Appendix 1

South Lakeland District Council Medium Term Financial Plan

Including Financial Strategy and Budget Strategy 2019/20 to 2024/25

Contents

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SOUTH LAKELAND DISTRICT COUNCIL

Executive Summary

a) The purpose of the Medium Term Financial Plan (MTFP) is to enable South Lakeland District Council to ensure the effective planning and allocation of resources to enable the Council to meet the objectives it has set out in its Council Plan. This has been prepared at a time of considerable uncertainty with regard to the economy (including Brexit) and the Government's approach to public sector funding. The MTFP will be considered by the Overview and Scrutiny Committee on the 12 July, by Cabinet on the 17 July before approval at Council on the 23 July 2019. Update reports will be provided as part of the 2020/21 budget process.

b) The financial position over the medium term shows an annual revenue budget deficit of £0.6m for 2020/21 rising to £2.0m by 2023/24. This is dependent upon the prompt and full delivery of the Customer Connect programme and all other savings approved and anticipated in the 2019/20 Budget; and that the underlying assumptions around income and expenditure changes are robust. Work to implement these savings and ensure a balanced budget for 2020/21, and to ensure an improved position for 2021/22 onwards will continue.

c) The Council generates £10m of income through fees and charges annually with a further £9m from Council Tax. However the Council is still dependent on monies from the Government (expected to reduce from £5m to £1.3m during the period covered by this plan). The Government planned changes to local authority funding from April 2020; with the delay in the Government Spending Review due to Brexit there is now great uncertainty about whether these changes will still be implemented. The impact of the proposals and the timing increases uncertainty.

d) Capital Funding – a major review of assets was carried out in 2018/19. This identified significant capital expenditure above the existing capital programme if current service provision is to be maintained using existing assets. Not all of these expenditure plans will be accepted and taken forward once assessed for suitability and affordability. There has been an increase in funding capital expenditure from borrowing as other capital resources are exhausted. The current approved capital programme includes two large, externally funded schemes where the Council is the accountable body.

e) Reserves - the Council's reserves are projected to total £12m by the end of 2019/20, of which £5m are earmarked. The risk assessment proposes that the Council should also maintain general reserves of circa £6m.

f) Overall the Council's financial position remains relatively strong as shown by the adequate General Fund balances and reserves, robust financial management processes and an excellent track record in achieving efficiency savings. Challenging times are ahead however to identify and decide upon options that will provide the solution to the remaining revenue deficits.

Helen Smith, Finance Lead Specialist, SLDC, June 2019

1. Introduction

1.1. The Council's Medium Term Financial Plan (MTFP) is a rolling 5-year plan that takes into account:

- The Council's priorities and stated aims in the Council Plan
- The major service strategies and plans
- The external financial environment
- The overall financial demands of services
- The Council's existing and projected financial resources
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1.2. The MTFP was last approved in July 2018 and set the context for the 2019/20 budget setting process.

1.3. In common with all the public sector, the medium term outlook for the Council is extremely challenging and in order to protect and improve services an ambitious and ongoing programme of savings and focus on income generation are key to success. The Council has a good track record for reacting promptly to changes in the financial situation and delivering a longer term approach to savings.

Financial Planning Horizons and Financial Planning

1.4. Different techniques are used when considering the short, medium and long-term financial planning horizons since each makes a distinctive contribution to the financial health of an organisation:

- Long-term planning horizon is focused on enabling the transformation of the organisation with an emphasis on being strategic and customer-led, future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas. This is seen in the Financial Strategy and the Capital Strategy revised annually as part of the budget process;
- Medium-term planning horizon is focused on supporting performance with an emphasis on responsiveness to customers, efficiency and effectiveness, and with a commitment to improving performance. This is seen in the Medium Term Financial Plan;
- Short-term planning horizon is focused on securing stewardship with an emphasis on control, probity, meeting regularity

requirements and accountability. This is seen in the annual budget process which reflects the detail from the Medium Term Financial Plan for the following year to set the Council tax.

1.5. The Council's Medium Term Financial Plan consists of a revenue and capital investment programme over a five year period with a longer-term capital projection over a 20-year period. The programme is revised annually to roll forward so as to incorporate a new year, as well as to review and revise the old financial years. The Council constantly reviews the form and content of its MTFP to ensure it meets good practice.

1.6. The future impact of all issues have been considered as part of the 2019/20 budget setting process, including those which were already known about which may not impinge on our budgets until after the first year (2019/20). **Appendix 1** includes the key stages involved in producing the budget for 2020/21.

2. Financial stability

2.1. An essential requirement of any successful organisation is financial stability that requires strong corporate governance supported by effective procedures, processes and controls with Council-wide involvement in supporting an integrated approach to the preparation of soundly based capital and revenue bids for resources. The MTFP is based on sound financial assumptions that are based on robust assessments. The 'robustness' of the MTFP is highlighted in the **Appendices** to this strategy which show the key elements of the Council's financial management framework. The risks log at **Appendix 7** summaries the key financial risks facing the Council and the steps to be taken to mitigate these risks.

2.2. The medium-term financial planning process has been in place for a number of years and is an established part of the budget setting process. It provides a forecast of the cost of continuing to provide existing levels of service and the resources, both capital and revenue, that are likely to be available to the Council over the period. It identifies any shortfalls and sets out how this will be managed. This document is reviewed regularly during the year, regular review and update is essential to ensure the MTFP takes full account of any changes in the Council's aspirations, strategic and service delivery priorities, changes in Government legislation, financial regulation and funding streams.

Customer Connect

2.3. During 2019/20 the Council is implementing Customer Connect to create a single view of the customer to put them at the heart of everything we do and enable them to have better access to services at times which are more convenient to them. This involves the complete re-focus of services and staff to prioritise locality and case-management working supported by specialists and support services. Phase 1 was implemented in May 2019 with phase 2 in progress and due to be implemented by the end of December 2019.

2.4. The programme will deliver savings of £740k in 2019/20 and then on-going revenue savings, initially of £1.55m per year. There are also likely to be indirect savings as a result of new ways of working which have not yet been identified. The programme includes the preparation and implementation of a commissioning framework to review the need for services and to review how services should be provided, including de-commissioning of services where necessary.

3. Financial strategy

3.1. The Council's financial strategy is:

a **Balanced budgets:** Maintain a balanced budget position, and to set a medium term financial plan maintaining and strengthening that position

b **Five year budgets:** the Council sets budgets for a five year period.

c **Strong financial management:** The Council controls and monitors the actual position of the authority on a regular basis setting out actions to correct any emerging issues.

d **Understanding of key cost-drivers:** The Council analyses and reviews the key elements of the service areas including the use of benchmarking.

e **Asset maintenance:** the Capital Programme should ensure adequate programmes of maintenance to sustain values of key assets, especially income-generating assets.

f **Legal transactions:** the approval and adoption of the Council's Constitution, particularly the Budget and Policy Framework, Financial Procedure Rules and the Contract Procedure Rules set foundations for ensuring legal transactions alongside the whole system of internal control reviewed annually in the Annual Governance Statement.

g **Affordable investment;** to undertake a prudent level of capital investment to meet the Council's strategic priorities and remain within prudential borrowing limits.

h **Maximise resource base;** the Council will ensure the best use of physical and other assets including staff time.

i **Value for money;** Continuous review of budgets to ensure resources are targeted on key objectives and deliver value for money to local taxpayers.

j **Working with others:** to ensure all services are delivered by the most appropriate body. This may require the Council to work in partnership or to facilitate provision by other bodies.

k **Minimise financial risk** including holding reserves as appropriate and sustainable levels of debt.

l **Optimise Income** through ensuring that charges are set at an appropriate level and income is collected effectively. Charging is an important and appropriate way of financing services and provides an alternative to council tax in paying for the Council's services.

3.2. The Council has a duty to ensure value for money in everything it undertakes. Value for Money (VFM) is an assessment of whether or not we obtain the maximum benefit from the goods and services we both acquire and provide, within the resources available to achieve it. This assessment includes considerations about suitability, quality, whole life costs and the relationship between economy, efficiency and effectiveness and is summarised as:

> "In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

3.3. Value for money remains an integral part of the external audit opinion. The latest general feedback within the audit of the 2017/18 accounts and incorporating the MTFP approved in July 2018 was that the Council had consolidated previous improvements and demonstrates good value for money across our services.

3.4. The Council's Value for Money Strategy was last approved in July 2014 as part of the MTFP process and provides a framework on how the Council aims to maximise its resources. During 2019/20 it is expected that the Value for Money Strategy will be replaced by elements of the Commissioning Framework and the Commercial Strategy.

3.5. The rest of this paper uses these principles to construct the Medium Term Financial Plan for 2019/20 – 2023/24.

4. Vision for South Lakeland and local context

4.1. The MTFP aims to support the Council's overall vision for the District: "Working together to make South Lakeland the best place to live, work and explore".

4.2. The Council Plan sets out the strategic approach to how the Council will shape delivery of the outcomes. The priorities will be delivered by ensuring we are equipped to provide the best, most cost effective services. To achieve this we will:

- create an environment for people to thrive
- deliver excellent, value for money, services
- play a leadership role and influence others
- empower customers and communities
- be a forward thinking, innovative, council.

4.3. The Council Plan set out the challenges and opportunities that the district faced in the short, medium and long term:-

- South Lakeland's demography;
- financial resilience;
- affordable housing;
- sustainability;
- rise in obesity levels and inactivity;
- access to better training and development; and
- education and skills.

4.4. Our Council Plan is influenced by our key three values:

- empowering people: By listening to our customers and our employees, their ideas and comments will help us make improvements to customer service and workforce development
- excellence: Seeking continuous improvement in what we do, ensuring that our actions address the needs of South Lakeland
- open and transparent: Being courteous, efficient and transparent in our dealings with the public

4.5. We will achieve our aims by:

- working across boundaries, with a range of other local authorities, organisations and businesses
- creating balanced communities, where there is a good mix of housing types, including social housing and a good mix of residents to reduce division between different types of people

- reducing inequalities, so no one is left behind or seriously disadvantaged
- encouraging a sustainable environment.

4.6. Our three key priorities are:

- Housing and Communities
- Economy and Culture
- Health and Environment

The Council has a long term ambition for “1000 jobs and 1000 affordable homes for rent” by 2025 .

4.7. As well as the Customer Connect programme, a number of major strategic reviews are currently underway including:

- Implementation of housing alternative funding model;
- the implementation of the Local Plan Development Management Framework;
- the Leisure Facilities Strategy and future of Ulverston Leisure Centre;
- the implementation of the Environment Agency’s Kendal Flood Relief Scheme, a major programme which will require the engagement of the Council as owner of land, local planning authority and as accountable body for elements of external capital funding which may be applied in the Scheme;
- the Economic Development Strategy for South Lakeland, and the wider Morecambe Bay functioning economic, housing, health and travel to work area;
- preparation and implementation of a Commissioning Framework and an updated Procurement Strategy;
- preparation and implementation of a Commercial Strategy;
- contributing to the delivery of the Cumbria Public Health Strategy;
- implementation of the Council Policy on Climate Change.

These may require changes in current spending and funding plans.

4.8. The Council is committed to working with partners and other key stakeholders to deliver services within South Lakeland. This includes

- formal arrangements, such as Cumbria Local Economic Partnership (LEP), Cumbria Business Rate Pool;

- the creation of the Lancaster and South Cumbria Economic Region (LSCER) will see the Council, Barrow Borough Council and Lancaster City Council working together more closely to promote potential for investment and growth in the area;
- formal contractual arrangements as a result of competitive tendering;
- transfer of assets or management of assets between organisations;
- sharing of premises;
- informal collaborations.

4.9. Some shared arrangements exist for providing services within the organisation: currently South Lakeland shares IT with Eden District Council and are jointly implementing the digital element of the Customer Connect programme.

