



CABINET: 14 January 2020

EXECUTIVE OVERVIEW AND
SCRUTINY: 30 January 2020

Report of: Head of Finance, Procurement and Commercial Property

Relevant Portfolio Holder: Councillor Adam Yates

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SUBJECT: DRAFT REVENUE BUDGET 2020-21

Wards affected: Borough Wide

1.0 PURPOSE OF THE REPORT

- 1.1 To provide a summary of the General Revenue Account budget position for the next financial year.

2.0 RECOMMENDATIONS TO CABINET

- 2.1 That the financial position for 2020-21 and later years be noted, and consideration given to how a balanced budget can be achieved.
- 2.2 That the Portfolio Holder for Resources and Transformation be given delegated authority to submit firm proposals to Council on 26 February 2020 to enable the budget to be set.
- 2.3 That call in is not appropriate for this item as it is to be submitted to the next meeting of the Executive Overview and Scrutiny Committee on 30 January 2020.

3.0 RECOMMENDATIONS TO EXECUTIVE OVERVIEW AND SCRUTINY COMMITTEE

- 3.1 That the budget position be considered and that any comments agreed by the Committee be submitted to the Portfolio Holder for Resources and

Transformation in advance of the Council meeting to be held on 26 February 2020.

4.0 BACKGROUND

- 4.1 The Council must set a budget before the start of each financial year, and this budget will set out the financial basis for the Council's corporate and service plans. The budget that is set must enable the Council's priorities to be delivered but must also be affordable. In addition it should comply with best practice requirements on budget setting, and must meet statutory and accounting regulations. The Council meeting on the 26 February will provide all Members with the opportunity to debate and agree this budget.
- 4.2 The current Medium Term Financial Forecast (MTFF) is projecting a GRA budget gap of £1.9m by 2021-22. This budget gap figure reflects the difference between the spending that is required to maintain services at their agreed level and the resources that are expected to be available. The Sustainable Organisation Review Project (SORP) process involves addressing this position through a prudent reserve funding approach that would enable the full budget gap to be closed over a 3 year period at an even pace starting half way through 2019-20 (when the SORP will start to be implemented). The table below reflects this position.

	2019-20 £000	2020-21 £000	2021-22 £000	2022-23 £000
Projected budget gap	1,530	1,770	1,910	1,910
Minimum SORP savings / income	320	960	1,600	1,910
Use of reserves	1,210	810	310	0
Total use of reserves				2,330

- 4.3 On this basis funding from reserves of £2.33m would be required to provide sufficient time for the SORP process to bridge the budget gap, and this funding has been put in place through the GRA Reserves policy. The main risks to this approach are that:
- The value of the projected budget gap may change
 - The value and / or timing of the SORP savings / income may differ from that shown above
- 4.4 The scale of the projected budget gap was estimated based on the information that was available at that time and after making assumptions about the level of government funding that would be provided. A revised assessment of the budget gap has now been calculated based on the Local Government Finance Settlement that has recently been published, and details on this position are set out in the next section.

5.0 LOCAL GOVERNMENT FINANCE SETTLEMENT

- 5.1 Most of the details announced in the settlement were in line with what was expected and had already been included in the MTFF. The main factors included:
- The Council will continue to receive a zero level of Revenue Support Grant
 - The Lancashire 75% business rate retention pilot that was in place for 2019-20 will come to an end and instead the arrangements will revert back to the previous 50% business rate pool in 2020-21
 - There will be a £92,000 reduction in our New Homes Bonus grant next year, which is in line with the MTFF projections. This is primarily as a result of government changes to the formula that is used to calculate the grant
- 5.2 There were however a number of new developments announced in the settlement that will affect the size of the budget gap as follows:
- The MTFF had assumed a 2.99% increase in the council tax level in line with government rules in previous years (this would be equivalent to a £6.08 rise in the Band D tax level). However the settlement announced that a referendum would need to be held on any increases above 2% or £5 at the Band D level (which would be equivalent to a 2.46% rise for the Council). This factor will increase the size of the budget gap by £38,000
 - On a one off basis the government distributed £180m nationally from the business rates levy account surplus to local authorities in 2019-20. This provided the Council with an additional £50,000 this year but this will not be continued into 2020-21
- 5.3 Putting this altogether means an increase in the size of the budget gap of £88,000, which is a relatively small variation given the size of the Council's overall budget.

