

South Lakeland District Council Council

Tuesday, 26 February 2019
2019/20 to 2023/24 Budget

Portfolio:	Councillor Andrew Jarvis - Finance Portfolio Holder
Report from:	Shelagh McGregor - Assistant Director Resources (Section 151 Officer)
Report Author:	Shelagh McGregor – Assistant Director Resources (Section 151 Officer) Helen Smith - Financial Services Manager Lee Hurst – Chief Accountant
Wards:	(All Wards)
Forward Plan:	Budget and Policy Framework Decision included in the Forward Plan as published on 2 October 2018

1.0 Expected Outcome

- 1.1 This report considers the recommendations from Cabinet to determine the Council's budget for 2019/20 onwards, including fees and charges, the capital programme, the pay policy and the Chief Finance Officer's Advice on the Robustness of Estimates and the Adequacy of Reserves.
- 1.2 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.

2.0 Recommendation

2.1 It is recommended that Council:-

- (1) Adopts a Net Revenue Budget for 2019/20 of £14,005,200 as set out in Section 2 of the Draft Budget Book (Appendix 1);**
- (2) Approve the £5 (2.6%) increase in the Band D Council tax to £195.63 for District Council Services for 2019/20 as part of a balanced revenue budget;**
- (3) Approves the detailed service budgets as set out in Section 3 of the Draft Budget Book;**
- (4) Notes the latest Collection Fund Estimates, Parish Council precepts and Parish Council taxes for 2019/20 as set out in Section 4 of the Draft Budget Book. The Cumbria County Council and Cumbria police element are currently included as proposed but not approved at the time of writing the report. Any change will be updated and reported to Council on 26 February 2019;**
- (5) Approves the Capital Programme as set out in Section 5 of the Draft Budget Book;**

- (6) Approves the Reserves as set out in Section 6 of the Draft Budget Book;
- (7) Approves the Fees and Charges Book for 2019/20 as set out in Appendix 2;
- (8) Notes the Chief Finance Officer's Statutory Report on setting the 2019/20 Budget, as set out in Appendix 3;
- (9) Adopts and publishes the Statutory Pay Policy Statement as set out in Appendix 4; and
- (10) Notes that the proposals contained in this report have been incorporated into the Procurement Schedule, Prudential Indicators and Treasury Management Framework elsewhere on this agenda.

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. Cabinet at its meeting on 31 October, 28 November and Council on 18 December 2018 considered the first draft budget proposals. A further update was provided to the Cabinet meeting on the 6 February 2019. This report updates that position with the final local government finance settlement figures, which were published on 29 January 2019.
- 3.3. The Council has a statutory duty to set a balanced budget for the coming financial year and the changes which are now incorporated to achieve this are shown. A Council tax increase of £5 for Band D for 2019/20 is proposed. This increase in the Council tax is consistent with expectations of Central Government set out in the multi-year settlement for 2016/17 onwards but are below the latest expectation of Central Government of an increase of below 3%.

GENERAL FUND REVENUE BUDGET

SUMMARY POSITION

- 3.4. 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 **Section 2 and 3 of the Draft Budget Book (Appendix 1)**.
- 3.5. **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 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Service Expenditure	33,274.2	32,779.8	30,434.0	29,195.3	29,006.3
Customer Connect	2,031.0	0.0	0.0	0.0	0.0
Service income	-12,640.5	-12,433.8	-12,655.6	-12,829.7	-12,629.7
Net service expenditure	22,664.7	20,346.0	17,778.4	16,365.6	16,376.6
Corporate items	-21,924.7	-18,036.0	-14,940.5	-12,769.0	-12,123.6
Savings from Customer Connect	-740.0	-1,550.0	-1,550.0	-1,550.0	-1,550.0
Savings from Capital Projects and Strategy changes	0.0	-140.0	-420.0	-694.0	-718.0
Net draft budget (projected deficit) February 2019	0.0	620.0	867.9	1,352.6	1,985.0

- 3.6. The projected annual revenue deficit totals circa £600k in 2020/21 rising to circa £2.0m 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 and savings arising from capital projects included in the capital programme (see paragraph 3.8 below). These annual projections are based on information available at the time of preparation along with the broad set of assumptions detailed in 3.10 below.
- 3.7. 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.
- 3.8. The revenue budgets reflect additional costs of interest and debt repayment relating to items in the capital programme. Table 1 has been updated for the following items of income identified in the relevant business plans/budget bids to offset the costs:

