

CABINET

Budget & Policy Framework 2025/26 – 2029/30 11 February 2025

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 2025/26			
Key Decision	X	Non-Key Decision	Referral from Cabinet Member
Date of notice of forthcoming key decision			16 th December 2024
This report is public however the Appendices B1 and B2 are exempt by virtue of paragraphs 2, 3 & 4 of Part 1 of Schedule 12A of the Local Government Act 1972			

RECOMMENDATION OF COUNCILLOR HAMILTON – COX

That Cabinet recommends the following for approval to Budget Council 26 February

- (1) That the General Fund Revenue Budget of £27.201M for 2025/26 be approved, resulting in a Council Tax Requirement of £11.550M, excluding parish precepts, and a Band D basic City Council tax rate of £264.30.
- (2) That the supporting General Fund Revenue Budget proposals be approved, as summarised at Appendices A, B, B1 and B2
- (3) That the budget transfer (virements and carry forwards) limits be approved as set out in Appendix D
- (4) That Council notes the Section 151 Officer's advice regarding robustness of budget estimates, the adequacy of reserves and balances, specifically the advice that the minimum level of balances be retained at £5.0M, to provide for added uncertainty.

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 22 January 2025 considered Cabinet's proposed revenue budget for 2025/26 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 information has become available which has a financial impact on the General Fund Revenue budget and subsequently an updated position is being presented. This included:
- Changes to prior year and forecasted business rates income
 - NIC compensation changes following the confirmation of the local government finance settlement
 - Minor operational changes
- 1.4 This report sets out:
- The Operational and Strategic context in which the budget has been set. **(Section 2)**
 - Cabinets final General Fund Revenue Budget proposals for 2025/26 including the outcomes of the Final Local Government Settlement **(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 To provide an executive summary in relation to the above, the following analysis is provided which compares the projections considered by Council on 28 February 2024 against the latest projections provided for within this report :-

Table 1 – Executive Summary

	2025/26 Forecast £'M	2025/26 Latest £'M	Difference £'M	Report Section
Finance Settlement (Final)	(1.239)	(1.440)	(0.201)	2
General Fund Revenue	26.007	27.201	1.194	3
General Fund Revenue Budget Gap	1.435	0.000	(1.435)	3
Council Tax Income	(11.367)	(11.550)	(0.183)	4
Prior Year Council Tax Surplus	0.000	(0.280)	(0.280)	4
Business Rates Income	(13.205)	(14.275)	(1.070)	4
Prior Year Business Rates Surplus	0.000	(0.636)	(0.636)	4

As the table suggests, there is considerable movement within a few areas and these are discussed further within the relevant section of the report.

2.0 LOCAL GOVERNMENT FUNDING UPDATE

- 2.1 The government released the provisional local government finance settlement on 18 December 2024, and the final was received on 3 February 2025. There were no differences between the provisional and final settlements with the exception of the notification of the 'Employer NIC Contributions Grant. In the previous update report this was included at an estimated value of £0.400M however the actual amount to be received is £0.258M which is to contribute towards both the general fund and HRA additional staffing cost burden. A calculation has subsequently been performed and the general fund element is now included at £0.206M (£0.052M HRA).
- 2.2 A summary of the final settlement for Lancaster City Council highlighting the major differences from what was included in the previously approved budget forecast is shown in table 1 below. Assumptions have been included to estimate Government funding from 2025/26 onwards however actual allocations for this period are currently unknown.

