

**South Lakeland District Council**  
**Council**  
**Wednesday, 18 December 2018**  
**2019/20 to 2023/24 Draft Budget**

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**Portfolio:** Finance Portfolio Holder

**Report from:** Assistant Director Resources (CFO/Section 151 Officer)

**Report Author:** Helen Smith, Financial Services Manager  
Lee Hurst, Chief Accountant

**Forward Plan:** Budget and Policy Framework Decision included in the Forward Plan as published on 2 October 2018

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**1.0 Expected Outcome**

- 1.1 This report presents the **2019/20 Five Year Draft Budget**. The expected outcome is that Council will be in a position to deliver the priorities set out in the Council Plan within its resources. This will enable the statutory requirement to agree a balanced budget and to set the appropriate Council Tax level for 2019/20. The final proposed revenue budget and capital programme, including any further amendments, will be put forward for approval by Council on 26 February 2019.
- 1.2 This report also requests approval of proposed pay scales from 1 April 2019 resulting from the national local government pay settlement for 2018/20 and consideration by Human Resources Committee on 11 December 2018.

**2.0 Recommendation**

**2.1 It is recommended that Council:-**

- (1) **Notes that the development of the Budget is an iterative process between now and Council on the 26 February 2019. The assumptions, proposals and calculations included within it will be subject to change as more information from internal and external sources is provided and decisions around the final proposals can be made;**
- (2) **Considers the proposals contained in the report to achieve a balanced budget in 2019/20;**
- (3) **Notes the projected deficit position of circa £590k in 2020/21 rising to circa £2.6m by 2023/24 (this is after the Customer Connect savings have been included) as set out in Appendix 2;**
- (4) **Notes that proposals (1) and (2) form the basis of statutory consultation with stakeholders;**
- (5) **Approves the amended 2018/19 Capital Programme as presented in Appendix 6, noting that the future years programme is still under development; and**
- (6) **Approves the proposed pay scales from 1 April 2019 onwards as set out in Appendix 9.**

### 3.0 Background and Proposals

- 3.1. The Council, at its meeting on 24 July 2018 agreed to the proposed Budget Strategy for the current year's budget process as part of the Medium Term Financial Plan (MTFP). The Budget Strategy set out some broad principles which are being used in the preparation of the 2019/20 – 2023/24 Budget.
- 3.2. This report presents a **draft position**. Work will continue to incorporate further changes into subsequent budget reports, such as the finalised central government grant position which is not yet known. The position set out in this report forms the basis of the consultation, subject to approval. The Overview and Scrutiny Committee will consider the report at its meeting on the 11 January 2019. The final Draft Budget Report will incorporate the consideration of the internal and external consultation and be presented to the 23 January 2019 Cabinet meeting. The Council will at its meeting on the 26 February 2019 be requested to approve the final **Budget**. The budget timetable is presented for information at **Appendix 1**.

## DRAFT GENERAL FUND REVENUE BUDGET

### SUMMARY POSITION

- 3.3. The Medium Term Financial Plan provides a summary five year annual position which includes a projection of the overall surplus or deficit on the General Fund Revenue Budget. The assumptions and financial implications are kept constantly under review as circumstances change. A summary of the known changes at this stage are provided in the table below, the more detailed analysis of expenditure and income is set out in **Appendix 2**.
- 3.4. **Table 1** sets out the summarised estimated annual General Fund Budget requirement across the review period, including the projected deficits. It also shows the savings identified and where the budgets have been reduced.

