South Lakeland District Council

Council

27 February 2018

2018/19 TO 2022/23 BUDGET

PORTFOLIO:	**Councillor Giles Archibald – Leader and Finance Portfolio Holder**
REPORT FROM:	**Shelagh McGregor - Assistant Director (Resources) and Chief Finance Officer (S151)**
REPORT AUTHOR:	**Shelagh McGregor - Assistant Director (Resources) and Chief Finance Officer (S151) Helen Smith - Financial Services Manager**
WARDS:	**All Wards**
FORWARD PLAN:	**Budget and Policy Framework Decision included in the Forward Plan as published on 22/12/2017**

1 SUMMARY AND EXPECTED OUTCOME

1.1 This report considers the recommendations from Cabinet to determine the Council's budget for 2018/19 onwards, including fees and charges, the capital programme and the Chief Finance Officer's Advice on the Robustness of Estimates and the Adequacy of Reserves.

1.2 The expected outcome is that the Council will approve a balanced revenue budget for 2018/19 and the capital programme as detailed in the report. This will enable the statutory requirement of setting and approving the Council Tax by the due statutory date of the 11 March 2018.

2 RECOMMENDATION

2.1 It is recommended that Council:-

(1) Adopts a Net Revenue Budget for 2018/19 of £12,931,100 as set out in Section 2 of the Draft Budget Book (Appendix 1);

(2) Approve the £5 (2.7%) increase in the Band D Council tax for District Council Services for 2018/19 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 2018/19 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 27 February 2018;

(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 2018/19 as set out in Appendix 2;

(8) Notes the Chief Finance Officer's Statutory Report on setting the 2018/19 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 BACKGROUND

3.1. The Council, at its meeting on 25 July 2017 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 have been used in the preparation of the 2018/19 to 2022/23 Budget.

3.2 Cabinet at its meeting on 25 October, 29 November and Council on 19 December 2017 considered the first draft budget proposals. A further update was provided to the Cabinet meeting on the 7 February 2018. This report updates that position with the final local government finance settlement figures, which were published on 6 February 2018.

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 2018/19 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%.

4 REVENUE BUDGET

REVENUE BUDGET PROJECTIONS, ASSUMPTIONS AND MEDIUM TERM FINANCIAL PLAN

4.1 The Medium Term Financial Plan (MTFP) projects future levels of both income and expenditure over five years and includes a projection of the overall surplus or deficit on the General Fund Revenue Budget annually for 2018/19 to 2022/23. The assumptions and financial implications are kept constantly under review as circumstances change. The last full revision of the MTFP was approved by Council in July 2017. This report provides an update of the financial position.

4.2 The known changes at this stage are included in the revised overall position set out in **Table 1** below. These annual projections are based on the set of assumptions detailed below. A more detailed analysis of expenditure and income is set out in **Sections 2** and **3 of the Draft Budget Book (Appendix 1)**.

4.3 **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 of estimated financial position by year**

	2018/19 £000	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000
Service Expenditure	29,004.3	27,762.6	27,883.0	28,185.9	28,624.7
Uncommitted Pressure/Growth	0.0	500.0	500.0	500.0	500.0
Service income	-13,480.2	-13,433.7	-13,695.1	-13,800.5	-14,081.4
Net service expenditure	15,524.1	14,828.9	14,687.9	14,885.4	15,043.3
Corporate items	-15,163.1	-13,635.3	-13,394.6	-13,604.6	-13,672.5
Net projected deficit before impact of future local government finance settlement	**361.0**	**1,193.6**	**1,293.3**	**1,280.8**	**1,370.8**
Update for future local government finance settlements			515.0	1,030.0	1,545.0
Sub-total before impact of Customer Connect	**361.0**	**1,193.6**	**1,808.3**	**2,310.8**	**2,915.8**
Further Savings from Customer Connect	-361.0	-769.0	-769.0	-769.0	-770.0
Net projected deficit February 2018	**0.0**	**424.6**	**1,039.3**	**1,541.8**	**2,145.8**

4.4 The projected deficits before the savings from the Customer Connect Programme and local government funding changes total £361k for 2018/19 rising to c£2.9m by 2022/23. After Customer Connect savings of £361k in 2018/19 rising to £770k from 2019/20, the projected deficits of c£0 to £2.1m remain. A total of £80k of savings has been included in the base estimates to reflect the Customer Connect efficiencies already made bringing the overall savings total from the programme to £850k per year.