Table 2 – Final Settlement allocations for Lancaster City Council

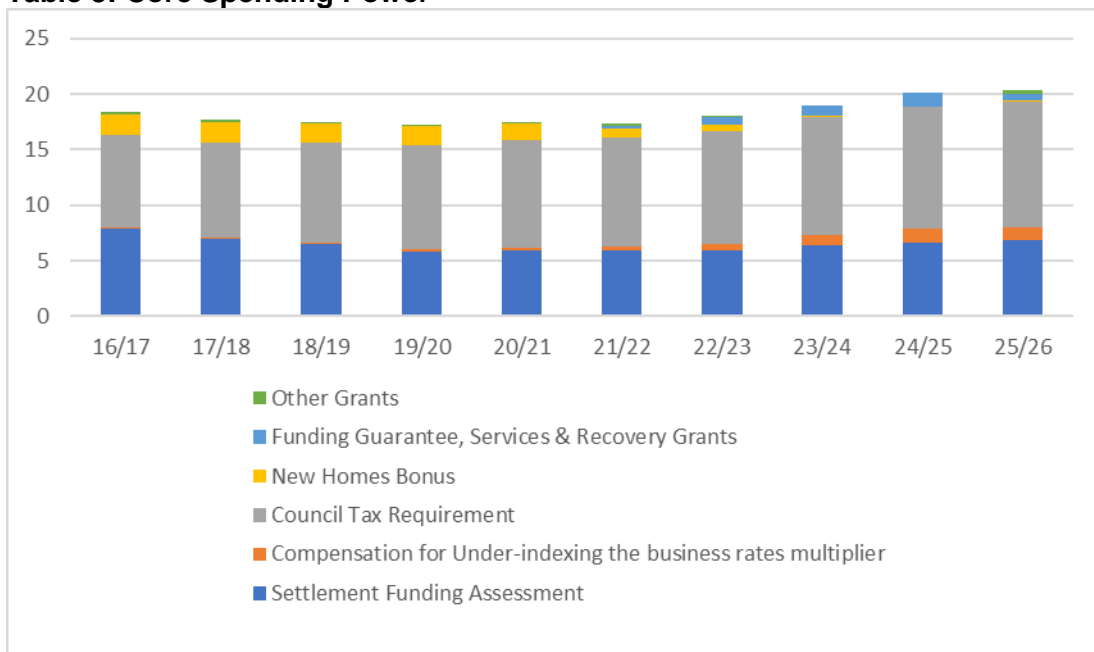
	Final Settlement £'M	LCC Forecast £'M	Difference £'M
Revenue Support Grant	0.460	0.000	0.460
New Homes Bonus	0.137	0.010	0.127
Funding Guarantee/Services Grant	0.000	1.229	(1.229)
Domestic/Recovery Grants	0.637	0.000	0.637
Employer NIC Contributions Grant	0.206	0.000	0.206
Total Government Funding	1.440	1.239	0.201

Core Spending Power

2.3 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 the 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 3 below compares the historic value of CSP, and shows the Council is now almost entirely reliant on Council Tax and Business Rates with a small amount of income from central government grants to fund net expenditure and it is, therefore, important to provide regular estimates of these key funding streams.

Table 3: Core Spending Power



Further analysis of the provisional settlement when considered against 2024/25 is provided in the following table :-

Table 4 – Core Spending Power (Breakdown)

	2024/25 £'M	2025/26 £'M
Compensation for under-indexing the business rates multiplier	1.162	1.209
Council tax requirement excluding parish precepts	11.005	11.315
Domestic Abuse Safe Accommodation Grant	-	0.034
Employer NIC Contributions Grant	-	0.206
Funding Guarantee	1.189	-
New Homes Bonus	0.010	0.137
Recovery Grant	-	0.603
Services Grant	0.040	-
Settlement Funding Assessment	6.682	6.804
Grand Total	20.088	20.308

- 2.4 On the basis of the final settlement, the Council's CSP for 2025/26 will increase from £20.09M to £20.31M, or 1.1%, when compared to CSP in 2024/25, 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 7.9% and in real terms is deemed to be a significant reduction on previously received amounts creating additional pressure to the net financial position of the general fund.

This is further compounded that the above analysis includes Employer NIC contributions which when excluded reduces the Council's CSP for 2025/26 to £20.10M, or 0.07%. against a previously reported average 6.0%, which again is deemed to be a significant reduction in real terms.

