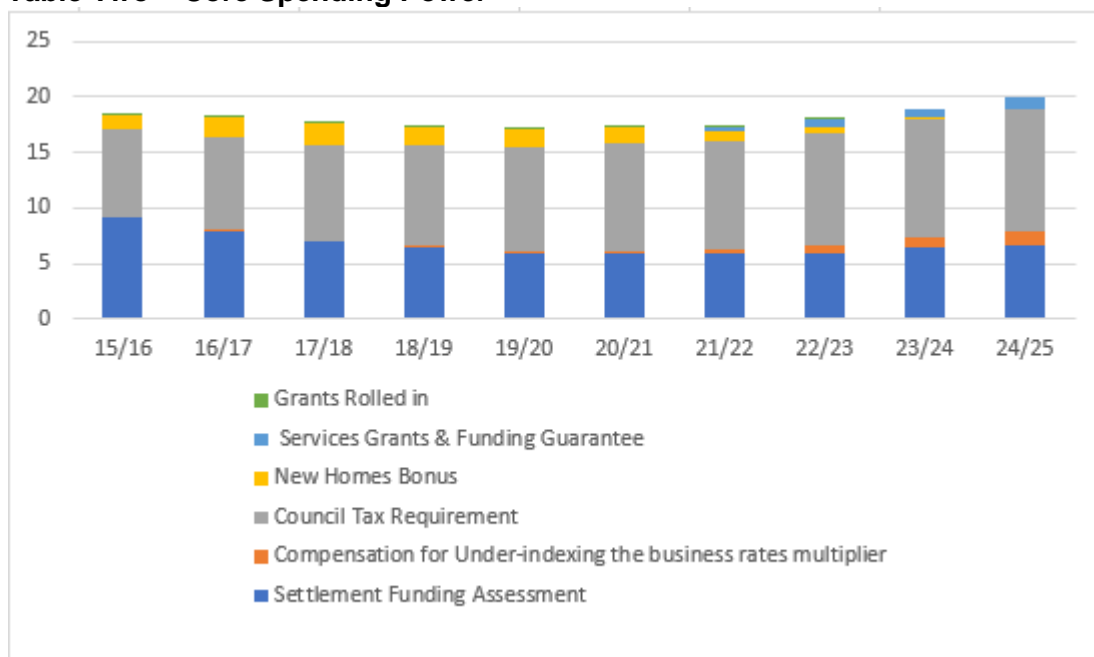
	Provisional Settlement £000	LCC Forecast £000	Difference £000
Settlement Funding Assessment			
Revenue Support Grant	433	406	27
New Homes Bonus	10	0	10
Funding Guarantee	1,002	605	397
Services Grant	37	232	(195)
Total Government Funding	1,482	1,243	239

- 2.4 As table one shows, the provisional settlement allocates £0.239M more resources from Central Government than anticipated and this slightly reduces the gap for the 2024/25 revenue budget. The impact of the provisional settlement and its effect on retained business rates together with the technical adjustments arising for the 2023 non-domestic rating bill is examined separately in Section 4. In addition, a number of additional pressures have been identified, many mirroring the wider economic environment. These pressures are reflected in the current budgeted position. These are discussed further in section 5.

Core Spending Power

2.5 Core Spending Power (CSP) is a measure used by the Government to set out the resources available to a Council to fund service delivery. It combines certain grants payable to Council together with estimates of Business Rates and Council Tax, these estimates are based on Government assumptions. CSP is used by the Government to make comparisons of the resources available to different Councils. As such, it is not necessarily the actual funding a Council will receive to fund service delivery.