4.5 The draft budget has been updated to reflect the final finance settlement received on the 6 February 2018 where the Rural Services Delivery Grant was increased by £85.6k and income from business rates increased by £83.7k. Both changes are for 2018/19 only.

4.6 The potential changes to the business rates retention system from April 2020 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 but from 2020/21 a potential cumulative reduction in funding of circa £0.5m per year rising to circa £1.5m by the final year of the current MTFP model. This has the effect of increasing the potential future year deficits from c£400k in 2019/20 to c£2.1m by 2022/23.

4.7 These deficit projections include £500k for unallocated growth and budget pressures from 2019/20 onwards. The Council has a statutory duty to set a balanced budget. It is the current practice that once this has been achieved, the balance of the £500k can be used to support discretionary, fixed term growth items.

4.8 These annual projections are based on the set of assumptions detailed below. A more detailed analysis of expenditure and income is set out in the draft Budget Book at **Appendix 1** which shows net expenditure budgets by service.

4.9 Work continues to tackle the deficits from 2019/20 onwards. 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. A key factor going forward will continue to be central government funding.

DRAFT BUDGET ASSUMPTIONS

4.10 The draft budget proposals for 2018/19 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.

c) The 2018/19 salary budgets have been updated to reflect the national pay offer made to unions in December 2017 of 2% for most staff with higher increases on the lower pay points. A 1% change in the pay award will increase the employee budgets for 2018/19 by c£140k per year.

d) From April 2019 onwards 2% has been included for inflationary pay awards and the expected increase in the National Living Wage to £9 per hour by 2020. The national pay offer includes proposals to restructure the national pay scales, removing and inserting pay points. This national restricting of the pay scales, if accepted by unions, would require the Council to review its pay structure during 2018/19 and cannot be accurately costed or included in the estimates at present. The Leader of the Council has suggested that he would like the Council to achieve a minimum wage rate which is equivalent to the current voluntary Foundation Living Wage (FLW) (£8.75) plus inflation by 2019/20. The Customer Connect Programme will involve a major review of roles, posts and job evaluations. It has been requested that the FLW aspiration and the challenges it involves is considered as part of this.

e) The vacancy factor applied to salary budgets has been increased annually to 4% on a recurring basis. This delivers £551k in reductions on the total bill to £13.6m to reflect vacancies occurring during the year. The achievement of this reduction for vacancies and turnover is reviewed on an annual basis.

f) The changes to levels of grant and business rates retained from the final Local Government Finance Settlement for 2018/19 have been included.

g) 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.

h) Capital charges have been updated to reflect the latest approved capital programme. These have no impact on the MTFP projections as they are not charged against Council Tax.

i) The draft budgets assume all budgets for 2017/18 will be spent in-year. The Q3 monitoring process has identified a number of areas where it is expected that underspends will appear. 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	
GCL: Community Leisure	20	Active travel underspend to fund British Cycling £10k in 2018/19 and 2019/20
GLP: Local Plans	10.2	To fund support assistant in 2018/19 only
GHM: Homelessness - new burdens grant	9.5	To fund temporary housing post to implement new housing responsibilities
GED: Economic Development	21.6	Additional income from Mintworks to fund temporary housing post to implement new housing responsibilities
Total	**61.3**	

All other requests for re-profiling will be subject to approval by full Council in May 2018.

LOCAL GOVERNMENT FINANCE SETTLEMENT

4.11 The Government published the provisional Local Government Finance Settlement on 19 December 2017 and the final Settlement on 6 February 2018. 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 2018/19 to 2022/23 budgets attached to this report. The main changes in the settlement are set out below.

4.12 The Council Tax referendum thresholds have been increased for all authorities for 2018/19 and 2019/20. For district councils the maximum increase has been lifted from the higher of below 2% or £5 to 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 £5.55, which would generate an additional £24.8k of income from Council Tax. The threshold for County and Unitary authorities are also lifted. 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.