**Table 1 Summary Medium Term Financial Plan**

|  | 2019/20<br>£000 | 2020/21<br>£000 | 2021/22<br>£000 | 2022/23<br>£000 | 2023/24*<br>£000 |
|--|-----------------|-----------------|-----------------|-----------------|------------------|
| Service Expenditure  | 27,863.1        | 28,013.8        | 28,356.6        | 28,798.7        | 29,276.4         |
| Uncommitted Pressure/Growth  | 500.0           | 500.0           | 500.0           | 500.0           | 500.0            |
| Customer Connect   | 2,031.0         | 0.0             | 0.0             | 0.0             | 0.0              |
| Service income   | -13,433.7       | -13,695.1       | -13,800.5       | -14,081.4       | -14,260.3        |
| Net service expenditure  | 16,960.4        | 14,818.7        | 15,056.1        | 15,217.3        | 15,516.1         |
| Corporate items  | -15,666.3       | -12,879.6       | -12,574.6       | -12,127.5       | -11,930.1        |
| Further Savings from Customer Connect  | -740.0          | -1,550.0        | -1,550.0        | -1,550.0        | -1,550.0         |
| <b>Net draft budget (projected deficit) July 2018</b>                          | <b>554.1</b>    | <b>389.1</b>    | <b>931.5</b>    | <b>1,539.8</b>  | <b>2,036.0</b>   |
| Council Tax second homes agreement income removal                              | 693.6           | 693.6           | 693.6           | 665.0           | 665.0            |
| <b>Net draft budget (projected deficit) October 2018</b>                       | <b>1,247.7</b>  | <b>1,082.7</b>  | <b>1,625.1</b>  | <b>2,204.8</b>  | <b>2,701.0</b>   |
| Budget Pressures (App 3)   | 330.5           | 365.1           | 376.2           | 448.9           | 473.4            |
| Growth Proposals (App 4)   | 50.0            | 50.0            | 50.0            | 0.0             | 0.0              |
| General Savings (App 5)  | -323.3          | -329.3          | -334.3          | -334.3          | -334.3           |
| Removal of uncommitted Pressure/Growth   | -500.0          | -500.0          | -500.0          | -500.0          | -500.0           |
| Funding of Growth Proposals through Cumbria Business Rates Pool Income Reserve | -50.0           | -50.0           | -50.0           | 0.0             | 0.0              |
| Recalculation of MRP as a result of updated capital programme                  | -21.5           | -28.9           | -28.8           | 107.1           | 219.2            |
| Reversal of negative RSG by Government   | -613.0          |                 |                 |                 |                  |
| One-off use of General Reserves  | -120.4          |                 |                 |                 |                  |
| <b>Net draft budget (projected deficit) November 2018</b>                      | <b>0.0</b>      | <b>589.6</b>    | <b>1,138.2</b>  | <b>1,926.5</b>  | <b>2,559.3</b>   |

\*New year of model

- 3.5. The projected annual revenue deficit totals circa £590k in 2020/21 rising to circa £2.6m by 2023/24. This position is after the inclusion of Customer Connect savings of £740k in 2019/20 and £1.550m from 2020/21 onwards. This is the first iteration of the budget and these annual projections are based on information available at the time of preparation along with the broad set of assumptions detailed in 3.12 below. The assumptions, proposals and calculations included above and on the attached appendices will be subject to change as more information from internal and external sources is provided, calculations and options are refined and as decisions around the final proposals are made.
- 3.6. Work is underway to resolve the projected deficits. Future year estimates will be kept under review as part of the MTFP process to ensure that savings plans are sufficient to set balanced budgets.
- 3.7. The July Medium Term Financial Plan included £500k of unallocated growth which has now been removed. The Council has a statutory duty to set a balanced budget. Any additional budget pressures or discretionary, fixed term growth items will need to be funded by savings in existing budgets.

### **NATIONAL PAY AGREEMENT 2018/20: NEW PAY GRADES**

- 3.8 The authority is part of the National Joint Council for Local Government Services (NJC) which nationally negotiates pay and grading. In April 2018, national employers agreed a pay settlement for 2018/19 and 2019/20 for the majority of staff, excluding the Chief Executive and Directors. The settlement for 2018/19 was straightforward with a pay award of 2% for most spinal column points (SCP) and higher percentage increases for staff on lower pay grades. The pay settlement for 2019/20 is complex due to a new national pay spine. As well as the increase in the bottom rate for the new spine increasing to £9.00 per hour, the changes included condensing the current lowest 12 SCPs to 6 new pay points and the insertion of 5 new pay points. Councils are expected to implement the new pay spine to ensure every employee has an increase in pay of at least 2% from 1 April 2019.
- 3.9 Human Resources Committee on 11 December 2018 considered proposals to amend the Council's pay grades to reflect the new national SCP. These proposed grades are shown at **Appendix 9** and the full report is included as a background document to this report. Part 3 of the Council's Constitution limits the delegation to Human Resources Committee to changes where the total costs does not exceed £250,000. As the costs of the proposal exceed £250,000 the proposal cannot be approved under delegation but must be approved by Council.
- 3.10 The Council currently complies with requirements to pay the National Living Wage and has an aspiration to pay the Real or Foundation Living Wage. The new pay agreement will mean the Council will pay the equivalent of the Foundation Living Wage from 1 April 2019 to all staff except apprentices. Apprentice salaries will remain in line with the national minimum wage. The Living Wage Foundation announced their new pay rates on 5 November 2018 of £9.00 per hour outside London for all employees over 18 years of age.
- 3.11 The Council will commence implementation of the new Customer Connect staffing structure from April 2019. This new structure is in the process of being developed and will have regard to the proposed pay scales as the financial implications of the new structure are finalised.

### **BUDGET STRATEGY ASSUMPTIONS**

- 3.12 The draft budget proposals for 2019/20 and onwards include:
  - a) Inflation in the base budget in accordance with the Budget Strategy (only where contractually committed or unavoidable).