Table 2: Future savings arising from new Capital Programme projects:

Potential future year savings

	2020/21	2021/22	2022/23	2023/24
	£000	£000	£000	£000
Capital Programme				
Housing Investment Fund: Loans to Housing Associations				
Interest on balance outstanding	-60	-120	-120	-120
New Ulverston Leisure Centre				
Reduction in running costs/management fee	0	-220	-220	-220
Additional homeless accommodation to provide options for families				
Income from residents (including housing benefit where eligible)	-64	-64	-64	-64
South Lakeland House/Kendal Town Hall				
Cost avoidance/additional income	0	0	-274	-298
Other Decisions				
Waste and Recycling Collection Policy				
Delivery charges from developers	-16	-16	-16	-16
	-140	-420	-694	-718

These potential savings will be included in future budget projections when the timing of schemes, and hence the timing of savings, are clearer. These savings are part of the medium-term savings proposals being developed.

- 3.9. 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.

BUDGET STRATEGY ASSUMPTIONS

- 3.10. The draft budget proposals for 2019/20 and onwards include:
- Inflation in the base budget in accordance with the Budget Strategy (only where contractually committed or unavoidable).
 - 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. The local government pay settlement for April 2018 covered 2 years and included a restructuring of the national pay scales. Officers modelled various potential options to implement the pay settlement and new pay scales were approved by Council on 18 December 2018. Salary budgets will be recalculated during 2019/20 to reflect the new Customer Connect staffing structure from 1 April 2019.

- 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 have been updated to reflect the Capital Programme approved by Council in December 2018. These have no impact on the MTFP projections as they are not charged against Council Tax.
- e) Interest payable and receivable has been updated to reflect the most up to date interest rate projections and capital programme funding assumptions and is consistent with the Council's Treasury Management documents presented elsewhere on this agenda.
- f) Departmental recharges have been recalculated based on the draft base budgets. These have no impact on the surplus/deficit projections as the income and expenditure for internal recharges nets to £0. The total of recharges has reduced over the years reflecting the savings achieved in these areas. It is expected that recharges will be fundamentally changed as a result of the Customer Connect restructure and changes to working practices.
- g) The draft budgets assume all budgets for 2018/19 will be spent in-year. . The Q3 monitoring process has identified a number of areas where it is projected that underspends will occur. Council is requested to approve the following carry-forwards as part of the final budget proposals:

Table 3: Requested Carry-forwards from Q3 Corporate Financial Monitoring

Requested carry-forwards	£000	
GCG Community Grants	25.0	Underspend on Tour of Britain cycling event £25k due to not hosting a start or finish stage, requested to carry forward to fund a bid to host a stage in next year's Tour of Britain.
GLP Local Plans	34.0	Underspend on flood risk assessments due to changes in timing of Environment Agency Flood modelling, carry forward requested to complete next financial year.
Total	<u>59.0</u>	

All other requests for re-profiling will be subject to approval by full Council in May 2019.

GOVERNMENT FUNDING AND OTHER REVENUE BUDGET UNCERTAINTIES

- 3.11. The figures presented from April 2020 onwards 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.
- 3.12. The Government published the provisional Local Government Finance Settlement on 13 December 2018 and the final settlement on 29 January 2019. The majority of the settlement is in line with the 4-year settlement the Council accepted in 2016/17 and which is already reflected in the draft 2019/20 – 2023/24 budgets attached to this report. The main changes in the provisional settlement are set out below:
 - 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 provisional

finance settlement confirmed the decision not to implement the £613k of negative Revenue Support Grant for 2019/20.