3.0 REVENUE BUDGET 2024/25

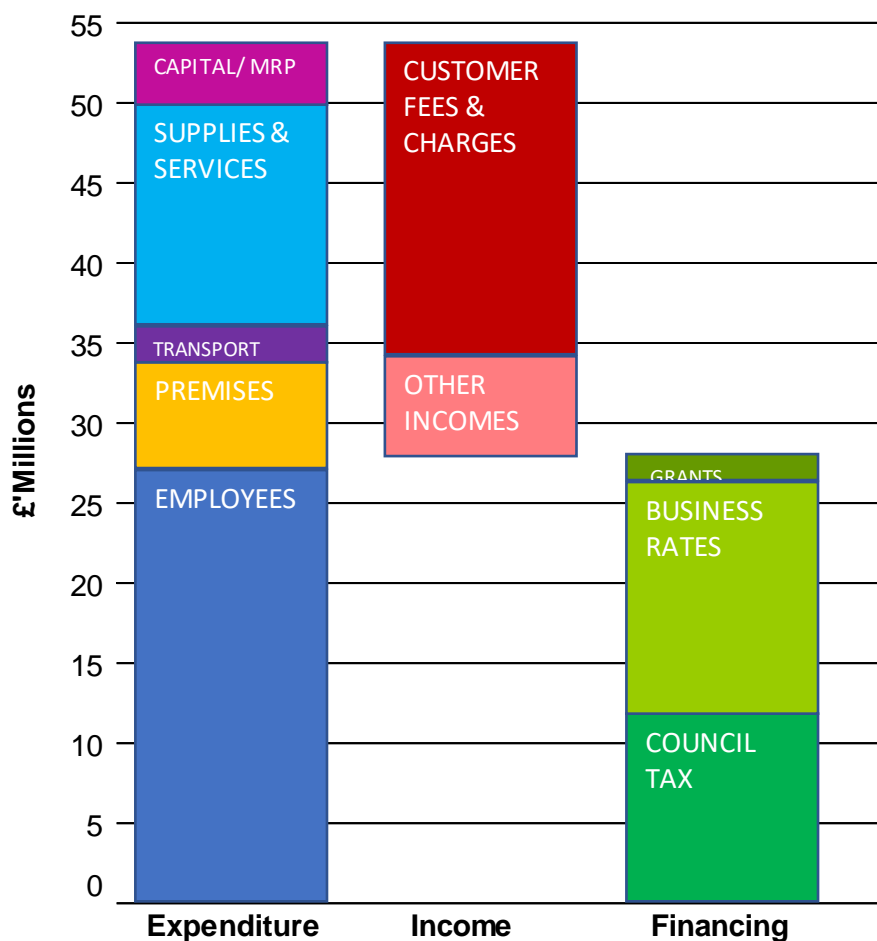
- 3.1 The General Fund Revenue Budget for 2025/26, summarised in Table 5, is included at **Appendix A**, with Service summary information given at **Appendix B** and more detailed budget savings proposals in exempt **Appendices B1 & B2**. The proposed budget is balanced, in line with statutory requirements, allowing for an additional contribution to the Council's reserves of £0.950M. As noted above the proposed budget takes account of the Final Local Government Finance settlement.

Table 5: General Fund Revenue Budget & Financing 2025/26

	2025/26
	£'M
Revenue Budget Forecast as at 28 February 2024	26.007
Base Budget Changes Reported to Cabinet 3 December 2024	0.243
Revenue Budget Forecast as at 3 December 2024	26.250
Base Budget Changes	
Operational Base Budget Changes	(0.042)
Commercial & Corporate Property Review	1.541
Food Waste Collection (pEPR)	(0.764)
	26.985
Outcomes Based Resourcing Proposals	
Savings & Income Proposals	(0.051)
Growth Proposals	0.026
Impact of Review of the Capital Programme (MRP & Interest)	0.058
Impact of Review of the Capital Programme (Ongoing Revenue)	(0.076)
	26.942
Impact of Local Government Finance Settlement	0.259
General Fund Revenue Budget	27.201
Core Funding	
Revenue Support Grant	(0.460)
Prior Year Council Tax (Surplus)/Deficit	(0.280)
Prior Year Business Rates (Surplus)/Deficit	(0.636)
Net Business Rates Income	(14.275)
Council Tax Requirement	11.550
Estimated Council Tax Income	
(Increase Based on 2.99% for 2025/26 then maximum allowable)	(11.550)
Resulting Base Budget (Surplus)/ Deficit	0.000

- 3.2 The proposals set out in the Table 5 above produce a balanced revenue budget for 2025/26, which forms part of the recommendations of this report. Further details including the latest projections for future years to 2029/30 can be found at **Appendix A**.
- 3.3 To provide further analysis of the proposed balanced revenue budget and it's financing the following Table 6 sets out the Council's revenue expenditure and subsequent income streams.

Table 6 – Revenue Budget for 2025/26



The above data confirms that, and shows the Council is now almost entirely reliant on Customer Fees & Charges, Other Incomes, Council Tax and Business Rates to meet the total expenditure proposed as part of this budget.