- b) Salary budgets have been prepared based on the current staffing structure including known incremental advances. From April 2019 onwards the detailed budgets include 2% for inflationary pay awards. As set out above, the local government pay settlement for April 2018 covered 2 years and included a restructuring of the national pay scales. Officers have modelled various potential options to implement the pay settlement and a budget pressure of £148k has been included in 2019/20 rising to £346k if all staff reach the top of scale.
- c) The only major announcement in the Autumn Budget on 29 October 2018 for the Council concerned the level of the National Living Wage (NLW) for 2019/20. The local government pay settlement for 2019/20 has a minimum hourly rate (excluding apprentices) of £9.00 per hour which is higher than the new NLW levels and will be equal to the Real/Foundation Living Wage which was announced in November 2018.
- d) Capital charges will be reviewed within the final budget proposals presented to February Council. These have no impact on the MTFP projections as they are not charged against Council Tax.

### **GOVERNMENT FUNDING AND OTHER REVENUE BUDGET UNCERTAINTIES**

- 3.13. The figures presented include certain assumptions where work is on-going or where information is not yet available. A key factor going forward will continue to be central government funding. The potential change to 75% business rates retention offers both opportunities and risks. This in addition to the proposed Fairer Funding Review may lead to both increased volatility and reductions in retained local taxation over the medium term. At this stage these are difficult to quantify. The key items are:
- a) The MTFP assumes support from general government grant, such as Revenue Support Grant, is in line with the multi-year settlement announced in December 2015. The Government's 2019/20 Finance Settlement Technical Consultation indicated the Government was minded not to implement the £613k of negative Revenue Support Grant for 2019/20. The MTFP projections have been adjusted to reflect this expectation: the Provisional Local Government Finance Settlement will be on 6 December 2018 and any significant changes to the assumed funding will be reported, if necessary, as an update to this report.
  - b) From 2020 the whole system of Government funding will change: the financial model assumes the overall funding from Government through general grants or retained business rates will continue to decline by the same rate as has been seen during the current multi-year settlement excluding one-off adjustments such as the negative Revenue Support Grant. This reflects the current indications that funding of local government overall will stabilise at current levels but that funding will be targeted at social care.
  - c) All seven Cumbrian authorities have jointly submitted a bid to form a Cumbrian Business Rate Pool Pilot for 2019/20. This would replace all Revenue Support Grant and Rural Services Delivery Grant which would have been payable with the retention of the Government share of business rates. Potentially the seven authorities could gain £6m of additional funding. The results of the bid will be announced alongside the Provisional Local Government Finance Settlement in December 2018. If the bid were successful the Council could retain circa £200k of additional income but the actual amount will not be known until the end of the 2019/20 financial year. Any additional income will be budgeted one year in arrears as part of the 2020/21 budget process.

- d) Should the bid for a new Cumbria Business Rate Pool Pilot not be approved by Central Government, it is proposed that the existing business rate pool will continue for 2019/20. Due to the level of uncertainty around these arrangements, the funding is built into budgets 1 year in arrears so this can be used to support financial years 2020/21 onwards. Any unallocated balance remains within the NNDR pool reserve which is earmarked for economic development (**Appendix 8**).
  - e) Interest payable and receivable will continue to be reviewed prior to the final budget being set in February 2019 to ensure this reflects the most up to date interest rate projections and capital programme funding assumptions.
- 3.14 The MTFP assumes the New Homes Bonus will be split 60:40 between support for the capital programme, which has been used to support housing, and Locally Important Projects (LIPs), including community planning and the £1,000 budget per member for community projects. The Government consulted in autumn 2015 about reducing the level of New Homes Bonus and this was partially implemented from April 2017. Further changes are expected to be confirmed as part of the 2019/20 local government finance settlement and it is expected that New Homes Bonus will be discontinued from April 2020. SLDC does not use the NHB to balance its base budgets. Funding of approved schemes in the capital programme has been reviewed to reflect expected funding but future projects will need to be reviewed as clarity is provided
- 3.15 The Council earns significant sums through recycling credits (£1.3m for 2017/18). The payments are made in accordance with legislation which clearly sets out the statutory basis and mechanism for calculating the recycling payments. Any change to the current system would need agreement from the County and all districts and would need to be considered alongside other countywide issues.
- 3.16 Overall, although there are still uncertainties, the Council is in a strong position to set a balanced budget for 2019/20 and to address the additional level of deficit from 2020/21. From 2020 however it is worth reiterating that the challenges arising from the change in Government support through the Fair Funding Review and changes to business rate retention could have a significant impact.

### **RECURRING REVENUE BUDGET PRESSURES**

- 3.17 There are a number of recurring budget pressures and adjustments that have been identified through the budget process. As identified in **Table 1**, these total £330k for 2019/20 increasing to £473k by 2023/24. The details of these are contained within **Appendix 3**.