- b) The Council Tax referendum thresholds remain at the levels set for 2018/19 for district councils with the maximum increase of the higher of below 3% or £5. For this Council this could potentially raise the maximum increase in Band D Council Tax from the £5 that is included in the draft budget to £5.72, which would generate an additional £32.8k of income from Council Tax. There are no limits on increases for parish councils but the Government expects parishes to take all available steps to mitigate the need for Council Tax increases.
- c) Rural Services Delivery Grant was due to be frozen nationally for 2019/20 but the provisional settlement has increased the national funding from £65m to £81m. This Council's share of the grant will increase from £347.9k to £433.5k. This is an extra £85.6k for 2019/20 only.
- d) The Cumbrian authorities were not successful in the bid to become a business rate pool pilot. The draft budgets for 2019/20 to 2023/24 did not anticipate any additional income from the potential pilot pool. The existing Cumbrian pool is expected to 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.
- e) Although not announced as part of the final settlement, the Government have increased the level of grant to Council's to reimburse the additional cost of Small Business Rate Relief arising from the changes in the 2017 rating list. This change will result in £300k of additional business rate income for 2019/20: this is not expected to be recurring income due to the business rate reset from April 2020.
- f) The settlement also included some unexpected funding from the business rate levy account surplus. The Government collects a levy of up to 50% from authorities who collect more business rates than their baseline. This levy is used to fund a safety net for authorities who fall well below their baseline. This is the first time the levy has exceeded the safety net and the Government has £180m to distribute nationally. The Council's share is £34k and will be received in 2018/19.
- g) In addition to the Finance Settlement the Government announced a grant of £35k for each district Council for the costs of Brexit, to be paid in 2 equal instalments during 2018/19 and 2019/20. An expenditure budget for the same amount has been added.
- h) Finally, the Government confirmed the threshold for payment of New Homes Bonus will remain at 0.4% of taxbase for 2019/20. For this Council this requires a net increase in Band D equivalent properties on the council tax list of 211. The actual increase was only 132 properties so the level of New Homes Bonus due to the Council will be £141k lower than budgeted at £516.7.

The table below shows the allocation of the New Homes Bonus for 2019/20.

Table 4: New Homes Bonus allocation 2019/20

	£000
Members Small Grants	51.0
Burton Heritage Scheme	35.0
Other LIPs grants	<u>120.7</u>
Total Locally Important Project Share (40%)	206.7
Use in Capital Programme (60%)	<u>310.0</u>
Total New Homes Bonus 2019/20	<u>516.7</u>

- 3.13 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.
- 3.14 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 able to set a balanced budget for 2019/20 and to address the additional level of deficit from 2020/21. **From 2020 there are more challenges arising from the change in Government support through the Fair Funding Review and changes to business rate retention. Both of these could significantly affect the resources available to the Council.**

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 £367k per annum in 2019/20 increasing to £511k by 2023/24. The details of these are contained within **Section 3c** of the Draft Budget Book.
- 3.18 The largest single pressure relates to the implementation of the 2019/20 pay settlement, as set out in para 3.10.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

- 3.19 The detail of revenue growth items is included at **Section 3d** of the Draft Budget Book. These have intentionally been kept to a minimum. The only recurring 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. A further growth bid of £50k has been included to continue to support carbon reduction schemes at existing levels. This is an important element of delivering on the Council's Policy on Climate Change.

SAVINGS PROPOSALS

- 3.20 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 collected separately. These total £323k in 2019/20 rising to £334k by 2023/24. These are detailed in **Section 3c** of the Draft Budget Book. The amount and nature of the savings identified are considered reasonable and deliverable from 2019/20.
- 3.21 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

- 3.22 Significant savings targets of £740k 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.
- 3.23 Changes to the staffing structures approved to date including initial appointments to the leadership team and agreed voluntary redundancy applications indicate that the £740k will be delivered for 2019/20. A further update on appointments will be reported to Council in March 2019.

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 **Section 3e** of the Draft Budget Book, 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 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. 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 is attached at **Appendix 2**.

PARISH PRECEPTS AND COLLECTION FUND

- 3.27 All parish precepts have been received in time for the production of this report and are presented at Section 4c of the Draft Budget Book. The parish precepts for 2019/20 total £1,692,890, which represents an increase of £80,625 (5.0%) compared to 2018/19. The average band D Council tax for the parishes will rise by a lower percentage of 4.4% (from £35.62 to £37.20) due to the increase in the Council tax base.
- 3.28 Collection Fund estimates are shown at **Section 4a** of the Draft Budget Book based on the latest information received, recording the collection and distribution of local taxation and non-domestic rates. The Fund shows a projected deficit of £334.3k for Council tax for 2018/19 of which this Council's share is £42.2k. The surplus is shared with Cumbria County Council, Cumbria Police and the District Council in proportion to their individual Council tax levels.

- 3.29 Both Cumbria County Council and the Police and Crime Commissioner are expected to finalise their precept for 2019/20 after this report has been finalised (on 11 February 2019), therefore the collection fund estimates include only provisional figures for both Cumbria County Council and Cumbria Police; any changes to these figures will be reported at the Council meeting.
- 3.30 This report details the precepts requested by the precepting bodies. Elsewhere on this agenda is the report to formally set the Council tax for the District and each Parish.