4.13 Rural Services Delivery Grant (RSDG) was due to be reduced nationally for 2018/19 only. In the provisional settlement this reduction in funding for 2018/19 was reversed so the Council’s share of the grant was to remain at £347.9k not £267.6k as included in the MTFP projections. In the final settlement the RSDG was further increased by £85.6k for 2018/19 only.

BUSINESS RATE POOL

4.14 The Cumbrian authorities were not successful in the bid to become a new business rate pilot pool. The pilot areas are Berkshire, Derbyshire, Devon, Gloucestershire, Kent and Medway, Leeds, Lincolnshire, Solent, Suffolk, Surrey and London. The budgets for 2018/19 to 2022/23 did not anticipate any additional income from the potential pilot pool.

4.15 The existing Cumbrian pool is expected to continue for 2018/19 with the addition of Copeland Borough Council. The rules managing pools requires that the existing pool is dissolved and a new pool is created to include Copeland. The pool has a volatility reserve to mitigate a significant drop in business rate income from any authority within the pool which was created by retaining within the pool some of the income that would otherwise have been distributed to each member authority. This volatility reserve will be payable to each authority in the current pool when it is dissolved on 31 March 2018 and the new pool will create a new volatility reserve. The Council's share of this volatility reserve is expected to be £166k. It is expected that the business rate pool will continue for 2018/19 only. Due to the level of uncertainty around the level of income to be distributed by the pool, the funding is built into budgets 1 year in arrears so this can be used to support financial years 2019/20 onwards. Any unallocated balance remains within the NNDR pool reserve which is earmarked for economic development (**Section 6** of the Draft Budget Book).

GOVERNMENT FUNDING AND OTHER REVENUE BUDGET UNCERTAINTIES

4.16 The figures presented include certain assumptions where work is on-going or where information is not yet available. From 2020 the whole system of Government funding will change but the Government is still consulting on the new funding model: the financial model assumes this will have a neutral impact on the funding from April 2020 onwards except for the assumption that there will be no business rate pool.

4.17 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. The introduction of a baseline of 0.4% growth before any bonus is earned has reduced the amount due for future years. There has also been an increase in empty properties in 2017, reversing a fall in 2016 mainly due to flooded properties being excluded. This has reduced the NHB due in 2018/19 and future years by an additional circa £100k each year.

4.18 A further risk is the agreement with the County Council in terms of their contribution of Second Homes income to SLDC. This varies year on year depending on the number of second homes in the district, the income currently assumed in all years in the budget from this source is c£650k that supports the revenue account. The current agreement expires March 2019 and the future arrangements will be closely monitored and reported.

4.19 The Council also 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.

4.20 Overall, although there are still uncertainties, the Council is in a strong position to set a balanced budget for 2018/19 and to address the additional level of deficit in 2019/20. **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

4.21 There are a number of other recurring budget pressures and adjustments that have been identified through the budget process. As per **Table 1**, these total a

£484k increase to the base for 2018/19, reducing to c£400k pa from 2022/23 onwards. The details of these are contained within **Section 3c** of the Draft Budget Book and mainly relate to unavoidable changes in circumstances.

4.22 The single largest budget change relates to proposed budget changes around the Waste and Recycling service (£141k in 2018/19 reducing to £88k by 2022/23). In addition, the Council has seen significant cost pressure in relation to Homelessness and the end of the Social Lettings scheme (£95k). The other major pressure relates to insurance costs (£57k in 2018/19 rising to £93k by 2022/23).

GROWTH PROPOSALS

4.23 The detail of revenue growth items is included at **Section 3d** of the Draft Budget Book*.* These total **£240k** and relate to one off items of expenditure within 2018/19 budgets. Until specific savings proposals to balance the 2018/19 budget have been identified, no growth is committed to, unless it relates to statutory or un-controllable pressures on current services which have no alternative sources of funding or delivery (as detailed in **Section 3c** of the Draft Budget Book**)**.

4.24 The single largest area of Growth bids relates to Economic Development activities (£220k). This includes growth bids to develop options around Grange Lido (£140k) and a strategic review of car parking (£50k). It is proposed that these are funded through the use of the NNDR Pool reserve, which is set aside specifically to support economic development. The proposed continuation of the Promoting South Lakeland budget (£30k) to support local events has now been removed to reduce the budget deficit.