The largest single pressure relates to the implementation of the 2019/20 pay settlement, as set out in para 3.12.b above. The other large budget pressures relate to planning application fees and supporting people grant at Town View Fields Hostel which have both been reported as part of the Corporate Financial Monitoring report for Quarter 2 2018/19.

### **2019/20 GROWTH PROPOSALS**

- 3.18 The detail of revenue growth items is included at **Appendix 4**. These have intentionally been kept to a minimum. The only growth bid relates to the business support programme for economic development activities of £50k per year for three years. It is proposed that this is funded through the use of the NDR Pool reserve, which is set aside specifically to support economic development.

### **SAVINGS PROPOSALS**

- 3.19 A number of savings proposals have been brought forward as part of the budget exercise excluding any savings relating to Customer Connect which are being accounted for separately. These total £323k in 2019/20 rising to £334k by 2023/24.

These are detailed in **Appendix 5**. The amount and nature of the savings identified are considered reasonable and deliverable from 2019/20.

- 3.20 The main savings relate to decisions earlier this year regarding funding of community toilets and Kendal Museum. Officers have also reviewed corporate budgets including insurance, business rates, energy and water charges and identified savings.

### **Savings and efficiencies**

- 3.21 Significant savings targets of £361k in 2018/19, £740k in 2019/20 and rising to £1.550m have been agreed from the Customer Connect Programme. Further work will be carried out to identify proposals to meet the additional amounts required. This process needs to be flexible according to the challenges and opportunities that arise to meet the projected deficits, which are very likely in themselves to change, particularly given the large uncertainty over business rates retention.
- 3.22 Employee consultation on the new leadership and organisational structure of the Customer Connect operating model concluded in November. The structure will be confirmed in early December after consideration and finalisation of the response to the consultation. Detailed design will continue to refine the estimated number of specialist/case workers in phase 1. The actual employment costs will not be confirmed until recruitment is completed in March 2019. Voluntary redundancy offers were made the week commencing 3<sup>rd</sup> December. Officers will continue to work on estimates as the 2019/20 budget is prepared and greater certainty will be developed as the Council progresses through the next stages, delivering the programme in accordance with the approved business plan. Updates will be provided in subsequent budget reports.
- 3.23 The Budget for 2018/19 included a savings target of £361k. The Quarter 2 Corporate Financial Monitoring elsewhere on this agenda reported progress in meeting this target. The budget monitoring for period 7 (to the end of October 2018) includes significant changes to the projected overspends on homelessness and planning costs and a new projected underspend on the Minimum Revenue Provision compared to Quarter 2. The current projection is a contribution of £112k will be made towards this savings target of £361k. Officers will continue to work to identify further budget savings in 2018/19 to deliver the remaining £249k to meet the full savings target.

### **FEES AND CHARGES**

- 3.24 The MTFP assumes that income to be generated from fees and charges will total £10.0m for 2019/20. This figure has been adjusted to reflect the budget pressures from **Appendix 3**, where these relate to fees and charges.
- 3.25 The 2019/20 car parking income budgets have been inflated by 2% in line with the MTFP. Monitoring for 2018/19 to the end of Quarter 2 suggests that the current level of demand is generating £160k more against the annual base. The estimate for 2019/20 has therefore been increased by this amount (**Appendix 5**). At this stage it is not proposed to adjust the charges. Hourly rates have been frozen on most car parks since April 2011. This is subject to annual review.
- 3.26 Lake Administration Committee considered fees and charges on 5 October 2018 and Licensing Committee considered its fees 6 November 2018. The full fees and charges listing will be presented as part of the January Cabinet report.

### **COUNCIL TAX**

- 3.27 Central government's policy around Council Tax changed during the 2016/17 finance settlement. It moved from incentivising Council Tax freezes to assuming increases in Council Tax as part of the overall financial resources Council's would utilise. The MTFP assumes Council tax will continue to rise by £5 per annum to £195.63 at April 2019 which equates to 2.62% per band D property for 2019/20 (the CPI inflation figure for September 2018 is 2.4%). The power to charge the higher of £5 or up to

3% was included as part of the 2018/19 settlement and it is anticipated that this power will continue for 2019/20. A 3% increase would be equivalent to an increase of £5.72. Full details of the settlement, including limits around Council Tax are likely to be provided with the Local Government Finance Settlement figures on 6 December 2018.

- 3.28 Each 1% increase in Council Tax generates an additional £86k of income to the Council. If the Council Tax were to be frozen in 2019/20 at existing levels and based on the estimated taxbase for 2019/2 of 45,515 band D equivalent properties an additional £227k of savings would be required to balance the General Fund.
- 3.29 The MTFP assumes an increase in the Council tax base of 250 band D properties for 2019/20. At £195.63 per band D this is equivalent to an additional £49k of Council tax each year for this Council. The actual tax base for 2019/20 will be calculated in December 2018 and will be included in future budget reports. This will also include any distribution of anticipated surpluses or deficits from 2018/19.