COUNCIL TAX

- 3.31 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 latest CPI inflation figure, for November 2018, is 2.2%). The power to charge the higher of £5 or up to 3% was included as part of the 2018/19 settlement and continues for 2019/20. A 3% increase would be equivalent to an increase of £5.72.
- 3.32 Each 1% increase in Council Tax generates an additional £87k of income to the Council. If the Council Tax were to be frozen in 2019/20 at existing levels an additional £228k of savings would be required to balance the General Fund
- 3.33 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 Assistant Director (Resources) approved the Council tax base for 2019/20 under delegated powers on 2 January 2019. The calculation of the taxbase includes projections of discounts, exemptions and an allowance for non-collection. The current taxbase assumes a collection rate of 99% which reflects not only bad-debts but also reductions in bandings or increases in discounts and exemptions. The taxbase calculation is shown at **Section 4b** of the Draft Budget Book.
- 3.34 The budget projections assume an increase in the Council tax base, net of reductions, exemptions and discounts, of 250 band D properties. This assumption reflects that many affordable homes will be at bands below band D or will be eligible for discounts. This is consistent with the Council Plan aspiration of the creation of 1,000 new affordable homes for rent from the period 2014-2025. There has been an increase of 247.5 in the overall tax base for the South Lakeland district from 45,265.99 band D equivalent properties to 45,513.49 band D equivalent properties. This will result in a slight fall in Council tax collectable of £0.5k to £8,903,800 based on the projected 2019/20 Council tax of £195.63.
- 3.35 Legislation has now been passed to permit Councils to increase the premium on empty homes from 50% to, initially, 100%. A report to consider this option will be brought to a future meeting of Council.

4.0 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.
- 4.2 There were a number of capital bids prioritised and included in the Capital Programme approved in December 2018 where outline approval has already been given, where expenditure relates to health and safety issues or where works are unavoidable. These bids were:

- a) £6.0m in relation to loans to housing associations utilising the Right to Buy receipts accumulated to date;
- b) £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;
- c) £461k in relation to developing additional homelessness accommodation for families
- d) £100k contribution to redevelopment at Abbot Hall;
- e) £1.9m in relation to Grange Lido based on the light-touch proposals.

Two further schemes are included in the proposed Capital Programme included at **Section 5** of the Draft Budget Book. These are:

- f) £4.74m relating to the refurbishment of South Lakeland House and Kendal Town Hal. The revenue budget also includes £200k in 2019/20 to cover the non-capital costs of this scheme, including detailed design work.
- g) £100k relating to potential works to Windermere Road car park, Grange as part of a wider response to flooding incidents.

4.3 There are a number of significant potential additional service areas and schemes to be added to the capital programme that have yet to be prioritised and or allocated a capital and or revenue budget. These schemes would lead to additional capital budget costs on top of those presented in **Section 5** of the Draft Budget Book. These include:

- a) Schemes arising from the Car Parking Strategy - including consideration of the potential for new sites (e.g. Arnside), reconfiguration of existing sites (e.g. Braithwaite Fold) and the siting of electric charging points. Further reports will be provided during 2109/20 to Cabinet with regard to future capital programme requirements.
- b) 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.

Proposals will be considered by the Strategic Property and Asset Management Board against the Property and Land Strategy and Capital Strategy.

4.4 Once receipts earmarked for specific purposes are removed the programme has a modest element of unallocated resources, however, as noted at paragraph 4.3 above, there are a number of potentially significant unavoidable schemes that might need to make a call on these.

4.5 The regular capital monitoring has identified a number of schemes where expenditure is unlikely to occur during 2018/19 and where it is requested that the expenditure is re-profiled to 2019/20. The Capital Programme included at **Section 5** of the Draft Budget Book includes these changes for 2018/19 and corresponding re-profiling in 2019/20. Details of all the capital expenditure is included in the Corporate Financial Monitoring report elsewhere on the agenda for this meeting. The Council has been allocated £132k of additional funding for disabled facilities grants for 2018/19 to fund adaptations to homes which has been incorporated into the Capital Programme funding.

4.6 The resulting proposed capital programme is presented at **Section 5** of the Draft Budget Book.

A summary of the proposed capital expenditure up to 2023/24 is shown below:

Table 5: 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
7,502.0	12,338.7	20,566.6	3,406.7	1,928.0	2,828.0	48,570.0

- 4.7 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.
- 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 **Section 2b** of the Draft Budget Book shows the current estimates in relation to New Homes Bonus 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 **Section 5** of the Draft Budget Book).