5. MTFP Revenue

Financial context

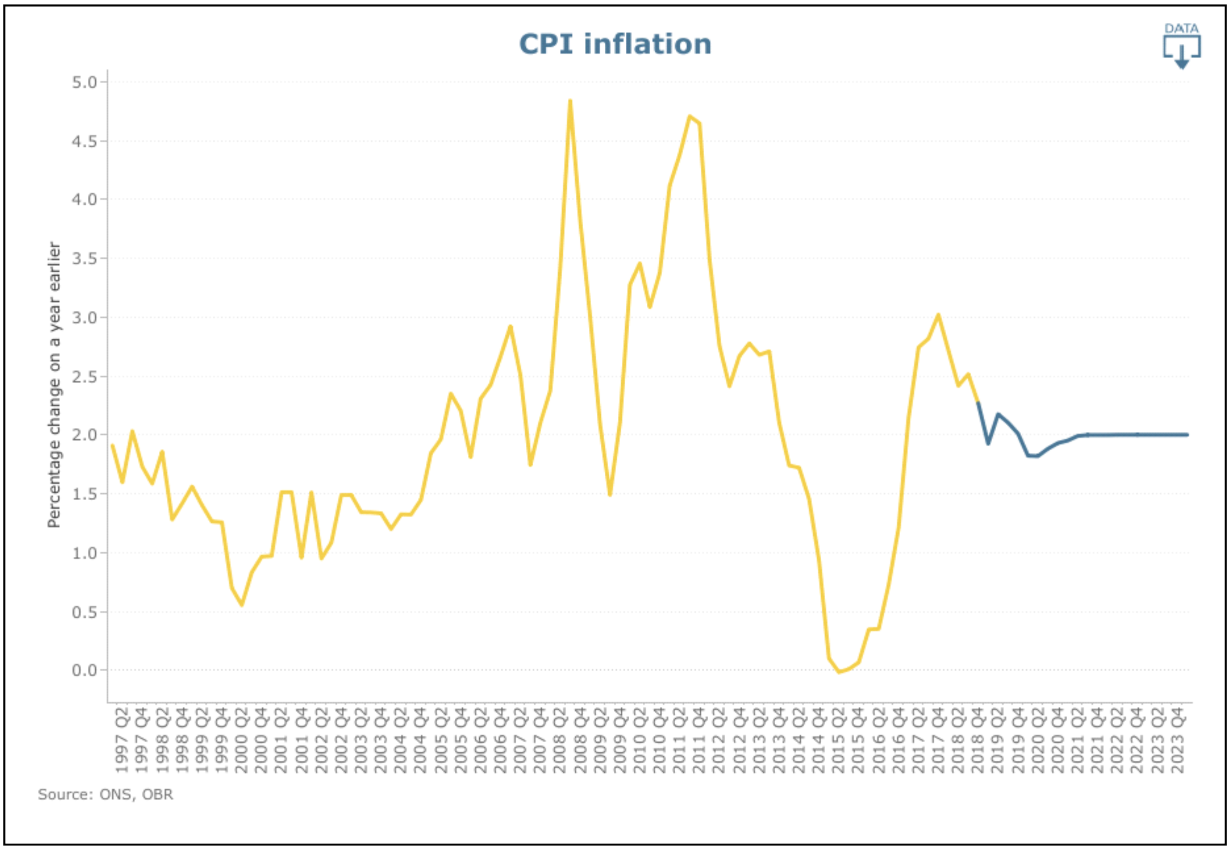
5.1. The Budget Reports for 2019/20 included updates of the financial model and concluded that the Council's future financial outlook was likely to continue to be challenging over the next few years as reductions in overall public spending and changes in local government funding. Meeting new cost pressures requires a rigorous approach to identifying efficiencies, enhanced productivity, and reprioritisation of spending within services.

Economic Outlook

5.2. Economic growth in the UK and globally has slowed since the Budget in October, leading the Office for Budget Responsibility to revise down their growth forecast. With considerable uncertainty over the next steps in the Brexit process (the latest OBR projections are based on the assumption that the UK made an orderly departure from the EU on 29 March into a transition period that lasts to the end of 2020, which clearly has not happened), GDP growth for 2019 is projected at 1.2% with a medium-term forecast of around 1.5% pa.

5.3. The Government's stated 'fiscal objective' is to balance the budget by 2025-26. But in the years beyond the forecast the ageing population is likely to be putting increasing upward pressure on spending and the potential impact of different Brexit outcomes makes the medium-term outlook more than usually uncertain. The Government conducts Spending Reviews on a regular basis to re-balance spending priorities. The next Spending Review was expected summer 2019: this is now delayed until after Brexit.

5.4. Inflation measured using the Consumer Price Index (CPI) has remained above the Bank of England target of 2% over the last few year with the latest rate for April 2019 CPI at 2.1%. The forecasts for future years reduces this to 2% by mid-2021.



5.5. The Bank of England base rate has returned to 0.5% from the historical low level of 0.25%. This low level has had a major impact on the Council's investment income. The base rate of interest is predicted to decrease slightly during the next 6 months with further increases in early 2020. The predictions are particularly volatile due to uncertainty regarding the timing of Brexit.

Interest rates have been predicted to increase beyond 0.5% in 18 months for the last eight years and have not. The financial model prudently assumes base rate remains at 0.5% for the duration of the model.

5.6. Tourism had a £1.3 billion economic impact on South Lakeland last year, up 5.6% on 2017 according to STEAM (Scarborough Tourism Economic Activity Monitor). This is by far the highest share of any of Cumbria's districts, with the district's £1.3 billion representing 44% of the county's total tourism revenue of £3 billion. The tourism sector is estimated to support 16,177 full-time jobs in South Lakeland, which is almost half of all the tourism–related jobs in Cumbria. In 2018, 18.54 million visitors came to the district, up nearly 200,000 on the previous year. Overall in Cumbria there were 47 million visitors in 2018.

Key issues and assumptions

Inflation

5.7. The MTFP financial model assumes pay inflation of 2% for 2020/21 and onwards. The financial impact of a 1% movement in pay inflation is around £170k change in the general fund employee budget. The employee budget is reduced by 4% (£550k) for vacancies and turnover: this reduction is monitored regularly. The Council follows national pay awards and the national local government pay spine. A new pay spine was agreed as part of the 2018/20 pay agreement which reflects the Government’s National Living Wage.

5.8. In the MTFP financial model inflation on contract prices has been uplifted by appropriate indices as stated in the conditions of the contracts. No inflationary increase has been applied to the general services budget, except specific items such as utilities where inflation is unavoidable. We will continue to monitor the impact of this policy, including the impact at contract renewal. The financial impact on running costs of a 1% movement in inflation is around £310k.

Business Rates and Government Grant

5.9. The Government introduced fundamental changes to the way local government is financed from April 2013. In particular, non-domestic rates (also known as business rates) are no longer pooled and redistributed in full nationally; instead local authorities retain a proportion of business rates locally.

5.10. A number of changes were planned by the Government from April 2020 which are expected to have a significant impact on the business rate income retained: both the amount to be retained and the Fairer Funding review to change how it is distributed. However, it is looking increasingly likely that these changes will be delayed until the Government has completed the next Spending Review: it is now expected to be delayed until after Brexit. As a result the level of income from business rates is particularly difficult to predict from April 2020.

5.11. The financial model assumes the annual reduction in funding from business rates, Revenue Support Grant and Rural Services Delivery Grant that has been seen since April 2013 will continue from April 2020 onwards. Nationally it was expected that the cash amount of funding for local authorities remains static from April 2020, although this is dependent on the outcome of the delayed 2019 Spending Review.

5.12. The Fair Funding Review, also currently due to be introduced from April 2020, is expected to prioritise social care and other services provided by other authorities in 2-tier areas over services provided by district councils. There is also a baseline reset due in April 2020 which will redistribute growth in business rates from the areas where the growth has occurred to areas of greater need. Again, it is generally considered that this is unlikely to benefit district councils.

5.13. The Council has been a member of the Cumbria Business Rate Pool since it was established in 2014. From April 2018 the pool has admitted Copeland Borough Council so now includes all six Cumbrian district councils and Cumbria County Council. This has increased the expected volatility of income from the pool as Copeland district includes Sellafield which has a high rateable value and has had large reductions in rateable value in the past. The Cumbrian Pool retained £6.2m of levy in 2018/19 that would otherwise have been paid to the Government, of which South Lakeland received £884k, which is earmarked for economic development through the Pool income reserve. If the reset were to go ahead then all this income from the pool would be foregone along with lost growth of roughly equal value.

5.14. The Cumbrian bid for a business rate pilot pool was unsuccessful for 2018/19 and 2019/20. It was expected that business rate pooling would cease when the new rate retention system is introduced. If the new system is delayed it is likely that the Cumbrian pool will continue in its current form. This has not been reflected in the financial model.

5.15. Since 2013 the Government has been reducing the proportion of funding to Councils paid as Revenue Support Grant so Councils become more reliant on business rate income. Under the old system the Council received £3.0m of grant in 2013/14 but this dropped to £0.25 for 2017/18. The Council will received no Revenue Support Grant for 2018/19 or 2019/20. The expected reduction of funding of £613k for 2019/20 through an increase in tariff from business rates was not implemented. If the implementation of business rate reforms are delayed it is likely that similar arrangements will continue for 2020/21.

5.16. The final settlement for 2019/20 indicated that the Council will receive £451k of Rural Services Delivery Grant in 2019/20 but from April 2020 this will also be absorbed into the Fair Funding Review and business rate reset. Rural Services Delivery Grant and Transition Grant were introduced for a limited period by the Government to reduce the impact when the funding formula was frozen in 2013 without increasing funding for the additional costs of providing services in areas of high population sparsity.

5.17. As a result of the Government's cuts to Council income and changes in funding from grant to rate retention the Council's income from these sources has reduced. This reduction is expected to continue for district councils due to the notable pressure to increase funding for social care while total local government funding beyond the current 4-year finance settlement is expected to be unchanged from the 2019/20 level. The table and chart below show Government support since 2012/13 and the projected income until 2024. There is an opportunity for politicians from rural areas to lobby for increased funding through SPARSE and similar organisations.

Table 4 Funding from Government since 2012/13

Year	Business Rates Retained* £000	Revenue Support Grant £000	Rural Delivery and Transition Grant £000	**Total Formula Grant £000**
2012/13 (actual)	0	4,786	0	**4,786**
2013/14 (actual)	2,206	3,095	0	**5,301**
2014/15 (actual)	2,709	2,472	0	**5,181**
2015/16 (actual)	2,769	1,813	0	**4,582**
2016/17 (actual)	3,167	934	547	**4,648**
2017/18 (actual)	3,226	249	463	**3,938**
2018/19 (actual)	4,071	0	467	**4,538**
2019/20 (budgeted)	3,536	0	451	**3,987**
2020/21 (estimate)	2,756	0	0	**2,756**
2021/22 (estimate)	2,240	0	0	**2,240**
2022/23 (estimate)	1,724	0	0	**1,724**
2023/24 (estimate)	1,328	0	0	**1,328**

* excludes income from Cumbria business rate pool

New Homes Bonus Scheme

5.18. The New Homes Bonus (NHB) Scheme was introduced in 2011/12 as a way to encourage local authorities to facilitate housing growth. In essence, for every net additional property built or brought back into use, the Government match funds the additional Council tax, with an additional amount for affordable homes, for the following four years above a threshold of 0.4% growth in taxbase (equivalent to 210 homes for this Council). The grant is top sliced from Revenue Support Grant and paid as a un-ring fenced revenue grant and it is split 80% to district councils and 20% to the relevant county council.

New Homes Bonus	**2017/18 £000**	**2018/19 £000**	**2019/20 £000**
Grant	1,130	875	517

5.19. The Government has indicated the NHB is not delivering the policy objective of increasing new houses. Therefore it has been expected that NHB would cease from April 2020 as part of the review of local government funding. With the implementation of that review now looking unlikely for April 2020 it is more likely that NHB will be received for 2020/21 – this has not yet been reflected in the financial projections which still assume new payments cease from April 2020. Based on recent years, the Council would potentially receive £338k for 2020/21 if the scheme continued.

5.20. The Council resolved to earmark the monies from the NHB into an earmarked reserve to be split 60:40 between support for affordable housing and Locally Important Projects (LIPs), including community led planning. The locally important projects element includes use of NHB to fund a budget of £51,000, allowing £1,000 for each member for community projects identified by each member in their wards. Any unspent grant at the end of the year returns to the main LIPs budget.

Council Tax

5.21. The Council is committed to do all it can to reduce the financial burdens placed upon its residents and the Council was able to freeze its average band D Council tax for the five consecutive years from 2010/11 to 2015/16. Since 2016/17 there is now an expectation from Government that annual increases in Council tax will form an integral part of the resources supporting local authorities. There is also an assumption, built into the Government's calculation of Spending Power, that Council's will increase Council tax by the maximum permissible amount.