#### 4 CAPITAL PROGRAMME

- 4.1 Proposals for new areas of capital expenditure were considered by Portfolio Holders on the 5 October 2018 and were prioritised with reference to the funding available. The resulting proposed capital programme is presented at **Appendix 6**. A summary of the proposed capital expenditure up to 2023/24 is shown below:

**Table 2: Summary Draft Capital Programme Expenditure**

| 2018/19 Revised | 2019/20  | 2020/21  | 2021/22 | 2022/23 | 2023/24 | Total 2018/19 to 2023/24 |
|-----------------|----------|----------|---------|---------|---------|--------------------------|
| £000            | £000     | £000     | £000    | £000    | £000    | £000                     |
| 7,950.0         | 10,163.2 | 16,776.7 | 3,406.7 | 1,928.0 | 2,828.0 | 43,052.6                 |

- 4.2 There were a number of capital bids prioritised. These include:
- £6.0m in relation to loans to housing associations utilising the Right to Buy receipts accumulated to date;
  - £9.2m in relation to Ulverston Leisure Centre, in line with the business case supporting the Cabinet decision to proceed with the next stage of work including design to RIBA stage 3;
  - £461k in relation to developing additional homelessness accommodation for families
  - £100k contribution to redevelopment at Abbot Hall: ;
  - £1.9m in relation to Grange Lido based on light-touch proposals. Following receipt of a petition on the Lido, there will be a debate on the petition at Council in December.

These are the schemes where outline approval has already been given, where expenditure relates to health and safety issues or where works are unavoidable.

- 4.3 There are a number of significant potential additional service areas and schemes to be added to the capital programme where bids have been received but that have yet to be prioritised and allocated a capital and or revenue budget. These schemes would lead to additional capital budget costs on top of those presented in **Appendix 6**. These include:
- Schemes arising from the Car Parking Study in Kendal and Oxenholme as well as engineering appraisals undertaken on surfacing options at Braithwaite Fold, additional capacity options at Rydal Road, Ambleside and Rayrigg Road Car Park, Bowness and the siting of electric charging points..

- b) South Lakeland House and Kendal Town Hall accommodation review to provide a fit for purpose and fit for future office accommodation and Town Hall refurbishment. The capital cost of any improvements is likely to be significant and a Business case for the work will be provided to enable an affordable solution to be delivered.
  - c) The review of the Kendal depot location is also not included as yet. A report setting out the likely financial implications and benefits and timescales will be provided in due course.
- 4.4 Once receipts earmarked for specific purposes are removed the programme has a modest element of unallocated resources, however, as noted at 4.3 above, there are a number of potentially significant unavoidable schemes that are likely to make a call on these. The capital programme to be considered by Cabinet in January 2019 and subsequent reports is expected to change to include some or all of these potential schemes. There are other assets, as set out in the Property and Land Management Strategy, that will require further consideration as part of longer term capital planning.
- 4.5 Although the capital programme contains estimates of expenditure for future years, these rely on the income budgets being met (e.g. Capital Receipts, Right to Buy and VAT shelter). All elements of the programme, and particularly those areas with recurring budgets, will be reviewed annually with reference to the actual resources available. Where no other funding is available, and where appropriate, borrowing will be needed to fund the proposed additional schemes. The appropriate level of borrowing, based on considerations of affordability and risk, will be set out in the Council's Capital Strategy and Treasury Management strategy to Overview and Scrutiny Committee and Cabinet in January 2019 and Council in February 2019.
- 4.6 It was reported in the Quarter 2, 2018/19 Monitoring Report that certain elements of the capital programme would be underspent in year and would require re-profiling into subsequent years. This includes the ERDF funded scheme for flood alleviation works at Mintsfeet, Kendal and the Cross-a-Moor junction improvement scheme. Adjustments have also been made to increase the capital budget for Millerground and the Burton in Kendal heritage scheme to reflect external contributions. These are reflected in **Appendix 6** within the updated 2018/19 programme along with other schemes where the need for re-profiling has been highlighted, as part of the budget process.
- 4.7 Due to unprecedented demand for Disabled Facilities Grant (DFG) funding, 86 adaptations were completed in the first two quarters of 2018/19 compared to 81 in the whole of 2017/18, it is expected that there will be insufficient funds available for the whole financial year. As DFGs are a statutory duty the Council needs to provide the necessary funding to meet demand. There is £191k unallocated in the Affordable Homes budget that won't be spent in 2018/19. Therefore it is proposed that this funding is transferred to the DFG budget. This will provide sufficient funds to meet demand for DFGs in 2018/19.
- 4.8 Community Infrastructure Levy (CIL) is not currently reflected in the capital programme or its funding. The Council has started to receive modest levels of income from CIL. The governance arrangements over when and how to allocate this and the Infrastructure Delivery Plan were approved by Cabinet on 13 September 2017.
- 4.9 **Appendix 2** shows the current estimates in relation to NHB income. 40% of this currently supports the Members small grants scheme and Locally Important Projects whilst 60% of this is earmarked to support other capital schemes. It is expected that no further income will be received beyond April 2020: funding has been reviewed for existing capital programme schemes but the capital budgets for LIPS have been removed from 2020/21.