4.25 The growth bids have been produced by officers in consultation with the relevant portfolio holders. All initiatives have been signed off by both portfolio holders and the Senior Management Team.

4.26 Three additional growth proposals have been incorporated into the draft budgets since the draft budgets reported to Council in December 2017 and Overview and Scrutiny Committee in January 2018. These are detailed below and are in addition to the totals in **Section 3d** of the Draft Budget Book.

a) An additional budget of £50k has now been included as revenue growth to provide support to carbon reduction schemes funded from New Homes Bonus. A system similar to the LIPs will be set up for groups to bid against.

b) An additional budget of £30k has been included for support to Business Improvement Districts funded from the unallocated Business Rate Pool.

c) The capital programme includes the costs of creating a new car park at Parkside Road, Kendal. The revenue costs of the car park (£15.8k for a full year) are now included in the draft budget.

SAVINGS PROPOSALS

4.27 A number of savings proposals have been brought forward as part of the budget exercise. These total c£200k for 2018/19 rising to c£270k thereafter. These are detailed in **Section 3e** of the Draft Budget Book.

4.28 £42k of these savings relate to the Customer Connect Programme for 2018/19, rising to £59k thereafter. £22k of savings from the project had already been identified within the 2017/18 base budgets. Overall, the Customer Connect programme is anticipated to generate recurring annual savings of c£850k once fully implemented with half of this within 2018/19. A further c£360k of savings at this stage are due to be delivered in 2018/19 with c£770k of savings to be delivered in future years. This target is subject to the outcome of the review of Planning, Building Control and Land Charges which has been undertaken during the last year as part of the Customer Connect Programme (CCP). This target in this year will be reviewed when that work has been finalised to produce the savings level and profile. The efficiencies delivered through the CCP will significantly off-set the deficits set out in **Table 1**.

4.29 The amount and nature of the savings identified above are considered reasonable and deliverable from 2018/19. If there is any adjustment required to the timing of delivery, this will be managed through one off contributions to/from reserves.

4.30 Customer Connect should deliver the majority of the savings required to balance future years. Further work will be carried out to identify proposals to meet any 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. Updates will be provided in subsequent finance reports including the MTFP update and Corporate Financial Monitoring.

FEES AND CHARGES

4.31 The MTFP assumes that income to be generated from fees and charges will total £9.9m per annum for 2018/19. This figure has been adjusted to reflect the budget savings from **Section 3e** of the Draft Budget Book, where these relate to fees and charges.

4.32 Lake Administration Committee considered fees and charges on 6 October 2017**.** Licensing Committee considered its fees 7 November 2017. The full fees and charges listing was considered by Cabinet on 13 December 2017 and Council on 19 December 2017 and the draft Fees and Charges book is attached at **Appendix 2**.

4.33 The Government has confirmed an increase in planning fees of 20% as previously proposed. This increase applies from 17 January 2018 and additional income must be ring-fenced for additional planning services so will have no direct impact on the net revenue budget. The draft budgets have been updated for the initial estimate of the increase in fees which may need to be adjusted during 2018/19 once the full impact of the changes to concessions and other adjustments to the fee structure have been incorporated into the projections.

4.34 Following the introduction of an early-bird car parking tariff in Kendal and a car parking review by Windermere Town Council, an early-bird tariff is included for part of the car park at Broad Street Windermere on a trial basis.

PARISH PRECEPTS AND COLLECTION FUND

4.35 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 2018/19 total £1,612,265, which represents an increase of £48,895 (3.1%) compared to 2017/18. The average band D Council tax for the parishes will rise by a lower percentage of 2.2% (from £34.84 to £35.62) due to the increase in the Council tax base.

4.36 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 surplus of £192k for Council tax for 2017/18 of which this Council's share is £24.5k. The surplus is shared with Cumbria County Council, Cumbria Police and the District Council in proportion to their individual Council tax levels.

4.37 Both Cumbria County Council and the Police and Crime Commissioner are expected to finalise their precept for 2018/19 after this report has been finalised (on 12 February 2018), 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.