Table Two – Core Spending Power



2.6 On the basis of the provisional Settlement, the Council's CSP for 2024/25 will increase from £18.93M to £19.90M or 5.1% when compared to CSP in 2023/24 and includes an assumption by Government that Councils will increase their Council Tax by the maximum allowable. This is in comparison to the average CSP for all Councils in England of 6.5%

3.0 COUNCIL TAX

3.1 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 a maximum of 3% or £5, whichever is higher, without reference to a referendum. Table two below considers the following options for Council Tax:

- Option 1: An annual increase of 2.99%
- Option 2: £5 increase in Council Tax
- Option 3: No increase in Council Tax

For Lancaster City Council, option 1 is the highest of the options

Table Three – Impact of Council Tax Options: 2024/25 to 2028/29

Year	Taxbase (% Annual Increase)	Estimated Annual Movement %	Option 1 Annual increase of 2.99% in Council Tax		Option 2 Annual increase of £5 in Council Tax		Option 3 No annual increase in Council Tax		Additional Income from 2.99% Increase & 1% Annual Growth	Additional Income from £5 Increase & 1% Annual Growth	Income from Increase in Tax Base Only 1%
			Band D	Income	Band D	Income	Band D	Income			
2023/24	42,579		249.18	10,609,835	249.18	10,609,835	249.18	10,609,835			
2024/25	42,583		256.63	10,928,096	254.18	10,823,747	249.18	10,610,832	317,264	212,915	997
2025/26	43,009	1.00%	264.30	11,367,394	259.18	11,147,029	249.18	10,716,940	650,454	430,088	107,105
2026/27	43,439	1.00%	272.21	11,824,352	264.18	11,475,693	249.18	10,824,110	1,000,243	651,584	214,274
2027/28	43,873	1.00%	280.35	12,299,679	269.18	11,809,817	249.18	10,932,351	1,367,329	877,466	322,516
2028/29	44,312	1.00%	288.73	12,794,114	274.18	12,149,475	249.18	11,041,674	1,752,440	1,107,801	431,839
									5,087,729	3,279,854	1,076,731

3.2 The budget proposals have assumed the maximum allowable increase in Council Tax and a growth in tax base of 1%. In 2024/25 this will raise an additional £0.317M. If there was no increase in Council Tax, income would increase by £0.0001M due to increases in the tax base. The table above shows the difference, in terms of income, between the maximum allowable tax increase (2.99% or £5 whichever is the greater), and no increase. Over five years, this amounts to £5.088M in income if option one is adopted compared to £1.077M if no increase was agreed a difference of £4.011M

3.3 **The recommendation arising from this report is that the Council on 24 January 2024 agree a 2.99% increase (option one) to the level of the 2024/25 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.

4.0 BUSINESS RATES

4.1 Since the Medium Term Financial Strategy Update reported on 5 December 2023 additional work has been undertaken on business rates modelling as further information has become available, particularly in respect of the impact of de-coupling the small and standard business rates multipliers and the consequent impact on Section 31 grant adjustments. Details of the calculation of the adjustment required was release in guidance which accompanied the National Non Domestic Rates (NNDR1) form issued after the provisional finance settlement. This has been used to determine the amount of the adjustment based on data in respect of the rateable value of heraditaments on the small and standard business rates multiplier from initial information supplied by the revenues team.

4.2 The provisional local government finance settlement released on 18 December set out the tariff, baseline and saftey net levels which drive the retained rates calculation and confirmed the final amount of the technical adjustment to the tariff relating to the 2023 revaluation. The modelling has been refreshed to reflect these and the impact of ongoing business rates monitoring. Forecasts in respect of business rates will not be fully finalised until the revenues reports generated to complete the NNDR1 form are available in mid-January meaning that figures continue to remain subject to change.

4.3 Further work has been undertaken in respect of the forecast Section 31 grant compensation for future business rates under-indexation in future years, and in particular, that related to the years where it is anticipated that a safety net payment will be triggered. This has improved the position for future years but Members are asked to note that this is not without its own complexity leaving some inevitable uncertainty which will remain subject to ongoing review as the date for the closure of Heysham 1 approaches.