5.22. The Localism Act gives local communities the power to approve or veto excessive Council tax rises. The Secretary of State will determine a limit for Council tax; if an authority proposes to raise taxes above this limit they will have to hold a referendum to approve or to veto the rise. From 2016/17 until 2017/18 this level was the higher of 2% or £5. As part of the 2018/19 Local Government Finance Settlement this increased to the higher of below 3% or £5 in February 2018.

5.23. The MTFP assumes the Council's average band D Council tax will increase by £5 per annum (from £195.63 at 1 April 2019) but the maximum permissible would be 2.99% or £5.86. The Council has limited income generated from Council tax; for every £1 increase in the average Band D Council tax there is only an additional £45k of income: If the Council were to increase by the maximum permitted an additional £32k could have been generated for 2019/20.

5.24. Due to the uncertainty surrounding the level of future business rate income due to system changes and the unpredictability of external income then Council tax is the most stable of income sources for the Council. Therefore any decision to change levels of Council tax must have regard to the medium and long-term implications on the Council's financial stability.

5.25. The decision on Council tax is reviewed every year as part of the budget and Council tax setting process. The Council has a history of retaining lower levels of Council tax increases.

Council tax on Empty Homes

5.26. The Government has introduced new flexibilities for Councils to increase Council Tax on empty homes beyond the 50% premium introduced in April 2013. Allerdale, and Copeland district councils have increased empty home charges from April 2019 while Carlisle, Eden, Barrow and South Lakeland have not changed. This is unlikely to generate more than £25k annually for the Council as only 10% of Council Tax collected in the district is currently retained by SLDC with 74% paid to the county council and 14% to the Cumbria Police and Crime Commissioner. The Council will review the charges on empty homes during 2019/20.

Taxbase for Council Tax Setting

5.27. The Councils' Council tax Base is determined annually as part of the budget process. The financial model assumes the taxbase will increase by around 250 properties each year. Although the total number of properties completed is expected to exceed this level (c320 properties) it is necessary to reflect the reductions due to some of those properties becoming holiday lets, or eligible for single person discount of 25%, or eligible for Council tax reduction scheme discounts. It is assumed there will be no changes in the levels of discounts granted (levels of discounts are being closely monitored to see if this assumption is reasonable). 250 new properties will generate around £49k pa of additional Council tax.

Council Tax Reduction Scheme

5.28. The Government localised support for Council tax from April 2013 so the Council has the discretion to decide who should pay less Council tax and how much less they should pay.

5.29. Councils are required to review their schemes on a regular basis: in December 2017 Council resolved not to change the existing scheme except to apply the annual upratings aligned to other means tested benefit schemes. This means the Council's scheme has not reflected the changes announced by the Government including removal of family premium for new claims, limiting the number of dependents additions and reduction of backdating period from six months to one month. The MTFP assumes no change to the existing scheme.

Universal Credit

5.30. Universal Credit was to be introduced between 2013 and 2017 through the Welfare Reform Act. Universal Credit is an integrated working-age credit that will provide a basic allowance with additional elements for children, disability, housing and caring. It will support people both in and out of work. For local authorities, this means the link between Housing Benefit and Council tax discounts will be broken and that universal credit will be administered by the Department of Work and Pensions. As Universal Credit currently only applies to new working age claim it is assumed the Council will continue to administer housing benefit for the duration of the MTFP.

External Income

5.31. The Council relies on a number of external income sources and over the last few years the economic downturn affected our income streams, in particular in service areas linked to building and housing e.g. land charges and building control income. A number of significant fees, including liquor licences and planning application fees are set by Government. The Government increased planning fees during 2018 but with conditions attached on the use of the additional income to be applied to the improvement of the planning service. The Local Government Association has campaigned for local freedom for authorities to set fees based on local circumstances.

5.32. Income from fees and charges are a key element of financial sustainability for the Council. Income from car park charges exceed all other income sources except Council tax. Overall the fees for pay and display and pay on exit parking have not increased since 2011/12 and offers have been introduced. Income, however, has grown since then due to improvements at the various sites, enforcement and small changes at individual sites where usage was previously low. Individual decisions on tariffs and discounts should be based on experience at each site, including the implications for traffic management, usage, economic development and revenue. In-year decisions should be approved in line with the Corporate Charging Policy and the Financial Procedure Rules. Future income flows from car parking may change as the balance between tourism and retail is expected to change in the future.

5.33. Any proposals to reduce income streams are treated as growth bids. All fees and charges are set in accordance with the Council's Policy on Fees and Charges, last approved in July 2017. It is intended that a new Commercial Strategy will be prepared and approved during 2019/20 – no adjustments have been made to the financial projections for changes that may arise from this new strategy.

5.34. The Council has a good history of debt collection. The Council continues to build on this to maximise income received and minimise income written off. Monitoring information which is produced monthly has been enhanced to provide information on evaluating the effectiveness of debt recovery actions, associated costs, and the cost of not recovering debt promptly.

5.35. The financial model assumes income from external charges in general increases by 2% annually with the exception of recycling credits (assume frozen) and includes reviewing individual charges to ensure the balance of income generation is appropriate.

External Interest and Investment

5.36. Historically a key income stream for the Council has been the income generated from investment of cash balances. Every 1% of movement in interest rates is equivalent to approximately £300k in income; however the actual interest earned will also be affected by the level of cash balances available.

5.37. The financial model assumes interest rates remain constant at 0.5% for the period of the model. While commentators predict an increase during 2019/20, experience suggests the predicted increase will be later than expected. This assumption will be revisited if the base rate changes. If interest rates increase on investments then there will be an off-setting increase on any new borrowing.

5.38. Nationally revenue resources have declined, which has increased pressure to maximise returns on investments. The Council is required to follow Government regulations which require investments to be rated based on security, liquidity and return, in that order of importance. The Council’s income from investments is controlled by its Treasury Management Strategy and Investment Strategy, part of the Prudential Code for Local Authorities which sets out how Councils can borrow and invest.

5.39. The Council has largely used capital receipts and reserves to fund capital expenditure with borrowing only used to fund the vehicle and plant programme. This borrowing has been met internally through cash balances. The current capital programme includes the use of borrowing to fund the replacement of Ulverston Leisure Centre and the refurbishment of South Lakeland House and Kendal Town Hall. It is unlikely the Council will be able to fund this borrowing internally so will be reviewing the best time to borrow externally. The Council’s revenue budgets assume no borrowing during the current financial year but that any borrowing is undertaken on 1 April of the following financial year. Officers will consult the Council’s Treasury Management advisors to determine the optimal time to borrow, which may identify an opportunity to achieve lower interest payments in the future if borrowing is undertaken during 2019/20.

Pensions

5.40. South Lakeland District Council employees are eligible to be members of the Local Government Pension scheme, of which the

Government sets the terms and conditions nationally. This is a statutory condition of employment available to all local government employees.

5.41. The most recently published actuarial valuations (2016) for the whole fund show that the South Lakeland Council element of the fund continues to be in deficit. A valuation is currently in progress with new contributions rates to be applied from 1 April 2020: it is expected that future valuations are every four years rather than every three years.

5.42. Pension contributions are based on a number of assumptions. The Government has consulted on implementing a cap of exit payments which may limit the costs of early departures of staff. There are also outstanding court cases on transition arrangements when the current scheme rules were introduced: depending on the outcome of these cases the Council's annual contributions could increase by up to 0.5%.

5.43. The Council pays employer contributions based on a set percentage contribution for future service accrual and a fixed monetary contribution each year for past service liability instead of a set percentage contribution covering both. This should avoid the reduction in recovery of past service liability as staffing levels decline following reduction or transfer of services. The Council's current employer costs are 16.2% of salary.

5.44. The fixed contribution for past service liability for the 3 years from April 2017 to March 2020 was paid as a single lump-sum payment to the pension fund in April 2017. The pension scheme can use a wider variety of investment to generate higher returns than those available to SLDC. A similar prepayment was made in April 2014 which saved the Council around £230k over the three year period. It is assumed similar arrangements will continue and that there is no change in the overall costs of pensions over the life of the financial model.

Service Demand and Other Budget Pressures

5.45. The Government expects local authorities to take a major part to revitalise the local economy and at the same time bear a significant part of the Government's overall austerity measures from reduced funding. Nationally the greatest pressure on demand for services is due to the aging population profile and is mainly affecting immediate health and social care budgets. There has been little concentration on longer term preventative measures such as housing, employment and leisure, many of these services are provided by district councils in 2 tier areas. Councils have increased requirements to prevent homelessness and have also seen an increase in the number of cases. National changes to housing benefits have reduced the effectiveness of the local social lettings scheme which reduced homelessness by working with local landlords to provide accommodation through a guarantee on rental income.

5.46. The Council seeks to increase household financial resilience to address incomes lower than the national average in South Lakeland and increasing numbers of families on the lowest wages. SLDC have a building financial resilience together collaborative initiative with public, private and third sector partners. The Council aims to provide long term strategies that will have a genuine effect on future poverty levels, such as educational and skills attainment, housing affordability, access to work and healthy lifestyles.

5.47. The 2019/20 – 2023/24 financial model assumes levels of demand will remain constant. Increases in demand are addressed as a service budget pressure within the annual budget setting process.

5.48. The Council will monitor trends in the economy, particularly the predicted change in town centres from retail to other uses while the importance of tourism to the local economy has increased. The impact of these changes on the Council's service delivery and balance between costs and income streams will be kept under review.

Customer Connect

5.49. The Council has recognised that transformational change will be required to deliver the improvements to services within the significant reductions in resources available in future years. The Customer Connect Programme has three elements: digital, people and places. The programme should deliver a more efficient way of working for everyone, faster and better services, value for money for taxpayers, more time to help vulnerable residents, improved customer satisfaction and a highly-skilled modern workforce.

5.50. It is estimated that the proposed investment of c£3.848m will deliver annual revenue efficiencies of c£1.550m when the project is fully implemented. Phase 1 of the people element was completed on 1 May 2019 with phase 2 now in progress and expected to be completed this year. Recurring savings have already been generated to meet the target for 2019/20.

The SLDC Efficiency/Savings Plan

5.51. The Council, as part of its annual Budget Process, reviews the savings delivered and those still required to enable the following years' Budgets to balance. The delivery of the savings included in the February 2019 Budget is closely monitored. Substitute savings are developed where initial plans are delayed or unlikely to be achieved. Additional savings are developed where the deficit projections increase.

5.52. The financial impacts of the Customer Connect programme are included in the budget projections. The balancing annual deficits as set out in the table at section 5.57 below will be met through additional savings options currently being developed. These will be set out in updated budget reports provided between September 2019 and February 2020.

5.53. The revenue budgets reflect additional costs of interest and debt repayment relating to items in the capital programme. The capital programme includes projects where the relevant business plans/budget bids identified income to offset the costs. This income has been included as an adjustment to the revenue budget but the timing of the income is dependent on the delivery of the capital scheme.

2018/19 General Fund Budget

5.54. As part of the 2019/20 budget setting process, information was examined relating to the level of existing resources in each service areas, including the number of staff employed and comparisons have been drawn with historical expenditure data to identify savings areas. All budget options have been considered in the context of current service performance and priorities and all the growth bids went through a challenge process. The details of the 2019/20 general fund revenue budget, including growth and savings can be found in the 2019/20 Budget report submitted to Council in February 2019.

The Projected Net Budget Position

5.55. The financial model (detailed in **Appendix 2**) shows deficits over the future 5 year period of between £2.3m and £4.3m before savings from Customer Connect are included. While costs over the five-years of the model are reducing overall there is a big estimated reduction in income from business rates and Government grant due to expected changes in the Government's scheme for Council's to retain business rate income, as set out above.

	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**

5.56. These projections are based on the achievement of all savings proposals approved to date and that the underlying assumptions around income and expenditure changes are robust. First draft projections to 2024/25 suggest the deficit will increase in line with trends over the last 4 years mainly as a result in the reduction in Government grant. Further work will be carried out to test the underlying assumptions: updates on the projected deficit for 2024/25 will be reported during the 2020/21 budget setting process.

5.57. The Council is focused on achieving savings, primarily through efficiencies. During the budget and planning process there is an emphasis on ensuring resources are directed to priority areas in line with the Council Plan, with service efficiencies monitored and reviewed highlighting where further savings can be made. The introduction of a Commissioning Framework and a Commercial Strategy will help balance service demand and income generation.