4.38 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 BASE AND COUNCIL TAX

4.39 The Localism Act gives local communities the power to approve or veto council tax rises at or above a limit set by the Secretary of State. If an authority proposes to raise taxes at or above this limit they will have to hold a referendum to approve or to veto the rise. For 2018/19 this level has been confirmed as an increase of £5 per year or below 3%, whichever is the higher, for shire district Councils.

4.40 The MTFP in July 2017 assumed for planning purposes the Council tax from April 2018 will increase at the maximum level permitted without triggering a referendum (i.e. £5 for a band D property). The finance settlement now increases this permitted increase to the equivalent of £5.55 for a band D property and the Government assumes that each authority increases in Council Tax by the maximum permitted when calculating the spending power for local authorities.

4.41 The Assistant Director (Resources) approved the Council tax base for 2018/19 under delegated powers on 18 December 2017. 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.

4.42 There has been an increase of 396.76 in the overall tax base for the South Lakeland district from 44,869.23 band D equivalent properties to 45,265.99 band D equivalent properties. This will result in a slight increase in Council tax collectable of £75.6k to £8,629,100 based on the projected 2018/19 Council tax of £190.63.

4.43 The MTFP 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. The actual tax base for 2018/19 shows an increase of 0.9% to 44,265.99 band D equivalent properties. Every 100 additional band D properties will increase the Council tax due to the Council by £19,000 per annum.

4.44 The tax base for 2018/19 identified 4,150 second homes within the district, equivalent to 4,081 band D properties, which now pay 100% of Council tax. Under the Second Homes agreement with Cumbria County Council the Council will receive £640k of income in 2018/19. This agreement with the County Council expires in March 2019 and the future arrangements will be closely monitored and reported.

4.45 Each 1% increase in Council Tax generates an additional £86k of income to the Council. If the Council Tax were to be frozen in 2018/19 at existing levels an additional £198k of savings would be required to balance the General Fund. If Council Tax were to be frozen until March 2023 the total annual shortfall in income for 2022/23 would be £1.1m and the Council would have foregone £3.3m of income over the 5 year period.

4.46 The Chancellor announced in the 2017 Budget that Councils will be given the option to increase the premium on empty homes from 50% to 100%. This is unlikely to generate more than £25k for the Council. However, no detail has yet been published about when, or how, this would take effect.

5 CAPITAL PROGRAMME

5.1 Proposals for new areas of capital expenditure were considered by Portfolio Holders on the 3 October 2017 and were prioritised with reference to the funding available.

5.2 The regular capital monitoring has identified a number of schemes where expenditure is unlikely to occur during 2017/18 and where it is requested that the expenditure is re-profiled to 2018/19. There have also been some schemes where expenditure has been higher than expected where an increase in budget is requested; these can all offset by compensating underspends elsewhere in the capital programme. The Council has been allocated £56k of additional funding for disabled facilities grants for 2017/18 to fund adaptations to homes. The Capital Programme included at **Section 5** of the Draft Budget Book includes these changes for 2017/18 and corresponding re-profiling in 2018/19. Details of all the capital expenditure is included in the Corporate Financial Monitoring report elsewhere on the agenda for this meeting.

5.3 An additional budget to support the improvement of community toilets and related facilities to better serve people with additional needs/disabilities totalling £50k has now been included in the capital programme. A system similar to the LIPs grants scheme will be set up for stakeholder groups across the district to bid for. This is funded from New Homes Bonus.

5.4 The vehicle and plant programme includes 6 sweepers costing £408k which are due to be delivered early in 2018/19 but may be delivered late in March 2018. The sweepers are currently included in the capital programme for 2018/19 but should they be delivered in 2017/18 the capital programme and funding will be adjusted.

5.5 The resulting proposed capital programme is presented at **Section 5** of the Draft Budget Book**.** A summary of the proposed capital expenditure up to 2022/23 is shown below:

Table 4: Summary Draft Capital Programme Expenditure

2017/18	Re-profiling and adj	2017/18 Revised	2018/19	2019/20	2020/21	2021/22	2022/23	**Total 2017/18 to 2022/23**
£000	£000	£000	£000	£000	£000	£000	£000	**£000**
9,653.8	-743.7	8,910.1	4,654.7	3,440.1	2,120.3	1,903.8	2,116.0	**23,145.0**

There may be some resource implications from the Strategic Asset Review that Lambert, Smith Hampton were tasked to carry out in their first year of the contract with the Council. That work has now been substantially completed and is now subject to detailed consultation, particularly with key service areas, to inform the work programme over the coming years.