4.4 Work is continuing to determine the forecast surplus or deficit for the year. Members will recall that the Business Rates Retention Reserve is used to manage the impact of surpluses and deficits and also to manage fluctuations in income levels in order to provide budgetary stability and smooth out year on year peaks and troughs. As explained in the Medium Term Financial Strategy update report in December, the use of the reserve has been reviewed and updated in light of latest estimates in order to achieve this aim and in particular to mitigate the impact of the loss in retained rating income arising from the future closure of Heysham 1 power station. In addition, following on from the Cabinet and Chief Executive decisions in December to allocate £0.728M and 0.912M respectively from unallocated reserves to support development of the local plan and demolition and clearance works at the A1 Supa skips site a transfer of £1.64M is also planned to top up the unallocated reserve to compensate for these expenditures.

4.5 The table below provides Business Rates forecasts for the next five years and shows the impact of the revised transfers to and from the business rates retention and unallocated reserves and the resultant net impact on the General Fund budget gap.

Table 5

	2024/25 £	2025/26 £	2026/27 £	2027/28 £	2028/29 £
Retained Business Rates	13,038,600	13,135,600	11,097,500	11,395,500	11,647,400
Previously Reported	11,135,520	11,358,230	9,605,718	9,797,833	9,993,789
Difference increase/(decrease)	1,903,080	1,777,370	1,491,782	1,596,667	1,653,611
Transfer (to)/from Business Rates Retention Reserve	(646,000)	(446,000)	600,000	500,000	-
Transfer (to) Unallocated Reserve	(820,000)	(820,000)	-	-	-
Net impact on General Fund Budget Gap	(437,080)	(511,370)	(2,091,782)	(2,096,667)	(1,653,611)

5.0 BUDGET PROPOSALS

5.1 The 05 December 2023 Cabinet report set out the significant challenges facing the Council in balancing its revenue budget for 2024/25 and beyond. Since that report, the OBR Groups have been working with Members and Officers to identify savings, efficiency, and income generation proposals. These proposals together with in-year changes and ongoing changes to accounting, forecasting and grant activity have also led to a change in the budgetary position from that previously reported.

Table 6 Cabinet's Draft Revenue Budget Proposals – 2024/25

	2024/25 £'000
Revenue Budget Forecast as 23 February 2022	23,407
Base Budget Changes	
Operational Base Budget Changes	878
Local Plan	423
	24,708
Outcomes Based Resourcing Proposals	
Savings & Income Proposals	(1,233)
Growth Proposals	125
Impact of Review of the Capital Programme (MRP & Interest)	(105)
	23,495
Impact of Provisional Local Government Finance Settlement	(211)
Contribution to/(from) Reserves	982
General Fund Revenue Budget	24,266
Core Funding	
Revenue Support Grant	(433)
Prior Year Council Tax (Surplus)/Deficit	134
Net Business Rates Income (Note 1)	(13,039)
Council Tax Requirement	10,928
Estimated Council Tax Income	
(Increase Based on 2.99% for 2024/25 then maximum allowable	(10,928)
Resulting Base Budget (Surplus)/ Deficit	0

- 5.2 The proposals set out in the table 6 above produce a balanced revenue budget for 2024/25, which forms part of the recommendations of this report. Further details including the latest projections for future years to 2028/29 can be found at **Appendix A**. Subject to Cabinet agreement, this proposal will then go forward to the Budget and Performance Panel on 18 January 2024 and to Council on 24 January 2024.
- 5.3 As noted previously, the OBR groups have identified a number of budget savings. The details at **Appendix B** for 2024/25 relate to several areas where actions are being undertaken by the Council. Given the sensitivities around some of the proposals, they have been presented at summary Service level at this stage of the budget process. Further information will be provided in due course to enable effective internal and external discussion.
- 5.4 Failure to deliver these savings, efficiency and income proposals would represent a significant risk to the Council as any shortfall would result in further financial pressures in 2025/26 and beyond.
- 5.5 Table 7 below reconciles the position reported to Cabinet 5 December 2023 to the current balanced position.