5.58. The Budget Strategy for 2020/21 must concentrate on closing the revenue deficits, either through increases in income or reductions in expenditure. Where capital expenditure is required or able to generate future revenue savings it should be prioritised. Unless funding from earmarked resources, no revenue budget growth bids (including reductions in income) should be accepted until all budget pressures are funded and the 2020/21 budget deficit is met.

6. Sensitivity analysis and scenario planning

6.1. Risk Management is a key feature of the Council's financial planning process. The Council is very aware of the need for effective risk management and considers that the assessment and minimisation of all types of risk to be vital. It has an adopted Risk Management Strategy in place, and the financial risks to the Council are assessed in the context of the Council's overall approach to risk management.

6.2. To mitigate risk the Council regularly monitors its budgets. The corporate Risk Management process is used by South Lakeland to identify, monitor and report on risks. Quarterly performance monitoring reports provide a platform for the Members to scrutinise the financial and non-financial performance (e.g. local and national indicators).

6.3. Details of the risks facing the Council were discussed in section 5 and the table below summarises the financial implications if assumptions made in the MTFP change in the future (the details of which are included in section 5 also). This gives some indications to the kind of risks which need to be allowed for in considering the level of reserves in future years.

Assumption: impact over 5-years of a 1% change in 2019/20:	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total over 5-year period £000
Inflation: pay award 1% higher than assumed (2% currently assumed)	169.4	163.8	168.2	172.0	175.6	849.0
Pension contribution: contribution rate 1% higher than expected (24% currently assumed)	109.2	104.7	107.8	110.4	112.9	545.0
Inflation on contracts: 1% higher than expected (2% currently assumed)	142.4	143.4	144.4	145.4	146.4	722.0
Average investment rate 1% higher than assumed (although this depends on timing as some investments are at fixed rates). Current assumption 0.5% base rate	386.1	416.6	417.4	434.1	451.5	2,105.7
Retained business rate income: overall rate collectable 1% lower than assumed	120.0	130.5	133.1	133.1	133.1	649.8
Income from car parks: 1% lower than assumed	45.3	46.4	47.3	48.2	48.2	235.4
Income from council tax: 1% lower than assumed (current assumption £59a band D increase)	89.0	91.8	94.6	97.4	100.3	473.1

6.4. Some of the greatest risks are around the assumptions relating to income from business rates from April 2020 when the current multi-year settlement ends. The MTFP assumes the level of annual reductions in Government funding since 2013 will continue from April 2020. There are also a number of variables that will have an impact on income from business rates. Depending on the assumptions made, income retained by the Council from 2020/21 could vary by around 30% or £900k pa.

6.5. All local authorities are required to ensure there are sufficient resources available to meet the expenditure in the year: the Council receives a formal report from the Chief Finance Officer (for SLDC the Finance Lead Specialist) as part of the budget setting process. The Council continuously monitors factors that may push a local authority into tipping into unstainable expenditure, including intelligence from other bodies including Grant Thornton and the Local Government Association. Not all authorities share the same level of resilience or risk. Providing the assumptions in this MTFP are sound, the policies and recommendations are followed and the savings targets are met the Council is not expected to fall into deficit.

7. Reserves

7.1. The Council will retain its approved minimum Working Balance level of £1.5m, reviewing this regularly in the light of changing financial risk assessment. Risks to the Council's financial position could derive potentially from budget overspend, loss of investment income, contractual/legislative failure or challenge and emergency events. Historically, the Council has a good record of outturn financial position being within budget, therefore this is not seen as a high risk to the Council and it is not necessary to make additional significant provision.

7.2. The Council also considers the impact of holding monies unnecessarily in reserves given the ongoing impact of the economic downturn to local residents and taxpayers. The then Department for Communities and Local Government was critical of councils holding significant reserves in difficult economic times, encouraging them if at all possible to release some of them. The External Auditor closely examines the Council's actual and projected reserves position each year as part of the Value for Money assessment to ensure the amounts held are sufficient but not excessive. It should be stressed that there is no theoretically "correct" level because the issues that affect an authority's need for reserves will vary over time.

7.3. The level of risk posed by contractual or legislative failure and emergency events is difficult to predict, but it would be a low probability with a potentially high impact. However, it is not appropriate to set aside large amounts of reserve against the possibility of this happening. **Appendix 3** assesses the main financial risks facing the General Fund revenue accounts and the suggested appropriate level of reserve required to offset this risk, were it to materialise.

7.4. In setting budgets and projections for individual years, it is important that the use of reserves is sustainable and not increasing and creating an unsustainable future problem. The fundamental principle within the Council's Policy on Reserves and Balance governing the use of reserves is that they should not be used to fund recurring expenditure. If exceptional circumstances make this a necessity, the use of the reserve should be clearly stated and approved as an exception to the rule.

7.5. Levels of reserves are expected to be circa £11.8m by 31/3/20 of which around £4.7m are either earmarked by statute, legal agreement or the purpose for which a grant has been given. A summary of the levels of reserves at the start and end of 2018/19 are shown below. Use of reserve is only included in the projections when the associated expenditure is included in the capital programme or revenue budgets. A copy of the policy for reserves and balances can be found in **Appendix 4** including details of the projected balance on each reserve.

	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	(7,710)	(4,726)	(4,960)	(5,160)	(5,360)	(5,560)
Capital Reserves	(2,661)	(861)	52	92	(93)	(278)
Earmarked Reserves	(4,535)	(4,744)	(4,344)	(4,294)	(4,294)	(4,294)
Total Reserves	**(14,907)**	**(10,331)**	**(9,252)**	**(9,362)**	**(9,747)**	**(10,132)**
Working Balance	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Total Reserves and Working Balance	**(16,407)**	**(11,831)**	**(10,752)**	**(10,862)**	**(11,247)**	**(11,632)**

7.6. General Reserves include the Customer Connect Reserves which will be used during 2018/19 and 2019/20 to fund the Customer Connect programme.

7.7. The balances beyond March 2020 are less certain as expenditure from reserves and working balances to meet unexpected demands obviously cannot be predicted, for example it was expected that around £1m of reserves was required to reinstate flood damaged property not covered by insurance or Government grant following the December 2015 floods.

8. Capital

Capital spend and funding

8.1. The Council's Capital Strategy sets out how the Council will manage its capital investments in the future. It is agreed on an annual basis and serves the following purposes:

- It sets out how capital contributes to the achievement of the Council's corporate objectives.
- It establishes the criteria for the allocation of capital resources.
- It provides a framework for the administration of capital projects and monitoring of outcomes

The Capital Strategy was approved by Council in February 2019.

8.2. Until recently the Council's approach to asset management was set out in the Corporate Asset Strategy. A thorough review of property assets was completed by the Council's external property services advisors in December 2017. This in turn led to the development of a Property and Land Management Strategy (approved by Cabinet on 28 November 2018), which will help guide and advise the Council on land and building investment, disposals and acquisitions. The key aims of this strategy are:

- Ensuring investment is prioritised in the right areas with the ever increasing financial pressure on Local Authorities.
- Ensuring the Council has a balanced estate looking at the medium and long term commitments of the Council and in the wider context of other assets in public ownership.
- Ensuring that there is a sufficient governance structure in place to allow the estate to flex with ease and consistency.
- Ensuring that the decisions achieve a balance of requirements for capital receipts, investment and revenue income generation.

The strategy also lead to the establishment of the Strategic Asset Management Plan Board (SAMP Board) which will provide oversight and governance and ensure a more strategic approach to the management of its property estate.

8.3. The Capital Strategy **Appendix 5** updates the Capital Funding Strategy to reflect the current financial situation. All capital investment and disposal decisions have been made with reference to the strategic objectives within the Council Plan.

8.4. The Council's capital programme has, in general, been funded by the use of capital receipts, contributions, major repairs reserve or from capital grants. Two major new schemes in the capital programme are funded from capital grants – the Coastal Communities Fund project at Grange over Sands and the Kendal ERDF-funded flood works. Other recurring sources of capital income have declined significantly over the last 5 years.

8.5. The Council receives a share of the proceeds of Right to Buy sales of houses transferred to South Lakes Housing in 2012. This income has to be treated as capital receipt and the Council has chosen to earmark it for use in providing new affordable housing. The Council has cumulative uncommitted, unspent receipts of £4.0m at 31 March 2019 from this income agreement (with £495k committed to Ulverston Town Hall) and is expecting this to increase by £700k pa. The Council has approved, in principle, to use this money as a loan fund of up to £6m to allow housing associations to access low interest rate finance.

8.6. Other sources of income have changed, including the value of the New Homes Bonus as a result of the Government's changes to the scheme (see section 5 above). The total amount of NHB has dropped to around £0.5m per year and is expected to be discontinued as part of the reform of local government funding from April 2020. The Government have introduced the Community Housing Fund which was initially used to assist in the provision of housing in areas experiencing high numbers of second homes and holiday homes. The Council received £2.3m of funding from this fund in 2016/17 which may be used for either capital or revenue expenditure.

8.7. The Capital Programme needs to reflect the capital expenditure necessary to maintain its key assets over the long-term, especially revenue generating assets such as multi-storey car parks. Ideally any new schemes would bring alternate external funds or new capital receipts from the sale of assets.

8.8. The capital programme for 2018/19 to 2023/24 was approved by Council in February 2019. The programme shown at **Appendix 6** has been updated for requested carry-forwards from 2018/19, the addition of an externally funded coastal communities scheme and other minor budget changes and reflects the projected levels of resources.

2019/20 Revised £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total 2019/20 to 2023/24 £000
17,016.7	22,139.5	3,371.7	1,973.0	2,873.0	47,373.9

8.9. 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 allocated a capital and or revenue budget. These schemes would lead to additional capital budget costs on top of those presented in **Appendix 6**. These include:

a) Schemes arising from the Car Parking Study in Kendal and Oxenholme as well as engineering appraisals undertaken on surfacing options at Braithwaite Fold, additional capacity options at Rydal Road, Ambleside and Rayrigg Road Car Park, Bowness and the siting of electric charging points.

c) The review of the Kendal depot location is also not included as yet. A report setting out the likely financial implications and benefits and timescales will be provided in due course.

8.10. While currently not prioritised and so not allocated budget, these schemes must be included as part of the overall longer-term capital plans, as they are aspirational should suitable funding be identified. These schemes will be subject to detailed business case assessment before they become part of the approved draft capital programme and will only be selected with overall consideration of the affordability of the capital programme.

Revenue implications of capital programme

8.11. One of the key drivers for the Council's approach to capital expenditure is revenue affordability. Most Capital Projects have financial implications on the annual Revenue Budget. The revenue implications can take a variety of forms and they include:

- Capital financing costs
- Loss of investment income

- Annual non-capital financing costs, e.g. salaries, rent, rates, energy costs, on-going maintenance costs and any income generated from the scheme or project

8.12. One of the largest revenue cost is the Minimum Revenue Provision (MRP). This is the statutory requirement to charge the revenue account with the principle cost of borrowing over the life of the asset created. For the purposes of this calculation, borrowing is treated as any expenditure not funded by capital receipts or contributions.

8.13. The Council has moved from using leasing to fund the purchase of vehicles and plant to outright purchase funded by borrowing. Once a full cycle of vehicle and plant renewal is reflected in the MRP these annual increases will reduce.

	2019/20 £000	**2020/21 £000**	**2021/22 £000**	**2022/23 £000**	**2023/24 £000**
Capital programme funded from borrowing	3,115	4,384	6,699	690	2,100
Projected MRP	1,017	1,196	1,394	1,383	1,161

8.14. The decisions of how to fund capital expenditure, including the treasury management decision of whether to borrow externally, are taken at the end of the financial year by the Finance Lead Specialist under delegated powers. The decisions are based on the Treasury Management framework for the relevant financial year and ensuring value for money.

9. Consultation strategy, approval and communication process

9.1. The Council carries out regular consultation with local people, customers, stakeholders, and partners organisations to establish current and future needs and priorities of the community. The MTFP is submitted to Cabinet annually for approval. It is subject to challenge and scrutiny through the Overview and Scrutiny Committee before final approval by Council.

9.2. The MTFP is reviewed at least quarterly and forecasts are updated as necessary and reported as part of the Quarterly Corporate Financial Monitoring process and during the Budget process.

9.3. The Council consults on its budget proposals with business ratepayers in accordance with statutory requirements.

10. Equality Impact Assessments (EIA)

10.1. The Council is committed to ensuring equality and diversity issues are given proper consideration. Equality Impact Assessments are an important part of our decision making to enable us to assess the impact of decisions on our residents, stakeholders and customers. Where the impact is high mitigation plans can be developed to reduce the impact of decisions. These are completed in accordance with national guidance and best practice.