5.6 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 **Table 4**. These include:

a) Car Parking Strategy **-** a review is planned to look at the provision of Car Parking across the district. This will include detailed proposals around a number of issues including consideration of the potential for new sites at Oxenholme, Arnside and Kendal. The potential for double decking of existing sites; surfacing options at Braithwaite Fold and the siting of electric charging points. £50k has been included within the revenue growth items to cover the cost of expert consultants to deliver the strategy and costed options.

b) Rydal Road Car Park access options – existing estimates of c£500k are being reviewed. The Parish Council will be consulted with regards to the options. The Business Case for the options are being developed for further consideration before inclusion in the Budget.

c) Ulverston Leisure facilities options are being reviewed following the announcements by GSK of their intention to divest from their Ulverston site. Although there is significant uncertainty around the scheme, a revenue budget of £100k is being considered for the SLDC contribution to potential development costs.

d) SLDC accommodation options are currently being considered as part of the Customer Connect Programme. £50k has been proposed as a revenue growth bid to support development of options around South Lakeland House. The capital cost of any improvements is likely to be significant and a range of options setting out the Business Case for each will be provided to enable an affordable solution to be delivered.

e) Grange Lido development options are being considered; £140k is included within revenue growth to support development of these options.

f) Affordable and Community Housing have a significant amount of existing capital resources to call on through income from Right to Buy receipts and the Community Housing Fund. Cabinet on 13 December 2017 approved revised spending proposals for existing affordable housing programme. Plans are being developed to ensure that the Community Housing Fund allocation is spent and specific proposals will be brought forward to ensure the relevant capital budgets are correctly reflected in the capital programme. The proposal to introduce loans from RTB replacement fund was approved in principle and will be included in the capital programme when detailed proposals have been approved.

g) The Council has been asked to consider acting as accountable body for European Regional Development Fund (ERDF) funded flood defence works. It is expected that this would be fully funded but would lead to significant capital budgets being included in the Council's programme.

h) New Road - the outcome of the future consultation will result in revenue and capital costs which are not as yet included in this Budget Report.

i) 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.

5.7 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 5: Capital funding 2017/18 to 2022/23

	Balance April 2017 £000	Capital Income £000	Use in capital programme £000	Potential Balance March 2023 £000
General				
Usable Capital Receipts	2,868	420	-2,292	996
VAT Shelter receipt	846	1,250	-654	1,442
New homes bonus (capital)****	754	2,482	-2,958	278
Earmarked or allocated				
Revenue (LIPS)	0	1,636	-1,636	0
IT replacement reserve	112	440	-475	77
Major Repairs Reserve	598	700	-607	691
Insurance contributions	0	99	-99	0
General Revenue contributions	531	2,268	-2,274	525
Cap grants and contributions (inc S106)	443	563	-914	92
Disabled Facilities Grants	241	3,648	-3,946	-57
Community Housing Fund*	2,121	0	-490	1,631
Right to Buy receipt**	3,071	4,200	-751	6,520
Borrowing				
Funding from borrowing***.	0	6,048	-6,048	0
Total	11,585	23,754	-23,145	12,194

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

5.8 Once receipts earmarked for specific purposes are removed, this shows that the programme has a modest element of unallocated resources, however, as noted at 5.6 above, there are a number of potentially significant unavoidable schemes that might need to make a call on these.

5.9 A high proportion of the unallocated resources relate to income from the Right to Buy Receipts. Cabinet on 13 December 2017 approved in principle the use of this money with partners to grant low cost finance on a loan basis rather through grant giving. The details of this are under development and the capital programme will be updated when the details of the scheme has been approved.

5.10 Although the capital programme contains estimates of expenditure for future years, these rely on the income budgets being met (eg New Homes Bonus, 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.

5.11 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.

5.12 **Section 2** of the Draft Budget Book 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 has been judged appropriate that some capital schemes may be suitable for LIPS funding. The Kendal Castle Scheme (£42k in 2018/19) and Burton Heritage Grant scheme (£35k in 2019/20 and two years thereafter) have been included on the basis that they are funded through LIPS. In addition, the Grange Promenade scheme and improvements to toilets for disabled users scheme are currently assumed to be funded through the VAT shelter or NHB.