Table 7 Reconciliation Cabinet 05 December 2023 to Current Position

	2024/25 £'000	
Resulting Base Budget (Surplus)/ Deficit as of 5th December 2023 (Cabinet)		1,608
Further Operational Changes	207	
Impact of Provisional Local Government Finance Settlement	(211)	
Local Plan	423	
Revenue Impact of Capital Programme Review (MRP & Interest)	(105)	
Updated Revenue Support Grant	(27)	
Prior Year Council Tax Deficit	134	
Updated Net Business Rates Income	(1,903)	(1,482)
Savings Proposals		(1,233)
Growth Proposals		125
Contribution to/(from) Reserves		982
Resulting Base Budget (Surplus)/ Deficit as at 16th January 2024 (Cabinet)		0

Budget Principles and Assumptions

- 5.6 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.
- 5.7 Table 8 below, lists the major assumptions that have been made for the 2024/25 budget.

Table 8 Major Assumptions within Draft Revenue Budget 2024/25

	2024/25
Council Tax Increase	2.99%
Council Tax Collection Rate	98.67%
Business Rates Multiplier: Small Business Rates	Frozen
Business Rates Multiplier: Standard	6.70%
Fees & Charges	Various
Inflation – Pay	5.95%
Employer Pensions Contribution	16.30%
Electricity	28p/kWh
Gas	5p/kWh
Inflation – Insurance	10.00%
Other inflation	2.80%
Interest Rate – investments	4.68%
Interest Rate – new borrowing	4.50%

6.0 CAPITAL PROGRAMME

- 6.1 To enable the Council to take a greater strategic view of its of capital investments it has extended its capital planning horizon to cover the 10-year period 2024/25 to 2033/34. This should enable the Council to more effectively plan and ensure that the Capital Programme is focused and deliverable.

- 6.2 The proposed Capital Programme has been developed following presentation of business cases for new schemes to Capital Assurance Group and subsequent discussion with Cabinet and Senior Leadership Team. Some further revisions to the proposed Programme particularly in respect of Information, Communications & Technology requirements are currently being finalised.
- 6.3 Details of the current proposed Capital Programme are provided at **Appendix C**. The final Capital Programme for 2024/25 to 2033/34 and supporting Capital Strategy to cover this period and beyond will be considered by Cabinet and Budget & Performance Panel at their February meetings ahead of the Budget Council on 28 February 2024.

7.0 MEDIUM TERM FINANCIAL STRATEGY

- 7.1 An update to the Council's Medium Term Financial Strategy (MTFS) was presented to Council on 13 December 2023. The MTFS presented to that meeting was a baselined position, in that it did not include any of the interventions now considered within this report.
- 7.2 Members will appreciate that there are a significant number of factors to be considered as part of the medium-term financial planning exercise. The revision of the MTFS is progressing well and will be considered at Budget Setting Council on 28 February 2024. The revision of the MTFS will be key in providing sound financial planning processes to underpin the Council's ambitions. Key considerations of the MTFS include taking account of the impact of decisions made to balance the 2024/25 budget alongside forecasts for future funding.
- 7.3 Table 9 below provides the most recent forecasts with providing more detail across the 5 year period.

Table 9 Net Revenue Budget & Budget Gaps 2024/25 – 2028/29

	2024/25	2025/26	2026/27	2027/28	2028/29
	£'000	£'000	£'000	£'000	£'000
Net Revenue Budget	24,266	26,197	27,425	28,089	29,580
Budget Gap (Incremental)	0	1,694	4,504	4,394	5,139
% of Net Revenue Budget (Incremental)	0%	6%	16%	16%	17%
Budget Gap (Cumulative)	0	1,694	6,198	10,592	15,731
% of Net Revenue Budget (Cumulative)	0%	6%	23%	38%	53%