10.2. In developing individual budget proposals officers have undertaken equality impact assessments. An overall equality impact assessment was prepared for the 2019/20 budget process and proposals and this will be reviewed as part of each annual budget process.

11. Conclusion and way forward

11.1. The MTFP should be considered in the context of the following issues:

a The Council is in a relatively positive financial position as shown by the adequate General Fund balances and reserves, robust financial management practices and excellent track record in achieving efficiency savings

b Further significant key decisions will still be needed to deliver savings while safeguarding frontline services to maintain a balanced budget beyond the Customer Connect programme.

c Significant changes were expected to the local government finance system from April 2020 which are expected to reduce income available to the Council: the timing of these changes is now very uncertain.

d The size of the capital programme has significantly increased to reflect 2 major grant-funded schemes and major renewals of Council assets. The Property and Land Management Strategy identifies the need for further significant spending if services are to continue using the existing assets.

e Inflation and other budget pressures may increase spend above the projections included in the financial model.

f Any changes to the financial position will be closely monitored and updates to the financial projections will be reported during the 2020/21 budget process.

11.2. The annual revenue budget deficit projections before Customer Connect savings total c £2.3m for 2020/21 rising to £4.2m by 2023/24 based on a number of assumptions as detailed in the draft. The Customer Connect programme will generate £1.55m of recurring annual savings reducing the expected deficit in 2023/24 to £2.7m. The revenue budgets reflect additional costs of interest and debt repayment relating to items in the capital programme. The budgets have not been updated for income identified in the relevant business plans/budget bids to offset the costs. This further reduces the projected deficit for 2023/24 to £2.0m. Savings plans in addition to the Customer Connect Programme are being developed to provide a balanced position. Work is underway to develop the balancing £2.0m. Officers will continue to work on these figures to test the assumptions made and updates will be provided during the 2020/21 Budget Process.

Appendices to the Medium Term Financial Plan

1	Budget Process and Strategy 2020/21 – 2024/25
2	General Fund Revenue Account Forecast 2019/20 – 2024/25
3	Risk Assessment of the General Reserve & Working Balance
4	Policy on Reserves and forecast reserves 2019/20 – 2024/25
5	Capital Funding Strategy
6	Capital Expenditure and Income Forecast
7	Risk and Opportunity Log
8	Glossary

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Previous review dates and changes made:

- July 2018 full review
- February 2019 updated financial position

Date for review: July 2020 and at least quarterly update of financial model

Budget process and strategy 2020/21 to 2024/25

By incorporating the Budget Strategy within the Medium Term Financial Plan the Council ensures the two parts of the budget process are seamless and consistent. The proposed budget strategy is shown below:

Proposed 2020/20 Budget Strategy

a. This proposed Budget Strategy explains the approach to setting a balanced budget for 2020/20 in accordance with the principles set out in the Medium Term Financial Plan. Through the MTFP updates, corporate issues have been addressed that will alter the future years position from the budget that was approved on 26 February 2019.

b. To address future deficits, savings options have been approved for 2019/20 and for future years. Savings will also be sought to provide funding for budget pressures to ensure the Council Plan priorities are delivered. Members will be asked to consider the range of options for savings put forward and which are to be consulted on. These may include:

   - increasing income
   - reducing costs by improving service efficiency including the use of assets
   - reduction of costs through cutting overheads
   - alternative service delivery mechanisms
   - ceasing to deliver services

c. The detailed service and capital budgets will be reviewed to ensure that these remain reasonable, with reference to the 2018/19 out-turn, monitoring during 2019/20 and the Service Managers' knowledge of any changes due to take effect over the budgeting time frame.

General Fund Services

d. The overall General Fund Service budget strategy is that:

   - budgets will be updated by Finance for known, externally-driven changes to salaries including inflation; they will also update capital charges and recharges;
   - all establishment changes (other than related to the implementation of Phase 2 of Customer Connect) must be treated as growth bids or savings and forwarded to Human Resources Committee at the appropriate time;

- virements and minor (less than £10k gross) cost neutral changes can be made to base budgets without bid documents;
- changes identified as part of the Customer Connect programme and savings identified as part of the Corporate Savings Exercise will be worked up into budget amendments as part of the budget process;
- all other changes, including those that are statutory or demand led will need to be brought forward for consideration as part of a budget amendment process, signed-off by the Lead Officer and Portfolio Holder.

e. More detail of the approach is given below:

1 Salary budgets are increased by known incremental advances. From April 2020 2% will be included for inflationary pay awards. A 4% reduction will be allowed for vacancies and turnover on all salary cost centres; posts which are currently vacant will be budgeted at the scale mid-point; rates and thresholds for PAYE, NI and pension deductions will be updated.

2 No allowance will be made for inflation in expenditure budgets unless contractually committed or unavoidable (e.g. energy, fuel and utility bills); the current inflation assumptions built in to the base will be reviewed and updated where necessary. Where a contract is due for re-tendering a review of the appropriate inflation rate and budget should be undertaken and a budget pressure bid prepared where necessary.

3 Future year's income base budgets already have inflationary growth built into them. Where this cannot be met or managed through reductions in expenditure, this will be identified as a budget pressure.

4 Fees and Charges need to be consistent with income budgets. This process must involve:

a. review of 2018/19 out-turn and any relevant multi-year trends;

b. review of current 2019/20 budget position;

c. review of future year income budget; and

d. assessment of the options for any changes to fees (structures as well as tariff) and the impact of this on the income budget.

e. For any service area where income budgets are £100k or more per annum, this process will be documented. All services will review the potential for new fees.

Fees and Charges must be consistent with the Council's Corporate Charging Policy as approved in July 2017.

5 Existing base budgets will be challenged to identify savings that can be released to offset projected budget deficits.

6 Budget Pressures: the delivery of the Council Plan requires constant review of budgets to ensure funding is available to deliver the Council Plan priorities. Any increases to expenditure or decreases to income base budgets (excluding 1 and 2 above) will be either matched corporately by a compensating saving or will need to be submitted as budget pressures. The de-minimis is set at £10k.

7 If the budget deficit is balanced then resources may be made available for growth bids: where growth is to be funded from earmarked resources only then bids will be accepted as part of the budget process.

8 Reserves will be used in accordance with their agreed policies with the fundamental principle that they are not used to fund recurring expenditure.

9 Effective consultation will be carried out in accordance with the Corporate Consultation strategy.

10 Schemes which attract external funding need to be considered with reference to the Council Plan and capacity to deliver.

11 The Budget assumes a £5 Council tax increase annually from April 2020 onwards. The decision on the actual Council tax each year will be taken by Council in February and will be influenced by current Government policy and the influence of this on local government funding.

12 The working balance contributions be reviewed against the current long-term target minimum General Fund working balance of £1,500,000 by 31 March 2020; any surplus over this target should be transferred to the General Reserve.

Capital

f. The approach to setting the capital programme will be as follows:

1 A longer-term view will be taken of spending needs to balance priorities and resources more evenly over the life of the capital programme and to reflect the Property and Land Management Stategy . The Council's property advisors will be consulted as to the on-going maintenance programme with the aim being to develop a 10 year programme for recurring capital costs.

2 Bids for new initiatives which recover the investment in a 5 year period will be prioritised. Capital Bid documents will be required prior to a scheme being accepted as part of the Capital Programme. These are to be signed-off by the relevant Portfolio Holder and will be prioritised by Members as part of developing the 2020/21 to 2024/25 Capital Programme. Bids will be considered alongside future expected spend on major projects, as indicated in the capital programme.

3 Schemes which attract external funding should be considered in the light of capacity to deliver these and need to be prioritised with reference to the Council Plan.

4 Existing schemes within the programme will also be reviewed with reference to their progress and any external funding restrictions.

5 Capital receipts will only be committed once they have been received. Although there are known sources of capital receipts (e.g. South Lakes Housing VAT Shelter/Right to Buy receipts), future aspirations will take into account the resources required to support unavoidable recurring costs. Right to Buy receipts will be earmarked for social housing to replace the units sold that generated the receipt.

Budget Process

g. The approach to the review of the current-year budget, based on budget monitoring, will continue. The 5 year position will be set out as part of the process.

h. Regular budget reports will be provided to inform Members on the emerging issues. This will integrate information from review of base budgets, higher level factors (such as the grant settlement) represented in the MTFP and the corporate savings process.

i. Following approval of these proposals, Lead Officers, managers and finance staff will work together on the preparation of budgets based on the strategy set out (ensuring consultation with the relevant Portfolio Holders). Work will continue to be undertaken on refining the options for reducing the deficits currently projected and inclusion in the future Budget reports.

Appendix 2

This table sets out detail of the Medium Term Financial Plan financial model.

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000
Expenditure					
Employee Costs	14,623.8	14,833.6	15,251.7	15,609.2	15,943.0
Running Costs	9,565.3	9,523.4	9,564.8	9,693.7	9,568.3
Capital Charges	9,085.1	8,422.8	5,617.5	3,892.4	3,495.0
Customer Connect	2,031.0	0.0	0.0	0.0	0.0
Total Service Expenditure	**35,305.2**	**32,779.8**	**30,434.0**	**29,195.3**	**29,006.3**
Income					
Car Parking Income	(4,553.4)	(4,639.6)	(4,727.5)	(4,817.2)	(4,817.2)
Contributions from other Local Authorities and Public Bodies	(67.5)	(67.9)	(68.2)	(68.5)	(68.5)
General Income	(4,134.2)	(4,204.9)	(4,268.5)	(4,251.6)	(4,251.6)
Government Grants	(483.9)	(560.7)	(560.7)	(590.7)	(390.7)
New Homes Bonus	(516.7)	0.0	0.0	0.0	0.0
Lake Income	(1,459.5)	(1,492.6)	(1,518.6)	(1,544.2)	(1,544.2)
Recycling Credits	(1,425.3)	(1,468.1)	(1,512.1)	(1,557.5)	(1,557.5)
Total Service Income	**(12,640.5)**	**(12,433.8)**	**(12,655.6)**	**(12,829.7)**	**(12,629.7)**
Net Service Budget	**22,664.7**	**20,346.0**	**17,778.4**	**16,365.6**	**16,376.6**
Corporate items					
Interest Receivable	(223.1)	(259.8)	(327.3)	(355.0)	(393.2)
Interest Payable	567.0	1,163.4	1,178.4	1,199.1	1,262.1
Other Government Grants	(451.0)	0.0	0.0	0.0	0.0
Income from Council Tax (net of Parish Precept)	(8,903.8)	(9,181.5)	(9,461.8)	(9,744.5)	(10,029.7)
Parish Grant	92.0	92.0	92.0	92.0	92.0
Retained Business Rates	(4,650.4)	(2,755.7)	(2,240.0)	(1,724.3)	(1,328.0)
Contribution to pool Reserve	1,113.8	0.0	0.0	0.0	0.0
Direct Revenue Financing of Capital Programme	705.7	40.0	40.0	40.0	40.0
Minimum Revenue Provision	751.7	982.7	1,021.3	1,226.0	1,338.1
Reversal of Capital Charges	(9,085.1)	(8,422.8)	(5,617.5)	(3,892.4)	(3,495.0)
Collection Fund surplus/deficit	42.2	0.0	0.0	0.0	0.0
Transfers to/from Reserves	147.3	305.7	374.4	390.1	390.1
Transfers from Reserves: Customer Connect	(2,031.0)	0.0	0.0	0.0	0.0
Total Corporate Items	**(21,924.7)**	**(18,036.0)**	**(14,940.5)**	**(12,769.0)**	**(12,123.6)**
Projected Surplus/Deficit (-/+)	**740.0**	**2,310.0**	**2,837.9**	**3,596.6**	**4,253.0**
Customer Connect savings	(740.0)	(1,550.0)	(1,550.0)	(1,550.0)	(1,550.0)
Projected Surplus/Deficit (+/-) February 2019	**0.0**	**760.0**	**1,287.9**	**2,046.6**	**2,703.0**

The revenue budgets reflect additional costs of interest and debt repayment relating to items in the capital programme. The budgets have not been updated for the following items of income identified in the relevant business plans/budget bids to offset the costs:

	2019/20 £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £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 accomodation 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
	0	-140	-420	-694	-718

Future financial projections will be updated for these changes when the timing is confirmed.