6.0 BUDGET POSITION FOR 2020-21

- 6.1 Draft estimates are being prepared for next year that set out a provisional budget for the Council covering all areas of expenditure and income, and which reflect the new management structure that was introduced in November. These estimates are based on rolling forward existing budgets to enable agreed service levels to be maintained. These estimates also include a number of increases to cover standard budget factors including the impact of the national pay award, contractual increments, and contract inflation in line with contractual agreements. In addition the estimates will incorporate the savings and income targets agreed through the SORP review for 2020-21. The draft estimates will be circulated to Members by email in the next couple of weeks when completed.
- 6.2 The draft estimates will be reviewed to ensure that they are robust for the purposes of the budget calculation in accordance with the requirements of the Local Government Act 2003, and the results of this review will be reported to the February Council meeting.
- 6.3 Every 3 years there is an actuarial review of the pension fund position, and the draft results from the latest review have recently been received. The results of this review will be implemented in 2020-21 and will then be fixed in place for the 3 year period until 2022-23.

- 6.4 At the last actuarial revaluation 3 years ago there was a significant deficit on the pension fund, where the estimated future liabilities of paying pensions to pensioners significantly outweighed the assets of the fund. The ratio of assets to liabilities was 87%, and this funding level meant we had to pay extra money into the fund to make up the difference. In the latest revaluation the funding level has increased to 99%. While the value of liabilities has gone up since the last revaluation, the value of assets has increased by far more, reflecting good financial performance on Lancashire Pension fund investments and movements in stock market prices. Essentially this means our pension fund is now almost fully funded, which reflects the best position we have had for a very long time. This means that the deficit contributions we have to pay into the fund will drop significantly over the next 3 years.
- 6.5 The Council also has to pay an employer's contribution into the pension fund to reflect the pension benefits staff are currently earning (as opposed to making up for past deficits). This rate is currently 16.3% of pay but will increase to 19.0% following the latest review. The main reason for this increase relates to changes in demographic and other assumptions made by the actuaries (for example to reflect the fact that people are tending to live longer).
- 6.6 Taken together the bottom line position on pensions is showing a significant overall improvement and this should mean a £186,000 reduction for the GRA on pension costs next year. The draft results will be reviewed in detail before the estimates are firmed up and as part of this process the scope to achieve further savings through the prepayment of pension contributions will also be considered.
- 6.7 Through the budget process, Heads of Service have identified a range of new budget issues or pressures for next year that mainly relate to unavoidable cost increases or income reductions. Members will need to carefully consider these proposals and determine which items to include in the final budget to meet corporate and service objectives. In line with the approach adopted in the Medium Term Financial Forecast a provision of £125,000 has been allowed for this factor in 2020-21, but its final value will depend on Member decisions.
- 6.8 In looking at finalising the budget for next year consideration will need to be given to a number of different factors including:
- The challenging financial position facing local authorities over the medium term where any budget increases will need to be met by savings or income elsewhere in the budget
 - The acceptance of budget issues and pressures identified by Heads of Service
 - Changes to fees and charges and the level of the Council Tax
 - The Council's Reserves policy and the use of reserves
- 6.9 The Group leaders and their financial spokespersons are currently examining in detail various budget options, and the Council meeting in February will provide an

opportunity for each Political Group to put forward proposals that combine both expenditure and the means of funding it and to set the Council Tax.

7.0 MEDIUM TERM FINANCIAL POSITION

- 7.1 The Council currently has a healthy financial position where the budget targets for the current year should be met and there is an adequate level of reserves. The successful implementation of the SORP will be crucial in ensuring the ongoing financial health of the authority.
- 7.2. After the budget has been set it is intended that a revised Medium Term Financial Forecast will be produced for Council in July 2020 taking into account all of the latest information. This will identify whether any further savings and income measures will be required going forward over and above those already agreed through the SORP process. A key factor here will be the results of the Government's long awaited Fair Funding Review of local authorities that will set out the future long term funding arrangements for Councils including business rates retention (although the timing of this Review is still not yet known).

8.0 SUSTAINABILITY IMPLICATIONS

- 8.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder.

9.0 RISK ASSESSMENT

- 9.1 The formal consideration and reporting of the budget estimates is part of the budgetary management and control framework that is designed to minimise the financial risks facing the Council. This process is resource intensive for both Members and Officers but ensures that a robust and achievable budget is set.
- 9.2 There are number of financial factors that will influence next year's budget that are unavailable at the time of producing this report including the deficit or surplus on this year's Council Tax collection, and business rate income projections. Estimates for these areas will be produced in January in line with statutory requirements, and will be included in the final budget setting report to Council in February.
- 9.3 There is a risk register in place for the SORP implementation to ensure that this process is effectively managed and controlled.

Background Documents

There are no background documents (as defined in Section 100D(5) of the Local Government Act 1972) to this Report.

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required. A formal Equality Impact Assessment will be produced when the Council agrees the budget at its meeting in February.

Appendices

Minute of Cabinet (Executive Overview and Scrutiny Committee only) – to follow