- 3.4 At its meeting on 28 February 2024 Council set its budget for 2024/25 and the base budget estimates for 2025/26 and future years. At the start of the budget setting process these “base” estimates are reviewed considering 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.
- 3.5 Initial Operational and Base Budget changes for 2025/26 were reported to Cabinet 3 December and Council 11 December 2024. Since that reporting period further net changes have been required and a summary of these changes is given in the table 7 below:

Table 7 – Adjustments Since December 2024 Reporting to Cabinet & Council

	2025/26 £'M	Section
Resulting Base Budget (Surplus)/ Deficit as of 3 December 2024 (Cabinet)	1.678	
Minor Operational Changes	0.022	3.6
Building Control Contract	0.118	3.7
Fees & Charges Inflation	(0.182)	3.8
Commercial & Corporate Property Review	1.541	3.9
Waste Collection (pEPR payment)	(0.989)	3.10
Food Waste Collection	0.225	3.11
Impact of Provisional Local Government Settlement	0.259	2
Revenue Impact of Capital Programme Review (MRP & Interest)	0.058	3.12
Revenue Impact of Capital Programme Review (Ongoing Revenue)	(0.076)	3.13
Savings Proposals	(0.051)	App B1 & B2
Growth Proposals	0.026	App B1 & B2
Revenue Support Grant	(0.460)	2
Prior Year Council Tax (Surplus)/Deficit	(0.280)	4.2
Updated Council Tax Income Projection	(0.183)	4.3
Prior Year Business Rates (Surplus)/Deficit	(0.636)	5
Updated Net Business Rates Income	(1.070)	4.11
Resulting Base Budget (Surplus)/ Deficit as at 11 February 2025 (Cabinet)	0.000	

Operational Changes (£0.022M)

- 3.6 Minor operational changes have been identified since the initial draft budget was prepared and these changes have been built into the latest projections.

Building Control Contract £0.118M

- 3.7 The Council have recently gone out to tender to secure a provider to undertake its building control service, only one company provided a tender response. The previously reported draft budget included £0.372M per annum and the amount awarded is £0.490M. The costs of services have increased in line with the new regulatory requirements which have come out of the new Building Safety Act 2022 and Building Safety Regime. To part offset the additional costs, a proposal to increase fees is being considered (see Appendix B1 & B2) which will reduce the net cost of the service by an estimated £0.045M per annum.

Fees & Charges Inflation (£0.182M)

- 3.8 The figures reported to Cabinet on 11 December 2024 included a freeze on inflation for all fees and charges. Following review with Officers, where it is feasible that an inflationary increase can be achieved, inflation has been included at 2.6%.

Commercial & Corporate Property Review £1.541M

- 3.9 The Council manages an estate of 63 commercial and 49 corporate assets. An up-to-date condition survey was completed during 2024 identifying significant revenue and capital investment needed. The property team in discussion with the OBR Assets group and Cabinet have profiled an agreed programme of works over the next ten years and these amounts have been factored into both revenue and capital programmes. Further surveys and projects could result in some changes at agreed periods, and these will be reported as appropriate.

Waste Collection (pEPR payment (£0.989M)

- 3.10 With effect from 1 April 2025, the Council will receive a payment called Extended Producer Responsibility for packaging (pEPR), as a consequence of new government regulations being introduced. As a Waste Collection Authority (WCA), the payment covers estimated net efficient costs associated with collection of household packaging waste from kerbside and communal collections, and waste brought to bring sites only.

Food Waste Collection £0.225M

- 3.11 The collection of food waste from households is mandatory from 1 April 2026. The government have provided new burden funding in respect of capital set-up costs and these have been included within the capital programme. However, to meet this deadline it is anticipated that additional staffing and revenue costs will be required within 2025/26 in order to provide the service from that date.

Impact of Review of the Capital Programme (MRP & Interest) £0.058M

- 3.12 Further revisions to the draft capital programme have resulted in additional costs relating to budgetary provision for minimum revenue provision (MRP) and associated borrowing costs.

Impact of Review of the Capital Programme (Ongoing Revenue) (£0.076M)

- 3.13 Additions to the draft capital programme have resulted in savings to ongoing revenue as a consequence of alternate service delivery.

Budget Principles and Assumptions

- 3.14 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.
- 3.15 Table 8 below, lists the major assumptions that have been made for the 2025/26 budget.