5.13 **Table 1** includes some increases to the Minimum Revenue Provision (MRP) in the final year of the financial model. These increases reflect the rolling vehicle and plant programme which is still building up to a maximum of c£1.1m pa in MRP charge. More details on the MRP are included in the Treasury Management report elsewhere on this agenda.

6 RESERVES AND WORKING BALANCE

WORKING BALANCE

6.1 The Council's working balance at 1 April 2017 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

6.2 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. The balance on this General Reserve at 1 April 2017 was £8.3m including £989k of expenditure carried-forward from 2016/17 to 2017/18 onwards and £756k set aside for the costs of flood remediation works. By 31 March 2018, therefore, this reserve is expected to have a balance of £6.2m before transfers to other reserves.

6.3 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.

6.4 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 land acquisition, a recycling transfer station, leisure centres and multi-storey car parks. These are subject to further option appraisal and business case development.

6.5 **Section 6b** of the Draft Budget Book shows the latest risk-based calculation of a minimum recommended working balance and General Reserve for 2018/19. This gives a snap-shot view of the levels of general reserves required to meet, for one year only, the impact of various risks. This is prudent as it is likely that more than one event will occur and the Council may have an impact of more than one year. This suggests the overall projected balance is appropriate based on the current assessment of risks. The fundamental principle governing the use of reserves is that they should not be used to fund recurring expenditure.

6.6 Part of the base budget is a £200k recurring contribution into the General Reserve. As part of the current budget process, a number of pressures have been identified around the condition of Council Assets. It is therefore proposed to reduce the recurring General Fund contribution by £100k pa and increase the Major Repairs Reserve contribution by £100k pa, from 2019/20 onwards.

6.7 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. It is proposed that the £1m within the General Reserve earmarked for this purpose is transferred to the Customer Connect reserve to fund the delivery of the £850k annual savings.

6.8 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.

6.9 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 2017/18 to 2022/23. 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.

6.10 **Table 6** summarises the projected balances on reserves and the working balance at the end of each financial year.

Table 6: Projected Balances on Reserves

	31/03/17 £000	31/03/18 £000	31/03/19 £000	31/03/20 £000	31/03/21 £000	31/03/22 £000	31/03/23 £000
General Reserves	(9,680)	(7,381)	(7,172)	(7,213)	(7,325)	(7,505)	(7,651)
Capital Reserves	(1,995)	(1,917)	(1,508)	(1,560)	(1,605)	(1,656)	(1,735)
Earmarked Reserves	(5,101)	(3,758)	(3,345)	(3,198)	(3,198)	(3,198)	(3,198)
Total Reserves	**(16,776)**	**(13,056)**	**(12,025)**	**(11,971)**	**(12,129)**	**(12,360)**	**(12,584)**
Working Balance	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Total Reserves and Working Balance	**(18,276)**	**(14,556)**	**(13,525)**	**(13,471)**	**(13,629)**	**(13,860)**	**(14,084)**

7. CONSULTATION

7.1 The Draft Budget report of 19 December 2017 has been subject to the statutory four week consultation period.

7.2 Overview and Scrutiny Committee met on 12 January 2018 to consider, challenge and note the draft budgets. The Committee reviewed and challenged the report. They formally recorded they had observed the detail of the report and noted the potential deficits in future years.

7.3 Further reports on the budget were considered by Lake Administration Committee, Planning Committee and Licensing Committee.

7.4 A copy of the draft Budget proposals has been sent to the key business ratepayers as required.

8. ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

8.1 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.**

8.2 The proposed level of reserves and working balance place the Council in a sound financial position for 2018/19 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 2018/19 and address the additional level of deficit from 2019/20 onwards.

9 PAY POLICY

9.1 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.

9.2 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.

9.3 The Statement for 2018 is attached as **Appendix 4**. This policy statement was recommended for approval to Council by the Human Resources Committee on 13 February 2018. 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.

9.4 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.