- 7.4 The forecast budget gaps continue to be structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive. Overall, the current estimated shortfall is £5.139M which continues to represent a significant challenge over the short and medium term.
- 7.5 Officers are working with Cabinet to address this issue and will continue to do so following on from the conclusion of the current budget process. This will ensure that the problem is addressed in a timely manner so that it remains manageable. Proposed actions currently include
- Exploration of closer working and collaboration with other Councils, Public Sector Bodies and Partner Institutions
 - Application of alternative funding to deliver key Council outcomes
 - Detailed review and sensitivity analysis on all key and significant income streams
 - Further rationalisation work on the Council's asset base

- Expansion of the investment to reduce cost principle
- The potential use of capital receipts to finance existing projects
- Capitalisation of transformation costs where appropriate

7.6 It is expected that a formulated MTFs Action Plan covering the points raised above will be presented to Cabinet and Council in February 2024 with progress against its milestones monitored by Cabinet and Budget and Performance Panel.

7.6 Many of the financial pressures identified within the Councils General Fund are also present within the Housing Revenue Account (HRA). A full update on the HRA budget and financial outlook will be considered alongside the General Fund 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.

8.0 DETAILS OF CONSULTATION

8.1 Given the size of the challenges faced by the Council enhanced consultation with relevant internal and external stakeholders on the budget has been undertaken as part of the development of this budget with several briefings taking place. Further engagement will be undertaken prior to Budget Council in February. More specific consultation will continue as work continues to address the issues identified in the next few years.

9.0 OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)

9.1 It is essential that the Council Tax rate is set in line with the Council Tax billing timetable. Any delay would put the Council at risk of not being able to collect the tax which would have serious cash flow implications.

9.2 Regarding the budget strategy, Cabinet may approve the proposals as set out, or ask for changes to be made to the suggested approach. The overriding aim of any budget setting process is to approve a balanced budget by statutory deadlines, allocating resources to help ensure delivery of the Council's corporate priorities and service outcomes. The proposed approach is in line with that broad aim and any changes that Cabinet puts forward should also be framed in that context.

9.3 In terms of the actual budget position, this report puts forward a balanced budget. If Cabinet agrees the budget, then it will form their proposal to Budget and Performance Panel on 18 January 2024 and subject to public consultation 31st January. The feedback from these meetings will be considered by Cabinet and incorporated into a final budget proposal which will be presented at the Cabinet meeting on 06 February 2024 and recommended to Council on 28 February 2024.

10.0 CONCLUSION

10.1 The current budget proposal produces a balanced budget through utilisation of the Councils reserves. Cabinet and Officers must continue to work ahead of Cabinet's 06 February 2024 meeting to identify further opportunities for savings, efficiencies, and income generation to further reduce the use of reserves.

10.2 Whilst the longer-term financial forecasts contain numerous estimates and assumptions, which will change over time, the forecasts clearly highlight potential annual and cumulative budget deficits over the next 5 years and the position the Council faces. Although this position is not unique to this Council, and is reflected nationally across many public sector bodies, the gaps identified for 2025/26 and beyond are of a level that both Members and Officers need to recognise the size of the challenge ahead and manage the transitional change to the way that the Council delivers both its statutory and non-statutory services across the district will be required

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

The s151 Officer has authored this report and his comments are reflected within its contents however he would draw Members attention to the following commentary within the report.

Whilst the longer-term financial forecasts contain numerous estimates and assumptions, which will change over time, the forecasts clearly highlight potential annual and cumulative budget deficits over the next 5 years and the position the Council faces. Although this position is not unique to this Council, and is reflected nationally across many public sector bodies, the gaps identified for 2025/26 and beyond are of a level that both Members and Officers need to recognise the size of the challenge ahead and manage the transitional change to the way that the Council delivers both its statutory and non-statutory services across the district will be required.

LEGAL IMPLICATIONS

No legal implications directly arising from this report.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no comments

BACKGROUND PAPERS

Council

[Agenda for Council on Wednesday, 13th December 2023, 6.00 p.m. - Lancaster City Council](#)

Cabinet

[Agenda for Cabinet on Tuesday, 5th December 2023, 6.00 p.m. - Lancaster City Council](#)

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