Table 8: Major Assumptions within General Fund Revenue Budget 2025/26

	(2024/25)	2025/26
Council Tax Increase	2.99%	2.99%
Council Tax Collection Rate	98.67%	98.67%
Business Rates Multiplier: Small Business Rates	Frozen	Frozen
Business Rates Multiplier: Standard	6.70%	1.60%
Fees & Charges	Various	2.60%
Inflation – Pay	5.95%	2.50%
Employer Pensions Contribution	16.30%	16.30%
Electricity	28p/kWh	25p/kWh
Gas	5p/kWh	5p/kWh
Inflation – Insurance	10.00%	10.00%
Other inflation	2.80%	2.60%
Interest Rate – investments	4.68%	3.50%
Interest Rate – new borrowing	4.50%	3.90%

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 The Council is expected to benefit from prior year surpluses to the collection fund account in respect of council tax. This amount is currently valued at £0.280M and is included within the council tax requirement calculation in 2025/26.

- 4.3 The Council Tax increase of 2.99% agreed by Council on 22 January 2025 means that the City element of Council Tax for a band D property will be £264.30 resulting in expected income of £11.550M for 2025/26. This is an increase of £0.183M on the position reported in February 2024.

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 2025/26 and the estimated deficit or surplus as at the end of 2024/25.
- 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. Members will recall that the Business Rates Retention Reserve (BRRR) 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 part of the 2024/25 budget setting process, a contribution of £0.130M to the BRRR and a contribution of £0.820M to the unallocated reserve were included within 2025/26 and these contributions remain in place. All detailed contributions are included within the general fund net financial position.

The Council is expected to benefit from prior year surpluses to the collection fund account in respect of business rates. This amount is currently valued at £0.636M and is included within the council tax requirement calculation in 2025/26.

- 4.6 Members will be aware of decommissioning plans for the Heysham 1 and Heysham 2 nuclear reactors which will 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. This is currently expected to arise in 2027/28 in line with the current decommissioning date for Heysham 1 of March 2027. EDF Energy have indicated that there may be some scope to extend generation and are keeping this under review being unable to provide any certainty at this stage.
- 4.7 The local government finance settlement set out the tariff, baseline and safety 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 completed to reflect these and the impact of ongoing business rates monitoring.
- 4.8 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.
- 4.9 The Council receives rating income from renewable energy schemes within the district, largely in relation to Walney Sub-Station. The value of this income is included as £4.004M in 2025/26 (£3.970M for 2024/25). A majority of the income currently falls outside of the main rate retention scheme, and so the Council retains the full benefit from it. Whilst it is evident that this 100% disregard will continue into 2025/26, there is a risk that the Government will discontinue this advantageous arrangement at some point in the future.

- 4.10 Council's make provision against future levels of appeals made by businesses against their Rateable Value. The timing and value of appeals is a matter of judgement informed by available data. Following the 2023 revaluation was a significant amount of uncertainty surrounding potential checks, challenges, and appeals but this is becoming more settled as we approach the next revaluation due in 2026. In addition, there is a disproportionate risk arising around the potential of any appeal or potential for outage at the Heysham Power Station. The uncertainties are managed by keeping the provision under review and retaining a buffer against risk in the business rates retention reserve. The appeals provision as at the end of 2025/26 is estimated at £9.137M with the City Council share being £3.655M.
- 4.11 The table below shows the income from the Business Rates Retention Scheme that will be recognised in the General Fund during 2025/26

Table 9: Income from the Business Rates Retention Scheme

	2025/26 £'M
Retained Business Rates	10.271
Renewable Energy Disregard Income	4.004
City Share of Prior Year Surplus	0.636
Total Retained Business Rates	14.911

The budget approved February 2024 included £13.205M in respect of 2025/26. The prior year surplus is a one-off income so when discounted from the above table an increased income level of £1.070M is predicted.

- 4.12 It should be noted that the Government have recently announced changes to come into effect from 1 April 2026 with regard to increasing the number of multipliers and introduction of new thresholds. As full details aren't yet available, the above information has been prepared on the existing rateable values and currently known multipliers. Further work will be undertaken when the systems offer the capability to output updated projections and will be included within the 2026/27 budget process.

The Government have also proposed to reset the baseline but haven't announced a timeline for this. The above analysis doesn't factor in any potential impact this may have on future projections and further information will be reported as appropriate when it becomes available.

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.
- 5.2 The minimum level should be set to enable the Council to meet the current and forecast financial pressures it faces in regard to the structural deficit as referenced for several years. It is against this back drop the 2025/26 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 or emergency situations.