4.10 A summary of the draft capital programme funding is in the table below. This shows the proposed use of capital resources in support of the capital programme (see **Appendix 6**).

**Table 3: Capital Funding 2018/19 to 2023/24**

|   | Balance April 2018<br>£000 | Estimated Income<br>£000 | Use in capital programme<br>£000 | Potential Balance March 2024<br>£000 |
|---|----------------------------|--------------------------|----------------------------------|--------------------------------------|
| <b>General</b>                          |                            |                          |                                  |                                      |
| Usable Capital Receipts                 | 1,744                      | 417                      | -1,953                           | 209                                  |
| VAT Shelter receipt                     | 831                        | 1,200                    | -2,031                           | 0                                    |
| New homes bonus (capital)****           | 1,271                      | 1,138                    | -2,177                           | 232                                  |
| <b>Earmarked or allocated</b>           |                            |                          |                                  |                                      |
| Revenue (LIPS)                          | 185                        | 995                      | -995                             | 185                                  |
| IT replacement reserve                  | 74                         | 480                      | -480                             | 74                                   |
| Major Repairs Reserve                   | 307                        | 800                      | -868                             | 239                                  |
| General Revenue contributions           | 587                        | 1,574                    | -1,940                           | 221                                  |
| Cap grants and contributions (inc S106) | 593                        | 7,924                    | -8,467                           | 50                                   |
| Disabled Facilities Grants              | 360                        | 3,620                    | -3,980                           | 0                                    |
| Community Housing Fund*                 | 2,309                      | 0                        | -490                             | 1,819                                |
| Right to Buy receipt**                  | 3,788                      | 4,200                    | -6,495                           | 1,493                                |
| <b>Borrowing</b>                        |                            |                          |                                  |                                      |
| Funding from borrowing***               | 0                          | 13,177                   | -13,177                          | 0                                    |
| <b>Total</b>                            | <b>12,049</b>              | <b>35,525</b>            | <b>-43,053</b>                   | <b>4,522</b>                         |

\*Ring fenced for Community Housing Schemes, £2.36m less £235k funding revenue budgets

\*\*Ring fenced to support replacement of affordable housing.

\*\*\*'Prudential Borrowing'; this may not result in taking on new loans but requires revenue charge to cover the cost over the assets' life

\*\*\*\*Subject to annual confirmation and settlement

4.11 **Table 1** includes some amendments to the Minimum Revenue Provision (MRP) in the financial model. These changes reflect changes in the profiling of the rolling vehicle and plant programme and the additional costs if Ulverston Leisure Centre is to be funded from borrowing.

## 5 RESERVES AND WORKING BALANCE

### WORKING BALANCE

5.1 The Council's working balance at 1 April 2018 was £1.5m. Working balances are used to help cushion the organisation against uneven cash-flows and avoid unnecessary borrowing. The balance on the working balance should be maintained at £1.5m.

### OTHER RESERVES

5.2 The Council holds a General Reserve of monies set aside to form a buffer against future financial risks in the medium term and to enable the Council to progress major organisational and transformational changes by providing resources to fund the initial costs of these developments.

5.3 Authorities in England and Wales are required to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. An annual review is carried out to assess risks including:

- pay and pension costs

- inflationary pressures
- interest rates
- Government grant
- income from fees and charges

The Council considers the impact of holding monies unnecessarily in reserves giving the ongoing impact on local residents and taxpayers. The External Auditor considers the level of reserves each year to ensure the amounts held are sufficient but not excessive. There is no theoretical “correct” level of reserves because the issues that affect an authority’s need for reserves will vary over time.