Deficit assuming £5 Band D Council Tax increase after savings related to Capital Programme	**0.0**	**620.0**	**867.9**	**1,352.6**	**1,985.0**

RISK ASSESSEMENT OF LEVEL OF RESERVES: 31/3/19

Potential Risk	Risk Score	Weighting	Financial Exposure (£000)	Balance Required (£000)	Comment (Basis of Financial Exposure)
Base Budget Contingency for inflation or other unanticipated rise.	4	50%	301	151	Assumed at 1% of Gross Revenue Budget for 2019/20
Underachievement of Charges Income targets and spending exceeds budgets	4	50%	511	255	Estimate of 5% Customer Receipts Income forecasts for 2019/20
Underachievement of Investment Income	4	50%	130	65	1% of exposure of average balance of £13m
Insurance Excesses	5	50%	47	24	Based on 10% of insurance premia payments
Potential costs of legal challenges	2	25%	700	175	Based on estimated cost of a public enquiry or legal challenge
Savings not achieved	2	25%	3,927	982	Savings target at 31/3/23 including customer connect
Vacancy target not delivered	2	25%	556	139	Staff vacancy target topsliced from salary budgets
Pay increase	3	50%	146	73	2% allowance made in budget for pay increase from April 2020. Impact of additional 1% pay award
Increase in pension contributions	4	50%	360	180	Allowance for 1.5% increase in pension fund contributions at next triennial revaluation
Changes to existing government funding regimes	6	50%	1,942	971	50% of Total of RSG/transitional grant/Rural Services grant/NNDR retained funding, based on 2019/20 estimated settlement
Changes to existing external grants and contributions	4	50%	974	487	50% of total revenue grants and contributions received, excluding benefit subsidy and formula grant (based on 2019/20 excluding New Homes Bonus)
Impact of introduction of Universal Credit	2	25%	200	50	Increase in homelessness, changes in administration arrangements, reduction in collection rate etc
Changes to Homelessness requirements	2	25%	200	50	Changes in requirements for homelessness
Localisation of business rates	4	50%	227	114	Assume 5% reduction in rateable values based on 2017/18 estimate
Council tax reduction scheme	4	25%	64	16	SLDC share, based on 10% increase in claims based on 2018/19 estimate
Risk Management	9	100%	500	500	Monies set aside to meet the one-off costs of risk management
Committed expenditure	9	100%	670	670	Expected use of General Reserve 2019/20
Emergency Contingency	9	100%	1,000	1,000	Emergency contingency fund - Council practice to allocate £1m for any unforeseen emergencies. Bellwin scheme cuts in at 0.2% of net budget and provides for up to 85% of eligible costs.
TOTALS			**12,455**	**5,902**	
Maximum Risk Based Reserve Balances				**12,455**	Total Financial Exposure
Recommended Risk Base Reserve Balances				**5,902**	from above
Minimum Risk Based Reserve Balances				**3,114**	25% of Total Financial Exposure
Projected Level of Reserves					
- General Fund Working Balance				1,500	Actual balance 31/3/19
- General Reserve				4,784	Actual balance 31/3/19
Projected Level of Reserves (General Fund)				**6,284**	
Projected (Shortfall)/Excess of Current Reserve Balance over Risk Based Reserves				**382**	assumes use the recommended risk based balance

Policy on Reserves and Balances

Purpose

A Policy for Reserve and Balances represents good financial management and should be reviewed annually.

The Local Government Finance Act 1992 and Local Government Act 2003 set out that a range of safeguards to mitigate against local authorities over-committing themselves financially. These include:

- the balanced budget requirement
- Chief Finance Officers' duty to report robustness of estimates and adequacy of reserves when considering the budget requirement.
- Requirement for local authority to make arrangements for proper administration of their financial affairs and that the Chief Finance Officer is that responsible person (Section 151 duties)
- the requirements of the Prudential Code.
- the External Auditor will consider whether audited bodies have established adequate arrangements to ensure that their financial position is soundly based.

Types of Reserves

Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves
- a contingency to cushion the impact of unexpected events or emergencies – this also forms part of general reserves
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

The Council also holds other reserves that arise out of the interaction of legislation and proper accounting practice. This reserves are not resource backed and cannot be used for other purposes include :

- a Pensions Reserve (required under IAS19). This is a specific accounting mechanism used to recognise the Council's share of pension fund liabilities in its balance sheet. As this is a reserve which arises from an accounting standard it is not available to finance Council expenditure.

- a Revaluation Reserve – this records unrealised gains in the value of fixed assets.
- a Capital Adjustment Account – this is a specific accounting mechanism used to reconcile different rates at which assets are depreciated under proper accounting practice and financed through the capital controls system.

For each earmarked reserve held by the Council there should be a clear protocol setting out:

- the reason for/purpose of the reserve
- how and when the reserve can be used
- procedures for the reserve's management and control
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

This Reserves and Balances Policy ensures that when establishing reserves, South Lakeland Council complies with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and in particular the need to distinguish between reserves and provisions.

Policy

This summary sets out the Council's policy on each one. It details the level and nature/purpose of each reserve. In all cases these are based on an assessment of needs and risk.

The fundamental principle governing the use of reserves is that they should not be used to fund recurring expenditure. If exceptional circumstances make this a necessity, the use of the reserve should be clearly stated and approved as an exception to the rule

Extract from Constitution: Finance Procedure Rules

USABLE EARMARKED RESERVES

10.7 The following criteria will be used to authorise Officers to establish and maintain usable Earmarked Reserves:

a) The reserve can only be established if it supports the Council's objectives, Council Plan and MTFP and complies with at least one of the following:

i. Where expenditure is planned in future years and it is prudent to build up resources in advance
ii. The reserve is a statutory requirement of the service or on the Council
iii. It relates to the carry forward of budgets identified in budget monitoring and in accordance with the carry forward rules

b) The reserve can only be used for the purpose for which it was established and In line with any timescales identified when established or following annual review as part of the annual budget process
c) The timescales involved and the amounts to be transferred in and out of a reserve must be clearly set out when the reserve is established. Amounts can take the form of wording if figures are not available.
d) Budget monitoring should identify the need for a reserve during the year and subject to meeting the criteria can be set up with the action being reported to the Portfolio Holder and ultimately Cabinet and Council through quarterly monitoring and the Statement of Accounts. Only exceptionally should the need for a reserve be identified in the Closure of Accounts process.
e) One named member of staff should be responsible for a reserve and who can authorise any transactions.

10.8 Management and maintenance of usable earmarked reserves must include any variations to the annual budget approved movements being approved through the budget monitoring process. Budget amendments in the Carry Forward Reserve will be automatically implemented in the new financial year.

10.9 Following consultation with the Chief Finance Officer, the responsible Operational or Specialist Lead shall be entitled to transfer budgets from any one service to a reserve or from a reserve to a service up to a maximum limit of £60,000 per transfer providing the use or contribution is for the purpose for which the reserve was established. The Cabinet shall be entitled to transfer budgets to and from any reserve another up to a limit of £100,000 per transfer providing the use or contribution is for the purpose for which the reserve was established. Beyond these limits, approval to transfers can only be given by full Council.

10.10 Following the closure of the accounts for a financial year, the Chief Finance Officer will report to Cabinet and Audit Committee on the transfers to and the use of reserves and working balances for that year and seek approval of those transactions by full Council.

Reserves Summary

Appendix 4

The purpose of this table is to set out the projected balance on the Council's usable reserves over the MTPF period.

Reserve	Type	**Balance 31/3/2018 £000**	**Balance 31/3/2019 £000**	**Balance 31/3/2020 £000**	**Balance 31/3/2021 £000**	**Balance 31/3/2022 £000**	**Balance 31/3/2023 £000**	**Balance 31/3/2024 £000**	**Responsible Lead**	Summary, Purpose and Commentary
General Reserve	General	(6,024)	(4,784)	(4,314)	(4,548)	(4,748)	(4,948)	(5,148)	Finance Lead Specialist	The main use of this reserve in recent years has been to fund the one-off costs of flooding, staff redundancy and early retirements to enable organisational reorganisation and the discontinuation of direct provision of services. Unless allocated for a particular purpose, revenue budget under-spending and windfalls are added to the General Reserve. (For more details of the risk and an assessment of the potential financial exposure please see the Risk Assessment of Level of Reserves). The Medium Term Financial Plan provisionally assumes a £200,000 annual contribution to the Reserve, depending on quantification of the potential impact of these factors. Any balance on the General Fund working balance above £1.5m is transferred to this reserve as part of the closure of accounts.
Statutory Duties Reserve	General	(150)	(98)	(98)	(98)	(98)	(98)	(98)	Legal /Governance/ Democracy Lead Specialist	Part of General Reserve earmarked for certain purposes: use delegated to SMT & reported as part of Corporate Financial Monitoring. Includes £50k legal costs/by-election contingency, £40k planning legal costs contingency, £60k enforcement legal costs contingency

Reserve	Type	**Balance 31/3/2018 £000**	**Balance 31/3/2019 £000**	**Balance 31/3/2020 £000**	**Balance 31/3/2021 £000**	**Balance 31/3/2022 £000**	**Balance 31/3/2023 £000**	**Balance 31/3/2024 £000**	**Responsible Lead**	Summary, Purpose and Commentary
Flooding Costs Reserve	General	(14)	0	0	0	0	0	0	n/a - Closed	Part of General Reserve earmarked for the costs of remediation of December 2015 floods, use delegated to Chief Finance Officer by Council February 2016 - close at 31/3/19 and transfer balance back to General Reserve
Carry-forward Reserve	General	(438)	(391)	0	0	0	0	0	Finance Lead Specialist	Part of General Reserve earmarked for revenue budgets carried forward from 2017/18 to future years.
Building Control Fee Income Reserve	Earmarked	0	0	0	0	0	0	0	Operational - Specialist Services	Statutory ring fenced reserve to record surpluses and losses on building control.
Local Land Charges Reserve	Earmarked	(95)	(0)	(0)	(0)	(0)	(0)	(0)	Operational - Specialist Services	Statutory ring fenced reserve to record surpluses and losses on local land charges.
Hackney Carriage Licensing Reserve	Earmarked	12	21	21	21	21	21	21	Operational Lead Case Management	Statutory ring fenced reserve to record surpluses and losses on licensing.
Licensing Act Reserve	Earmarked	(76)	(154)	(154)	(154)	(154)	(154)	(154)	Operational Lead Case Management	Statutory ring fenced reserve to record surpluses and losses on licensing.
Misc Licensing Reserve	Earmarked	32	69	69	69	69	69	69	Operational Lead Case Management	Statutory ring fenced reserve to record surpluses and losses on licensing.
Gambling Licensing Reserve	Earmarked	13	25	25	25	25	25	25	Operational Lead Case Management	Statutory ring fenced reserve to record surpluses and losses on licensing.
Community Housing Fund	Earmarked	(2,309)	(2,234)	(1,764)	(1,764)	(1,764)	(1,764)	(1,764)	Strategy Lead Specialist	income received from Government for Community Housing Fund not spent in year.
Commuted Sums Reserve	Earmarked	(153)	(134)	(44)	(44)	(44)	(44)	(44)	Operational - Specialist Services	Income received under various s106 agreements not spent in year

Reserve	Type	**Balance 31/3/2018 £000**	**Balance 31/3/2019 £000**	**Balance 31/3/2020 £000**	**Balance 31/3/2021 £000**	**Balance 31/3/2022 £000**	**Balance 31/3/2023 £000**	**Balance 31/3/2024 £000**	**Responsible Lead**	Summary, Purpose and Commentary
Cumbria NDR Pool Income Reserve	Earmarked	(1,169)	(1,577)	(2,177)	(1,777)	(1,727)	(1,727)	(1,727)	Operational - Specialist Services	Income from Cumbria NNDR pool, earmarked for economic development
Cumbria NDR Pool volatility Reserve	Earmarked	(299)	(176)	(344)	(344)	(344)	(344)	(344)	Finance Lead Specialist	Share of NNDR pool income retained by pool to offset potential future deficits
Customer Connect Reserve	General	(1,301)	(2,035)	(4)	(4)	(4)	(4)	(4)	Operational Lead Support Services	To fund the implementation of the Customer Connect Project, initially using the Customer Connect budgets from 2016/17 revenue budgets not spent during 2016/17.
Debt Redemption Reserve	General	(455)	0	0	0	0	0	0	n/a - Closed	Underspend on budget for interest payment and MRP due to changes in capital programme, originally set aside for future costs of debt repayment. Close at 31/3/19 following transfer to Customer Connect Reserve
Economic Development Fund	General	(167)	(304)	(304)	(304)	(304)	(304)	(304)	Operational - Specialist Services	To encourage economic development in the District and to ensure that unused funds in a particular year can be carried forward.
General Fund Major Repairs Reserve	Capital	(307)	(155)	(260)	238	153	68	(17)	Operational Lead Delivery and Commercial Services	To fund major repairs and maintenance to General Fund properties that are not capitalisable and would be difficult to accommodate in the annual planned maintenance programme. The Reserve: • acts as a backstop for emergency major repairs • accumulates funds as necessary to meet an abnormal year in maintenance terms, • is able to assist in meeting regular maintenance costs.