Table 6: Capital Funding 2018/19 to 2023/24

	Balance April 2018 £000	Estimated Income £000	Use in capital programme £000	Potential Balance March 2024 £000
General				
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	-2,145	264
Earmarked or allocated				
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	8,594	-9,147	40
Disabled Facilities Grants	360	3,752	-4,112	0
Community Housing Fund*	2,309	0	-490	1,819
Right to Buy receipt**	3,788	4,200	-6,495	1,493
Borrowing				
Funding from borrowing***.	0	17,915	-17,915	0
Total	12,049	41,065	-48,570	4,544

*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 and South Lakeland House/Kendal Town Hall are to be funded from borrowing. Revenue savings relating to these projects have been identified (see paragraph 3.8 above) and will be included in future updates of the Medium Term Financial Plan financial projections when the likely timing is resolved.

5.0 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 Reserves are also available to support the strategically important projects listed in the capital programme that have yet to be allocated a budget including housing, depot options, leisure centres and multi-storey car parks. These are subject to further option appraisal and business case development.
- 5.5 **Section 6b** of the Draft Budget Book 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. The fundamental principle governing the use of reserves is that they should not be used to fund recurring expenditure.
- 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. **Section 6a** of the Draft Budget Book 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. A new reserve will be established at the end of 2019/20 for unclaimed members allowances which will be applied to grants to assist the personal financial resilience initiative.

- 5.8 **Table 7** summarises the projected balances on reserves and the working balance at the end of each financial year.

Table 7: Reserves summary

	31/03/2018 £000	31/03/2019 £000	31/03/2020 £000	31/03/2021 £000	31/03/2022 £000	31/03/2023 £000	31/03/2024 £000
General Reserves	(8,600)	(6,798)	(4,948)	(5,182)	(5,382)	(5,582)	(5,782)
Capital Reserves	(2,434)	(436)	160	29	(101)	(231)	(461)
Earmarked Reserves	(4,412)	(3,830)	(4,895)	(4,495)	(4,445)	(4,445)	(4,445)
Total Reserves	(15,447)	(11,064)	(9,683)	(9,647)	(9,927)	(10,257)	(10,687)
Working Balance	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Total Reserves and Working Balance	(16,947)	(12,564)	(11,183)	(11,147)	(11,427)	(11,757)	(12,187)

6.0 CONSULTATION

- 6.1 Statutory consultation has been undertaken with large ratepayers, the Police and Crime Commissioner and Cumbria County Council.
- 6.2 The Lake Administration, Planning and Licensing Committees received and considered the elements of the draft Budget Report which are relevant to them. The Overview and Scrutiny Committee considered the 18 December Council first draft Budget Report at its January 2019 meeting.

7 ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

- 7.1 Legislation requires the Council to formally take account of the Chief Finance Officer's advice on these matters when setting its budget. This advice is given in **Appendix 3**.
- 7.2 The proposed level of reserves and working balance place the Council in a sound financial position for 2019/20 and are adequate for the medium term. There are significant risks in the current MTFP projections, including the impact of the current and future Government Spending Reviews, the current economic climate and low levels of investment returns. It is important that reserves are maintained at robust levels in order to respond to these challenges and as a cushion against forecast risks and unforeseen events. Overall the Council can set a balanced budget for 2019/20 and address the additional level of deficit from 2020/21 onwards.

8 PAY POLICY

- 8.1 The Localism Act 2011 brought in new provisions with regard to requirements for the Council to determine and publish an annual Pay Policy Statement. The Pay Policy Statement requires annual review. South Lakeland District Council is an employer in its own right and has the autonomy to make decisions on pay that are appropriate to local circumstances and which deliver value for money for local taxpayers.
- 8.2 In accordance with Section 38 of the Localism Act 2011 South Lakeland District Council is required to publish a statement on the Council's approach to setting the pay of its employees, in particular the posts defined as 'chief officer' posts.
- 8.3 The Statement for 2019 is attached as **Appendix 4**. This policy statement is due to be considered by Human Resources Committee on 12 February 2019 after this

report is finalised. The purpose of the statement is to provide transparency with regard to the Council's approach to setting the pay and remuneration of its employees.