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 still faces significant inescapable financial pressures. Continuing uncertainties in respect of Local Government Funding levels, pay and general inflation and other factors creating the cost of living as well as the results of the Council's Fit for the Future 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 31/04/24 was £10.327M, Quarter 3 revenue budget monitoring forecasts an underspend of £0.332M in 2024/25. Once confirmed as part of the closedown process, the final net position will be transferred to the unallocated reserves
- 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
- Although the Council is continuing to identify future efficiencies and savings via the Outcomes Based Resourcing programme, the Council's current Medium Term Financial Strategy (MTFS) suggests a structural budget gap in 2026/27 onwards of approximately £2.633M raising to £5.480M. If this is not closed, then balances will be required to make up the difference

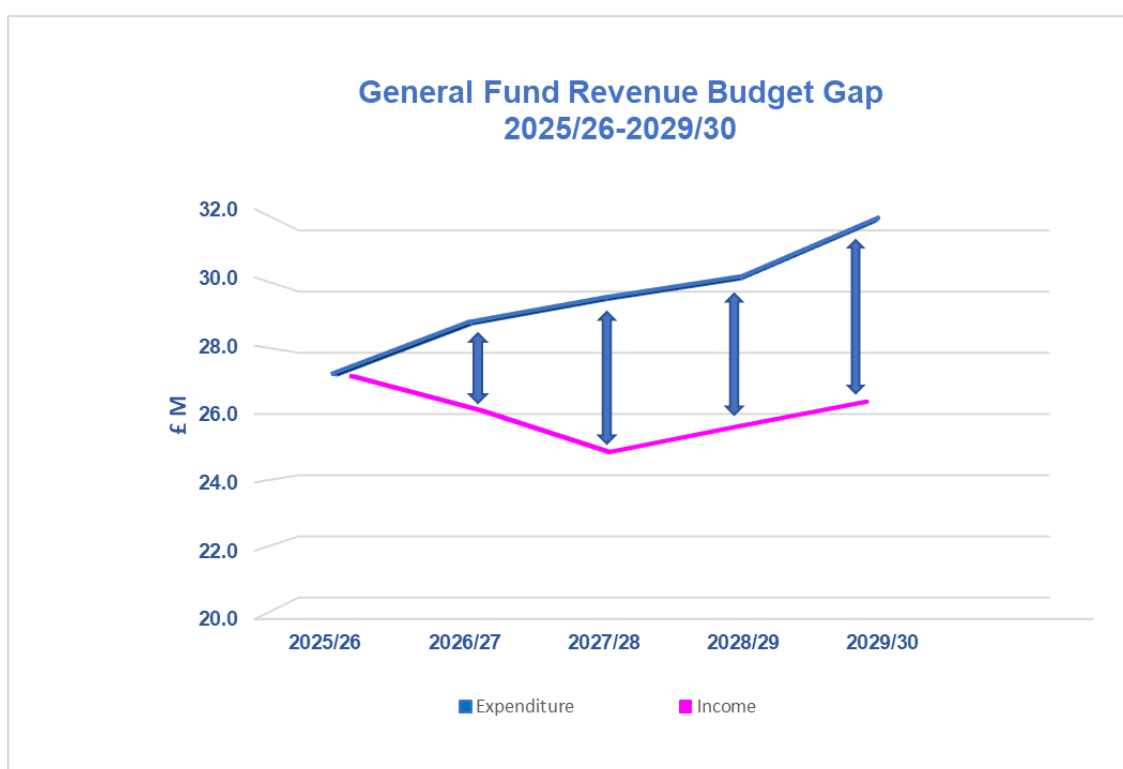


Table 10: Cumulative Deficit as Percentage of Revenue Budget

	2025/26 £'M	2026/27 £'M	2027/28 £'M	2028/29 £'M	2029/30 £'M
Net Revenue Budget	27.201	28.749	29.489	30.118	31.873
Budget Gap (Incremental)	0.000	2.633	4.699	4.513	5.480
% of Net Revenue Budget (Incremental)	0%	9%	16%	15%	17%
Budget Gap (Cumulative)	0.000	2.633	7.332	11.845	17.325
% of Net Revenue Budget (Cumulative)	0%	9%	25%	39%	54%

- 5.7 The forecast gaps are structural in nature, meaning that the Council's forecast spending exceeds the income it expects to receive, and this is compounded year on year. This position represents a significant challenge over the short and medium term. It is imperative that the Council's OBR process continues and this will be fundamental in driving down budget gaps from 2026/27 and beyond and in realising financial sustainability.
- 5.8 It should be noted that this forecast is based on a series of estimates and assumptions and so is subject to change when more up to date information becomes available. However, it provides Members with a clear view of the extent of the challenge facing the Council over the coming years.
- 5.9 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 11 below.