- 5.4 **Appendix 7** shows the latest risk-based calculation of a minimum recommended working balance and General Reserve for 2019/20. This suggests the overall projected balance is slightly higher than necessary. It is proposed this surplus should be used to offset the projected 2019/20 deficit. The fundamental principle governing the use of reserves is that they should not be used to fund recurring expenditure.
- 5.5 The risk assessment of reserves includes a portion of the General Reserve earmarked to meet the up-front costs of delivery of approved savings. These costs could include redundancy, building adaptations or new IT costs.
- 5.6 The Statutory Duties Reserve consists of an original sum of £150k set aside for legal and other statutory requirements with delegation to Senior Management Team to approve the use of the monies, topped back up at year end if necessary. The use of these amounts is reported as part of the Corporate Financial Monitoring process.
- 5.7 The Council holds a number of other reserves for various reasons. **Appendix 8** summarises the individual reserves, their purpose and their expected balances and movements 2018/19 to 2023/24. The projected reserves reflect contributions in but do not anticipate the element of spend to cover contingencies which are not predictable when they will be spent.
- 5.8 **Table 4** summarises the projected balances on reserves and the working balance at the end of each financial year.

**Table 4: Reserves summary**

|   | 31/03/2018<br>£000 | 31/03/2019<br>£000 | 31/03/2020<br>£000 | 31/03/2021<br>£000 | 31/03/2022<br>£000 | 31/03/2023<br>£000 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| General Reserves                          | (8,600)            | (6,705)            | (4,914)            | (5,114)            | (5,314)            | (5,514)            |
| Capital Reserves                          | (2,434)            | (1,343)            | (744)              | (661)              | (583)              | (562)              |
| Earmarked Reserves                        | (4,412)            | (3,508)            | (3,508)            | (3,508)            | (3,508)            | (3,508)            |
| <b>Total Reserves</b>                     | <b>(15,447)</b>    | <b>(11,555)</b>    | <b>(9,165)</b>     | <b>(9,282)</b>     | <b>(9,404)</b>     | <b>(9,583)</b>     |
| Working Balance                           | (1,500)            | (1,500)            | (1,500)            | (1,500)            | (1,500)            | (1,500)            |
| <b>Total Reserves and Working Balance</b> | <b>(16,947)</b>    | <b>(13,055)</b>    | <b>(10,665)</b>    | <b>(10,782)</b>    | <b>(10,904)</b>    | <b>(11,083)</b>    |

## 6 NEXT STEPS

- 6.1 This draft Budget Report will be updated as both internal and external issues become clearer. The finance settlement, including the impact of any 4 year settlement agreement and adjustments to business rates multiplier and tariff, will be reflected in the final budget proposals to be presented to Cabinet in February and Council 26 February 2019.
- 6.2 The Government has already announced changes to the business rates funding system for 2020. As well as the increase in local retention of business rates to 75% through the reduction of the 50% central share of business rates retained by the Government to 25% and replacement of certain grants the Government is reviewing the needs formula which will control how much business rates will be retained

locally. A national working group including the Department of Communities and Local Government (DCLG), HM Treasury, the Local Government Association (LGA), professional organisation and representatives of interested groups such as the District Council's Network (DCN) meets to discuss the proposals which are badged as the Fair Funding Review. These developments will be monitored and fed into the MTFP as the details are clarified.

### **Consultation**

- 6.3 This report provides a first draft of the **2019/20 Five Year Budget**. This will be subject to the statutory four week period following the 18 December 2018 Council meeting.
- 6.4 The Lake Administration, Planning and Licensing Committees will receive and consider the elements of the draft Budget Report which are relevant to them. The Overview and Scrutiny Committee will be asked to consider the 18 December Council first draft Budget Report at its January 2019 meeting.

### **7.0 Alternative Options**

- 7.1 This report presents alternative options in relation to potential budget pressures and savings, new capital programme bids, one off revenue growth bids and fees and charges. The proposals together aim to meet the Council's statutory duty to set a balanced Budget for 2019/20.

### **8.0 Links to Council Priorities**

- 8.1 This report sets out the first draft Budget to enable the consideration of how the Council's priorities will be delivered. Setting a sound framework for budget preparation assists in the delivery of all corporate outcomes. This strategy has been developed within the context of the MTFP.

### **9.0 Implications**

#### **Financial, Resources and Procurement**

- 9.1 The draft Budget aims to safeguard the Council's financial position and ensure a balanced budget for 2019/20 and an improved position in the years that follow.

#### **Human Resources**

- 9.2 This report has no direct impact on the staffing of the Council; individual savings and growth proposals may have direct staffing implications.

#### **Legal**

- 9.3 This report has no direct legal implications at this stage but individual proposals resulting from this report may have direct legal implications.

#### **Health, Social, Economic and Environmental**

- 9.4 Have you completed a Health, Social, Economic and Environmental Impact Assessment? No
- 9.5 If you have not completed an Impact Assessment, please explain your reasons: This report contains proposals to set a balanced budget for 2019/20 which will be subject to further consultation. Specific issues that require HSEEIAs will be addressed within the final budget proposals presented to Council 26 February 2019.