- 8.4 There are a number of approved Human Resource policies and procedures that deal with pay and remuneration of all employees and this Pay Policy Statement draws the information together and has been prepared in accordance with the guidance issued by the Secretary of State for Communities and Local Government.

9 NEXT STEPS

- 9.1 The Government has already announced changes to the business rates funding system for 2020. Three major changes co-incide:
- a) An 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
 - b) 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 (MHCLG), 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.
 - c) A reset of the business rates system so accumulated growth will be redistributed based on the needs formula. For 2019/20 the accumulated growth above the Council's business rate baseline is £3.2m of which 50% is retained by the Council and 50% is paid to the Cumbria business rate pool.
- 9.2 Officers will continue to develop proposals for medium-term savings to offset the projected deficits from April 2020 onwards. The Medium Term Financial Plan will be updated to reflect the 2018/19 final outturn during June 2019 and will be reported to Overview and Scrutiny, Cabinet and Council. It will include a Commercial Strategy which will help address the Council's approach to income generation and risk.

10 Alternative Options

- 10.1 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. An alternative option would be to reject some of the proposals; this would then require further work to ensure a balanced budget was set.

Links to Council Priorities

- 10.2 This report sets out the 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.

Implications

Financial, Resources and Procurement

- 11.1 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

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

Legal

11.3 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

11.4 Have you completed a Health, Social, Economic and Environmental Impact Assessment? No

11.5 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 brought forward as specific initiatives commence.

Equality and Diversity

11.6 Have you completed an Equality Impact Analysis? Yes (attached at Appendix 5)

11.7 Assessments are carried out of the impact of individual projects linked to the Budget in respect of equality, diversity and inclusion.

12. Risk

Risk	Consequence	Controls required
Failure to create a balanced and sustainable budget by February 2019	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. 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

Risk	Consequence	Controls required
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.
The Pay Policy Statement does not contain the information required by legislation	The Council will not adhere to legislation	Ensure the Pay Policy contains the information required by legislation

Further detail of risks and opportunities around items included in this report can be found at **Section 6** of the Draft Budget Book which shows the Risk and Opportunity log from the Council's Medium Term Financial Plan approved in July 2018 (as updated).

Contact Officers

Shelagh McGregor, Chief Finance Officer, s.mcgregor@southlakeland.gov.uk, 01539 793112

Helen Smith, Financial Services Manager, h.smith@southlakeland.gov.uk, 01539 793147

Lee Hurst, Chief Accountant, lee.hurst@southlakeland.gov.uk, 01539 793599

Appendices Attached to this Report

Appendix No.	Name of Appendix
1	2019/20 – 2023/24 Draft Budget Book including:
	General Fund Summary
	MTFP projections February 2019
	Service Budgets by Assistant Director
	Detailed Service Budgets
	Recurring Revenue Budget Pressures
	Growth Proposals
	Savings Proposals
	Collection Fund 2019/20
	Council Taxbase 2019/20

Appendix No.	Name of Appendix
	Parish Expenses 2019/20
	Draft Capital Programme 2018/19 to 2023/24
	Reserves Summary
	Risk Assessment of Reserves
	MTFP Risks and Opportunities Log
2	Fees and Charges Book for 2019/20
3	Chief Finance Office Statutory Report on Robustness of the Budget and adequacy of the level of reserves
4	Pay Policy
5	Equality Impact Assessment

Background Documents Available

Name of Background document	Where it is available
Medium Term Financial Plan approved Council 24 July 2018	https://tinyurl.com/ya988w5b
2019/20 Budget Update Report to Cabinet 31 October 2018	https://tinyurl.com/yaedogmo
2019/20 Draft Budget Report to Council 18 December 2018	https://tinyurl.com/y9uhd7j2
Budget update report, Overview and Scrutiny Committee January 2019	https://tinyurl.com/y3kn93mh
Draft Budget report, Cabinet, 6 February 2019	https://tinyurl.com/y3oxyxt8
Pay Policy report, Human Resources Committee, 12 February 2019	https://tinyurl.com/y3fgozxl

Tracking Information

Signed off by	Date sent
Legal Services	07/02/2019
Section 151 Officer	07/02/2019
Monitoring Officer	07/02/2019
SMT	07/02/2019

Circulated to	Date sent
Assistant Director	07/02/2019
Human Resources Manager	N/A
Communications Team	N/A
Leader	07/02/2019
Committee Chairman	N/A
Portfolio Holder	07/02/2019

Circulated to	Date sent
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	06/02/2019
Council	26/02/2019