10 NEXT STEPS

10.1 The Government has already announced changes to the business rates funding system for 2020. As well as the reduction of the 50% central share of business rates retained by the Government to replace 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 Ministry of Housing, Communities and Local Government (HMCLG, previously Department of Communities and Local Government or 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.

10.2 The Medium Term Financial Plan will be updated during summer 2018. The updated MTFP will be reported to Cabinet and Council; it is expected that this will be during July 2018 and will include the budget strategy for 2019/20 – 2023/24.

11 ALTERNATIVE OPTIONS

11.1 This report presents 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 meet the Council's statutory duty to set a balanced budget for 2018/19. An alternative option would be to reject some of the proposals; this would then require further work to ensure a balanced budget was set.

12 LINKS TO COUNCIL PRIORITIES

12.1 This report sets out a draft budget that provides resources to implement the Council Plan. Setting a sound framework for budget preparation assists with the delivery of all corporate outcomes. This budget has been developed within the context of the MTFP.

13 IMPLICATIONS

13.1 Financial and Resources

13.1.1 The draft budget aims to safeguard the Council's financial position and ensure a balanced budget for 2018/19 and an improved position in the years that follow.

13.2 Human Resources

13.2.1 This report has no direct impact on the staffing of the Council. Individual savings and growth proposals may have direct staffing implications.

13.3 Legal

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

13.4 Health, Social, Economic and Environmental

13.4.1

Have you completed and Health, Social, Economic and Environmental Impact Assessment?	Yes ☐	No ☒
If you have not completed an Impact Assessment, please explain your reasons.	This report contains proposals to set a balanced corporate budget for 2018/19. It is proposed to deliver the Council Plan which will ensure positive Health, Social, Economic and Environmental impacts. Specific issues that require HSEEIAs will be brought forward as specific initiatives commence.	

13.5 Equality and Diversity

13.5.1

Have you completed an Equality Impact Analysis?	Yes ☒	No ☐
If yes, please confirm that it is attached to the report in the appendices.	Yes ☒	No ☐
If you have not completed an Equality Impact Analysis, please explain your reasons.		

13.6 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. 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 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.

Risk	Consequence	Controls required
Failure to accept tenders within time limits	Potential need to re-tender and/or loss of most economically favourable tenders.	Robust Procurement processes including efficient mechanisms for accepting tenders.
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 in **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 2017 (as updated).

CONTACT OFFICERS

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

APPENDICES ATTACHED TO THIS REPORT

Appendix No.	
1	2018/19 – 2022/23 Draft Budget Book including: General Fund Summary MTFP projections February 2018 Service Budgets by Assistant Director Detailed Service Budgets Recurring Revenue Budget Pressures Growth Proposals Savings Proposals Collection Fund 2018/19 Council Taxbase 2018/19 Parish Expenses 2018/19 Draft Capital Programme 2017/18 to 2022/23 Reserves Summary Risk Assessment of Reserves MTFP Risks and Opportunities Log
2	Fees and Charges Book for 2018/19
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
MTFP, Council 25 July 2017	https://tinyurl.com/yc7fflgp
Quarter 2 Corporate Financial Monitoring, O&S 27 October 2017	https://tinyurl.com/y873n7vw
Budget update report, Cabinet 25 October 2017	https://tinyurl.com/yclanhhb
Budget update report, Cabinet 29 November 2017	https://tinyurl.com/y9sbmfpp
Budget update report, Cabinet 13 December 2017	https://tinyurl.com/ybfq6f2s
Budget update report, Council 19 December 2017	https://tinyurl.com/yd3tu78d
Budget update report, Overview and Scrutiny Committee 12 January 2018	https://tinyurl.com/y74usgb7
Draft Budget report, Cabinet, 7 February 2018	https://tinyurl.com/y9hga6m7

TRACKING INFORMATION

Assistant Director	Portfolio Holder	Solicitor to the Council	SMT	Scrutiny Committee
Report of Chief Finance Officer	09/02/2018	09/02/2018	09/02/2018	12/01/18
Executive (Cabinet)	**Committee**	**Council**	**Section 151 Officer**	**Deputy Monitoring Officer**
07/02/2018	n/a	27/02/2018	Report of S151 Officer	09/02/2018
Human Resource Services Manager		**Leader**	**Ward Councillor(s)**	
09/02/2018		09/02/2018	n/a	