Table 11: Risk Assessment

Risk	Symptom of Risk	Balance Required £'M
Increased demand for services	3% increase in net revenue expenditure	0.800
Recession results in additional uncompensated reduction in fees and charges income than budget	5% reduction in major fees and charges income	1.000
Recession results in additional reduction in Council Tax collection rates than budget	5% reduction in collection rate	0.550
Budget savings not achieved	50% under achievement	0.025
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		4.875

- 5.10 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.
- 5.11 The minimum level of balances will be kept under review as part of the MTFs and reported to Cabinet on a regular basis.
- 5.12 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.
- 5.13 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

- 5.14 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 table 12 below.

Table 12: Estimated Combined Level of Reserves (Available Reserves Only)

	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30
	£'M	£'M	£'M	£'M	£'M	£'M
Unallocated Reserve	(7.867)	(8.693)	(8.595)	(8.595)	(8.595)	(8.595)
Other Non-Ring Fenced Reserves	(1.242)	(1.137)	(1.173)	(1.210)	(1.246)	(1.283)
Business Rates Retention Reserve	(12.064)	(12.344)	(11.744)	(11.244)	(11.244)	(11.244)
Renewals Reserve	(1.880)	(2.372)	(2.864)	(3.355)	(3.847)	(4.339)
Forecast Cumulative Deficit Funded From Reserves	(0.322)	+0.000	+2.633	+7.332	+11.845	+17.325
Projected Balance as at 31 March 2025-30	(23.375)	(24.546)	(21.743)	(17.072)	(13.087)	(8.136)
Less Recommended Minimum Level of Balances	+5.000	+5.000	+5.000	+5.000	+5.000	+5.000
Available Balances	(18.375)	(19.546)	(16.743)	(12.072)	(8.087)	(3.136)

- 5.15 This table clearly highlights the significant pressure the Councils reserves are under should funding of the forecast level of overspends in future years not be addressed.

Governance Arrangements on the Use of Reserves

- 5.16 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 D**.
- Reserve bids should be agreed by Portfolio Holder in consultation with relevant Chief Officer.
- 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.

- 5.17 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 for scrutiny to Budget and Performance Panel at its meetings of 15 and 29 January 2025, to Council 22 January 2025 and subject to public consultation 29 January 2025.

- 6.2 At the Budget and Performance Panel meetings of 15 and 29 January, a number of questions were raised by Members of the Panel which included the following (as noted in the draft minutes):-

- The structural deficit not being addressed
- The life extension of Heysham Power Station and subsequent financial impact on business rates
- A request for the Cabinet Member to provide a report back on the Council's commercial property income

6.3 The feedback from these meetings has been considered by Cabinet and incorporated into a final budget proposal which is presented within this report and subsequently be recommended to Council on 26 February 2025.

7.0 OPTIONS & OPTIONS ANALYSIS

Revenue Budget

7.1 Council may adjust its revenue budget proposals, so long as the overall budget for 2025/26 balances and fits with the proposed Council Tax level.

Other Budget Framework Matters (Reserves and Provisions)

7.2 Given known commitments, risks, and Council Tax restrictions there is little flexibility in financial terms, but Council could consider different budget strategies to be appraised for future years, or alternative arrangements for approving the use of various reserves, or different virement and/or carry forward limits. Overall, however, previous arrangements have worked reasonably well, and so no other fundamental changes are proposed.

Section 151 Officer's Comments and Advice

7.3 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 2025/26 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 2025/26, 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 28 February 2024 and 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 2029/30. 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.

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 2026/27 onwards of approximately £2.633M raising to £5.480M. 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/Fit for the Future 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 2024-25
- Appendix B Service Summary
- Appendix B1 Exempt
- Appendix B2 Exempt
- Appendix C Reserves Summary
- Appendix D Budget Transfers Virements Carry Forwards

Cabinet Papers

Budget & Performance Papers

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