#### **Equality and Diversity**

- 9.6 Have you completed an Equality Impact Analysis? No
- 9.7 If you have not completed an Impact Assessment, please explain your reasons: This report contains proposals to set a balanced budget for 2019/20 which will be subject

to further consultation. Specific issues that require EIAs will be addressed within the final budget proposals presented to Council 26 February 2019.

## 10. Risk

| Risk   | Consequence   | Controls required  |
|--|---|--|
| Failure to create a balanced and sustainable budget by February 2018   | Includes: inability to deliver corporate priorities, inappropriate spending, and inappropriate reductions in services.  | Identification of sound budget guidelines in an agreed strategy reduces the risk of an unaffordable budget and/or precipitate budget reductions.<br><br>Monitoring of progress against the budget timetable reduces the need for last-minute budget adjustments. |
| Insufficient staff capacity to deliver on growth items within capital and revenue budgets                                  | Inability to deliver services to expected levels or additional costs of temporary staff. Potential underspends and potential slippage in expenditure to subsequent years. | Review resources required to ensure growth bids are realistic and deliverable, including other unavoidable staffing pressures  |
| Revenue budget and Capital Programme may not be integrated and aligned with Council Plan.                                  | Resources not directed to achieving corporate outcomes, leading to inappropriate spending.  | Both the revenue budget and the Capital Programme are now embedded in the corporate planning cycle. All revenue budgets and capital programme schemes are linked to Council plan priorities  |
| Reduction in funding from Government is greater than estimated or announced too late for adjustments to be made to budgets | In-year budgetary pressure and potential overspending, jeopardising service delivery.   | Close monitoring of Government announcements, potential short-term use of revenue contingency provision and General Reserve followed by review for following year.   |
| Government proposals for piloting full localisation of business rates increase uncertainty of major income stream.         | Income streams will be insufficient to fund service delivery.   | Monitor Government proposals for changes in NNDR legislation. Maintenance of General Reserve as a buffer against unexpected changes in funding. Monitor changes in rateable values & proposals for new development / closures/ other changes.                    |

## Contact Officers

Shelagh McGregor, Chief Finance Officer, [s.mcgregor@southlakeland.gov.uk](mailto:s.mcgregor@southlakeland.gov.uk), 01539 793112

Helen Smith, Financial Services Manager, [h.smith@southlakeland.gov.uk](mailto:h.smith@southlakeland.gov.uk), 01539 793147

Lee Hurst, Chief Accountant, [lee.hurst@southlakeland.gov.uk](mailto:lee.hurst@southlakeland.gov.uk), 01539 793599

## Appendices Attached to this Report

| Appendix No. | Name of Appendix                           |
|--------------|--|
| 1            | Budget process, strategy and timetable     |
| 2            | MTFP Financial Model                       |
| 3            | Revenue Budget Pressures                   |
| 4            | One-off Revenue Growth Proposals           |
| 5            | Revenue Savings Proposals                  |
| 6            | Draft Capital Programme 2018/19 to 2023/24 |
| 7            | Risk Assessment of Level of Reserves       |
| 8            | Reserves Summary                           |
| 9            | Proposed Pay Grades from 1 April 2019      |

## Background Documents Available

| Name of Background document  | Where it is available   |
|--|---|
| Medium Term Financial Plan approved Council 24 July 2018   | <a href="https://tinyurl.com/ya988w5b">https://tinyurl.com/ya988w5b</a> |
| The 2019-20 Local Government Finance Settlement Technical Consultation                               | <a href="https://tinyurl.com/y772s2zr">https://tinyurl.com/y772s2zr</a> |
| 2019/20 Budget Update Report to Cabinet 31 October 2018  | <a href="https://tinyurl.com/yaedogmo">https://tinyurl.com/yaedogmo</a> |
| National Pay Agreement 2018-20: New Pay Grades report to Human Resources Committee: 11 December 2018 | <a href="https://tinyurl.com/yaboz97c">https://tinyurl.com/yaboz97c</a> |

## Tracking Information

| Signed off by       | Date sent |
|---------------------|-----------|
| Legal Services      | 29/11/18  |
| Section 151 Officer | 29/11/18  |
| Monitoring Officer  | 29/11/18  |
| SMT                 | 29/11/18  |

| Circulated to           | Date sent |
|-------------------------|-----------|
| Assistant Director      | 29/11/18  |
| Human Resources Manager | N/A       |
| Communications Team     | N/A       |
| Leader                  | 29/11/18  |
| Committee Chairman      | N/A       |

| <b>Circulated to</b> | <b>Date sent</b>      |
|----------------------|-----------------------|
| Portfolio Holder     | 29/11/18              |
| Ward Councillor(s)   | N/A                   |
| Committee            | HR Committee 11/12/18 |
| Executive (Cabinet)  | 28/11/18              |
| Council              | 18/12/18              |