Reserve	Type	**Balance 31/3/2018 £000**	**Balance 31/3/2019 £000**	**Balance 31/3/2020 £000**	**Balance 31/3/2021 £000**	**Balance 31/3/2022 £000**	**Balance 31/3/2023 £000**	**Balance 31/3/2024 £000**	**Responsible Lead**	Summary, Purpose and Commentary
IT Replacement Reserve	Capital	(74)	(81)	(74)	(74)	(74)	(74)	(74)	Digital Lead Specialist	To fund the replacement of hardware and software with a preference for the updating of the corporate and networking infrastructure.
Kendal Employment Dev. Fund	Earmarked	(0)	(0)	(0)	(0)	(0)	(0)	(0)	n/a - Closed	Assistance to eligible developing firms in the Kendal area
LABGI	General	(5)	(5)	(5)	(5)	(5)	(5)	(5)	Operational - Specialist Services	To fund non-recurring initiatives that contribute directly to one or more of the Council's priority initiatives, with a preference for economic development. This fund is now practically fully committed and should be closed once the committed spend is achieved.
Local Arts Strategic Partnership	Earmarked	(30)	(30)	(30)	(30)	(30)	(30)	(30)	Operational Lead Specialist Services	Monies provided towards Arts Strategy and related activities carried forward for use in subsequent years.
LSVT Environmental Warranties	Earmarked	(282)	(282)	(282)	(282)	(282)	(282)	(282)	Finance Lead Specialist	To pay for environmental insurance until 2032 relating to warranties given as part of the housing transfer.
Marshall Hooper Reserve	Earmarked	(37)	(37)	(37)	(37)	(37)	(37)	(37)	Strategy Lead Specialist	Monies left to the Council as a bequest to be used for housing for the elderly in Grange
New Homes Bonus Reserve	Capital	(1,457)	(2,118)	(921)	(406)	(181)	(181)	(181)	Finnace Lead Specialist	New reserve to enable forward funding of eligible schemes through the Council's New Homes Bonus protocol
NNDR Surplus Reserve	Earmarked	(1)	(1)	(1)	(1)	(1)	(1)	(1)	Finance Lead Specialist	Timing gap between recognising s31 grant and recognising offsetting NDR collection fund deficits.

Reserve	Type	**Balance 31/3/2018 £000**	**Balance 31/3/2019 £000**	**Balance 31/3/2020 £000**	**Balance 31/3/2021 £000**	**Balance 31/3/2022 £000**	**Balance 31/3/2023 £000**	**Balance 31/3/2024 £000**	**Responsible Lead**	Summary, Purpose and Commentary
Planning Delivery Grant Fund	Earmarked	(18)	0	0	0	0	0	0	Operational Lead Specialist Services	Monies provided by Planning Delivery Grant in 2009/10 carried forward for use in a subsequent years. This source of grant funding has now been discontinued and the fund will be closed when the current balance is spent.
Personal Financial Resilience Reserve	Earmarked	0	(25)	(25)	(25)	(25)	(25)	(25)	Operational Lead Case Management	New reserve created from unclaimed members allowances earmarked to improve financial resilience
Revs and Bens Replacement Reserve	Capital	(10)	0	0	0	0	0	0	n/a - Closed	Transferred to Customer Connect Reserve following replacement of Revs & Bens system in 2017/18 Closed 31/3/19
Revenue Funds for Capital	Capital	(587)	(307)	394	294	194	94	(6)	Finance Lead Specialist	Monies provided from revenue to support the Capital Programme & fund expenditure that may not be capitalisable: annual contribution £100k
Second Homes Income Reserve	General	(46)	(92)	0	0	0	0	0	Strategy Lead Specialist	Initiatives to enable the provision of affordable housing: transfer of unspent balance at end of year
Social Lettings Reserve	General	0	0	0	0	0	0	0	n/a - Closed	income from the social lettings scheme set aside for potential losses or repair bills Closed 31/3/19
Total Reserves excluding working balance		(15,447)	(14,907)	**(10,331)**	**(9,252)**	**(9,362)**	**(9,747)**	**(10,132)**		
GF Working balance		(1,500)	(1,500)	**(1,500)**	**(1,500)**	**(1,500)**	**(1,500)**	**(1,500)**	Finance Lead Specialist	Buffer against unforeseen & emergency expenditure in-year, inflationary demands, adverse cash flow, inability to use capital resources.
Total Usable Reserves		(16,947)	(16,407)	**(11,831)**	**(10,752)**	**(10,862)**	**(11,247)**	**(11,632)**		

Capital Funding Strategy

1. Introduction

1.1. This Capital Funding Strategy sets out how the capital resources will be deployed to fund the Capital Programme. It compliments the Council's Capital Strategy which is approved annually in February by Council as part of the suite of Budget reports and set out the Council's approach to meeting community and service needs through its capital programme.

2. Financing capital expenditure

Overview

2.1. Decisions on capital investment are made against the background of constrained resources, and the Council is heavily dependent upon capital receipts and grants from the Government to support its capital programme. Other available funding sources include prudential borrowing, third party contributions, and revenue contributions. These are all actively pursued to support capital investment.

Capital Receipts

2.2. Capital receipts are derived from asset sales. These could include income to the Council as lessor from finance leases.

2.3. Asset sales come from a variety of sources. Generally speaking, 100% of asset sales can be used to support capital expenditure. Sometimes the asset sale is linked directly to a capital project, for example in a relocation scheme. More often, asset sales relate to surplus assets that are held corporately and are not specific to a scheme or service.

2.4. The Council completed the transfer of its housing stock to South Lakes Housing, a registered social landlord, in March 2012. Under the terms of the transfer agreement the Council received both an initial capital receipt and will receive future capital receipts from the sale of houses, other assets and from a VAT shelter.

2.5. The amount of receipts from asset sales is dependent on both the type of asset itself and on economic and market conditions. The current economic climate has significantly reduced the number of sales and the amount of receipts.

Borrowing

2.6. The Local Government Act 2003 introduced new flexibilities into the capital expenditure and financing rules governing local authorities. The new rules, contained in the 'Prudential Code', allow local authorities to set their own limits with regard to borrowing undertaken to support capital expenditure. Additional borrowing may now be undertaken, provided that it is, and can be shown to be, prudent, affordable and sustainable.

2.7. In order for borrowing to be prudent, affordable and sustainable, there must be an identifiable, long-term source of revenue funding for the associated revenue (debt financing) costs. Ideally this will come from revenue savings or additional income arising directly from the capital scheme. For example, refurbishment of a building may generate maintenance and/or energy savings, or the building of a car park could generate income through charges. The cost of borrowing therefore should be offset by savings within the service that uses the asset.

Government Grants

2.8. The conditions attached to government grants vary according to the particular grant. Some will fund the full cost of the scheme, others just a percentage, with the local authority having to fund the balance. Most, but not all, grants are time-limited. Government grants tend to be focussed towards the Government's priorities.

Third Party Contributions

2.9. As with government grants the conditions attached to third party contributions vary. This category of funding is becoming of increasing importance to the Council in a climate of stretched local government resources. Included here are:

- Planning obligations funding from Section 106 agreements (developer contributions)
- National Lottery grants
- Contributions from local bodies.
- Contributions from national bodies.

Revenue Contributions

2.10. In the past revenue contributions have been a fairly minor source of capital financing for the Council due to pressures on the revenue budget. They are, however, sometimes used to top up small shortfalls in the funding required for a particular scheme.

Community Infrastructure Levy

2.11. The Council has introduced a Community Infrastructure Levy (CIL) a levy on new housing and retail development outside the National Parks. Its purpose is to assist with the delivery of infrastructure necessary to support the growth proposed in the Local Plan. 15% of the CIL receipt also goes to the Parish Council for the area in which the development takes place. The levy is expected to raise around £17m between now and 2025. Because CIL is levied when planning permission is granted but paid in instalments after building has started, it will be some time before a significant sum accumulates.

Reserves

2.12. The Council uses a number of reserves to fund the capital programme. There are two main types:

- Reserves used to collect specific funds to be used over a number of years, such as the Second Homes Discount reserve, the LAGBI reserve or the New Homes Bonus reserve
- Reserves can be used to smooth the timing of the application of revenue contributions, for example the IT Reserve and the General Fund Major Repair Reserve.

2.13. The Policy on Reserves and Balances gives details of the purpose of each reserve.

3. Funding strategy

3.1. The capital funding strategy is proposed as part of the overall Capital Budget Strategy and is therefore also reviewed on an annual basis.

3.2. The Council's capital funding strategy for 2019/20 to 2024/25 is set out below:

3.3. Funding streams are allocated in the following ways:

3.3.1. Capital receipts are not allocated or committed prior to receipt, unless inextricably linked to a specific project.

3.3.2. CIL will be allocated in accordance with the approved scheme after the deduction of the parish share. CIL will only be paid once received and in accordance with the statutory timetable.

3.3.3. General fund capital receipts received during the year will be added to the unearmarked general fund capital receipts reserve and taken into account as a potential funding source for new schemes or variations in the relevant financial year or the following financial year, subject to revenue budget considerations e.g. debt financing budget implications.

3.3.4. Receipts from Right to Buy will be earmarked for replacement homes.

3.3.5. General Fund capital receipts received from the capital portion of finance lease income on Council owned properties under IFRS rules will be earmarked for capital expenditure on the Council's property assets.

3.3.6. The only call on the general fund major repairs reserve during the year would be for unforeseen high priority emergency capital works that cannot be financed from alternative sources. Agreement will be through the normal channels – that is the submission of a project appraisal or variation to Cabinet with final approval by Council.

3.3.7. Hypothecated funding – i.e. funding linked directly to a specific scheme or service area, such as grants, third part contributions, revenue contributions and supported borrowing – is allocated 100% to the relevant scheme or service.

3.3.8. Borrowing will be used to fund capital investment if the cost of the borrowing is affordable. Ideally the capital investment itself will produce revenue savings, which will cover the cost of borrowing to invest.

3.3.9. The IT Replacement Reserve will only be used to fund the replacement of hardware and software with a preference for the updating of the corporate and networking infrastructure.

3.3.10. The Fund of Revenue Monies for Capital Purposes will only be used to provide support to the Capital Programme, to supplement the capital finance available to the Programme by revenue contributions and to cover ‘grey area’ expenditure and allow flexibility in financing decisions.

3.3.11. Underspends on schemes may not be automatically diverted to other schemes. This will be considered against the demands of the programme as a whole, any reserve project list and funding requirements for the following year.

3.3.12. The funding strategy is used to determine the allocation of funding to the programme at the start of the year and throughout the year. Depending on the timing and restrictions of the funding streams, the most appropriate funding will be used at the year end. Finance staff, under the direction of the Chief Finance Officer, will apply the available funding to the outturn expenditure in line with the best interests of the Council.

4. Revenue Implications of Capital Projects

4.1. The revenue implications of capital projects are identified through medium term planning and the capital appraisal process, and fed into the Council’s medium term revenue budget to ensure that all revenue implications are taken into account.

5. Leasing (Council as Lessee)

5.1. Leases are classified in accounting terms as either finance or operating leases. This distinction is important because it dictates whether the lease must be classified as capital (finance leases) or revenue (operating leases), and different accounting treatment is required for each.

5.2. Items financed through an operating lease are coded to and financed as part of the Council's revenue budget. It is the responsibility of the budget holder to ensure that there is sufficient capacity in the revenue budget to fund the annual operating lease costs.

5.3. The Council's preference is not to enter into finance leases unless there are exceptional reasons for doing so. Where an operating lease is either not available or not suitable, a capital purchase funded by prudential borrowing generally offers greater benefits than a finance lease. The introduction of IFRS from April 2010 reduced the number of instances where operating leases can be used to finance expenditure, particularly in the case of short life assets such as IT hardware, equipment and vehicles. Where this applies it is likely that such items will be purchased through the capital programme and financed by prudential borrowing, with the revenue cost of the borrowing met from the existing service budget.

5.4. The accounting rules for leases will change for 2020/21 and consequential changes will be made to the 2020/21 Capital Budget Strategy.

5.5. The detailed capital programme is shown at **Appendix 6.**

Capital Programme 2018/19 and 2019/20-2023/24

GL Code	Programme Spending by Project	2018/19 Approved Feb 2019 £000	Re-profiling and adj £000	2018/19 Final £000	2019/20 Approved Feb 2019 £000	Carry-forwards approved May 2019 £000	Re-profiling and adjustments requested £000	2019/20 Revised £000	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	Total 2019/20 to 2023/24 £000
KNMxx	Play Areas (including community funded schemes and schemes arising from the Play Space Audit)	392.2	102.4	494.6	194.0	288.2	44.4	526.6	65.0	65.0	65.0	65.0	786.6
KNM56	Millerground Public Open Space, Access and Play Project	109.5	9.0	118.5	0.0	47.7	0.0	47.7	0.0	0.0	0.0	0.0	47.7
KRE04	Grange Regeneration	0.0	0.0	0.0	157.3	0.0	0.0	157.3	0.0	0.0	0.0	0.0	157.3
KLR31	Nobles Rest	178.1	20.0	198.1	0.0	6.9	1.3	8.2	0.0	0.0	0.0	0.0	8.2
KLL17	Ferry Nab Redevelopment Phase 1	42.6	-34.7	7.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KLL18	Cockshott Point Entrance Improvements	1.8	0.0	1.8	0.0	1.5	0.0	1.5	0.0	0.0	0.0	0.0	1.5
KRE61	Waterhead Public Jetty	31.4	2.7	34.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KRE65	Public Realm - The Glebe phase I and II	50.0	0.0	50.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KRE53	Kendal Town Centre Public Realm	22.6	0.0	22.6	0.0	15.7	0.0	15.7	0.0	0.0	0.0	0.0	15.7
KRE55	New Road Common (approved Council 12 Oct 2017)	231.0	0.0	231.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KLC01	Kendal Leisure Centre (including changing rooms)	159.6	2.7	162.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KMR32	Wordsworth Trust contribution	42.0	0.0	42.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KMR31	Festival Infrastructure	64.8	-25.0	39.8	0.0	24.0	0.0	24.0	0.0	0.0	0.0	0.0	24.0
KEG35	Flood impact works Rothay Park	207.2	-94.1	113.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KFL01	Footway Lighting	49.4	0.0	49.4	25.0	40.7	0.0	65.7	25.0	25.0	25.0	25.0	165.7
KIT90	IT Replacements	80.0	0.0	80.0	80.0	6.7	0.0	86.7	80.0	80.0	80.0	80.0	406.7
KIT30	Customer Connect	290.0	0.0	290.0	300.0	168.3	0.0	468.3	0.0	0.0	0.0	0.0	468.3
KIT27	Mobile Working	120.0	0.0	120.0	0.0	120.0	0.0	120.0	0.0	0.0	0.0	0.0	120.0
KPY44	Town and Car Park signing	16.2	0.0	16.2	0.0	11.7	0.0	11.7	0.0	0.0	0.0	0.0	11.7
KPY45	South Lakeland House carpark works	377.5	0.0	377.5	0.0	370.4	0.0	370.4	0.0	0.0	0.0	0.0	370.4
KPY46	Car park re-surfacing	339.7	137.0	476.7	25.0	80.3	0.0	105.3	0.0	0.0	0.0	0.0	105.3
KSC91	Vehicle & Plant Programme (inc bins and boxes)	1,011.0	5.0	1,016.0	1,869.0	112.0	0.0	1,981.0	594.0	499.0	690.0	2,100.0	5,864.0
KGD21	Disabled Facilities Grants	934.4	0.0	934.4	661.0	0.0	0.0	661.0	661.0	661.0	603.0	603.0	3,189.0
KRT10	Right to buy replacement scheme	495.0	0.0	495.0	0.0	0.0	495.0	495.0	0.0	0.0	0.0	0.0	495.0
KAH10	Affordable & Empty Homes, Town Centre Properties.	168.0	0.0	168.0	260.0	119.0	92.0	471.0	260.0	260.0	260.0	0.0	1,251.0
KAH13	S106 funded affordable homes purchase	60.0	0.0	60.0	86.0	0.0	0.0	86.0	0.0	0.0	0.0	0.0	86.0
KAH11	Cross-a-Moor junction improvement	0.0	0.0	0.0	300.0	0.0	0.0	300.0	0.0	0.0	0.0	0.0	300.0
KAH12	Town View Fields hostel	0.0	2.9	2.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KCH01	Community Housing Fund	490.0	0.0	490.0	0.0	470.0	0.0	470.0	0.0	0.0	0.0	0.0	470.0
KMR21	Kendal Museum contribution	85.0	0.0	85.0	0.0	85.0	0.0	85.0	0.0	0.0	0.0	0.0	85.0
KLH02	Coronation Hall alterations	79.8	0.0	79.8	0.0	79.8	0.0	79.8	0.0	0.0	0.0	0.0	79.8

Appendix 6

Capital Programme 2018/19 and 2019/20-2023/24

GL Code	Programme Spending by Project	2018/19 Approved Feb 2019	Re-profiling and adj	2018/19 Final	2019/20 Approved Feb 2019	Carry-forwards approved May 2019	Re-profiling and adjustments requested	2019/20 Revised	2020/21	2021/22	2022/23	2023/24	Total 2019/20 to 2023/24
		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
KXB27	Energy-saving building enhancements	149.2	0.0	149.2	0.0	139.2	0.0	139.2	0.0	0.0	0.0	0.0	139.2
KDE04	Former Knitware Factory (Ulverston) site clearance	89.1	10.3	99.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KLH03	Kendal Town Hall stone work	32.9	0.0	32.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
KCD01	Castle Dairy flood damage reinstatement	19.9	-15.9	4.0	0.0	4.0	0.0	4.0	0.0	0.0	0.0	0.0	4.0
KPE18	Kendal to Lancaster towpath trail	140.0	0.0	140.0	0.0	120.0	0.0	120.0	0.0	0.0	0.0	0.0	120.0
KIP01	LIPS (excluding contributions to SLDC property included under individual properties)	275.4	20.0	295.4	165.8	208.0	-2.2	371.6	0.0	0.0	0.0	0.0	371.6
KRE66	Grange Promenade Structural works	100.0	0.0	100.0	300.0	96.0	0.0	396.0	300.0	225.0	250.0	0.0	1,171.0
KMR33	Braithwaite Fold Caravan Park extention	214.3	0.0	214.3	0.0	186.9	0.0	186.9	0.0	0.0	0.0	0.0	186.9
KMR35	Burton Hertiage Grant Scheme (funded from LIPS)	0.0	17.0	17.0	80.0	0.0	85.0	165.0	75.0	0.0	0.0	0.0	240.0
KMR34	Kendal Castle (funded from LIPS)	42.0	0.0	42.0	0.0	41.0	0.0	41.0	0.0	0.0	0.0	0.0	41.0
KPY42	Car Parking Machines	140.0	0.0	140.0	0.0	137.4	0.0	137.4	0.0	0.0	0.0	0.0	137.4
KPY48	Parkside Road, Kendal car park	160.4	0.0	160.4	0.0	153.8	0.0	153.8	0.0	0.0	0.0	0.0	153.8
KEP52	Disabled Toilet improvements	10.0	0.0	10.0	40.0	10.0	0.0	50.0	0.0	0.0	0.0	0.0	50.0
KDE06	ERDF funded flood defence works	0.0	0.0	0.0	2,226.7	0.0	0.0	2,226.7	1,556.7	1,556.7	0.0	0.0	5,340.1
KDE07	Coastal Communities Fund	0.0	0.0	0.0	0.0	0.0	818.3	818.3	1,532.9	0.0	0.0	0.0	2,351.2
	New Bids												0.0
BID01	Housing Investment Fund: Loans to Housing Associations	0.0	0.0	0.0	3,000.0	0.0	0.0	3,000.0	3,000.0	0.0	0.0	0.0	6,000.0
BID02	New Ulverston Leisure Centre	0.0	0.0	0.0	0.0	0.0	0.0	0.0	9,200.0	0.0	0.0	0.0	9,200.0
BID03	Homeless Accommodation for Families	0.0	0.0	0.0	461.4	0.0	0.0	461.4	0.0	0.0	0.0	0.0	461.4
BID04	Abbot Hall redevelopment	0.0	0.0	0.0	100.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	100.0
BID05	Grange Lido	0.0	0.0	0.0	960.0	0.0	0.0	960.0	1,000.0	0.0	0.0	0.0	1,960.0
BID07	Windermere Road car park, Grange	0.0	0.0	0.0	100.0	0.0	0.0	100.0	0.0	0.0	0.0	0.0	100.0
BID08	Customer Connect: Places	0.0	0.0	0.0	947.5	0.0	0.0	947.5	3,789.9	0.0	0.0	0.0	4,737.4
	Bids subject to further assessment:												
	Accomodation review	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Car park investments*	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Employment site land acquisition	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Rydal Road car park bridge	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Depot review	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Total	**7,502.0**	**159.3**	**7,661.3**	**12,338.7**	**3,144.2**	**1,533.8**	**17,016.7**	**22,139.5**	**3,371.7**	**1,973.0**	**2,873.0**	**47,373.9**

*subject to detailed review of car parking strategy including potential new car parks, reconfiguration options on existing car parks and electric charging points

Appendix 6

Capital Funding 2019/20 - 2023/24

	Balance April 2019 £000	Estimated Income £000	Use in capital programme £000	Projected Balance March 2024 £000
General				
Usable Capital Receipts	1,189	349	-1,375	163
VAT Shelter receipt	932	1,100	-2,029	3
New homes bonus (capital)****	1,581	513	-1,983	111
Earmarked or allocated				
Revenue (LIPS)	537	240	-722	56
IT replacement reserve	81	400	-407	74
Major Repairs Reserve	155	750	-888	17
General Revenue contributions	324	1,150	-1,451	24
Cap grants and contributions (inc S106)	872	10,842	-11,378	336
Disabled Facilities Grants	177	3,150	-3,189	138
Community Housing Fund*	2,233	0	-470	1,763
Right to Buy receipt**	4,545	3,500	-6,495	1,550
Borrowing				
Funding from borrowing***.	0	16,988	-16,988	0
Total	12,627	38,982	-47,374	4,235

*Ring fenced for Community Housing Schemes

**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

Medium Term Financial Plan Risks and Opportunities Log

Ref	Vulnerability / Trigger	Consequence	Likelihood	Impact	Actions to control this risk
1.	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.	Low	Marginal	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
2.	The programme of budget reductions does not deliver the required level of savings to correct the forecast inherent budget deficit.	Council will be forced to cut services and/or make knee-jerk and potentially irrational spending reductions.	Low	Critical	Universal acceptance of the problem by heightened awareness. Clear direction and identification of measures by Members and Officers. Strict project management to ensure that proposals are implemented.
3.	The Customer Connect Programme does not deliver the organisational changes and efficiency savings included in budget forecasts.	Council will be forced to cut services and/or make knee-jerk and potentially irrational spending reductions.	Medium	Critical	Clear direction and identification of measures by Members and Officers. Strict project management to ensure that proposals are implemented.
4.	Result of Brexit may potentially change estimated levels of growth, inflation, interest etc.	The Council may have to amend the capital and revenue spending plans to react to changes in funding and potential increased levels of expenditure	High	Serious	Monitor impact of decision
5.	Resources cannot be identified to fund new service development.	Corporate outcomes may not be delivered.	Low	Marginal	Accurate assessments of spending needs to be built into the budget forecast. Project management of reduction programme.

Ref	Vulnerability / Trigger	Consequence	Likelihood	Impact	Actions to control this risk
6.	Further loss of income from investments as interest rates reduce.	Revenue budget unable to cope with reduced income	Low	Marginal	Close monitoring of returns, already minimal levels of projected interest receipts.
7.	• Provisions for pay, price inflation are inadequate e.g. fuel • Income falls below targets • Government grant is withdrawn suddenly	In-year budgetary pressure and potential overspending, jeopardising service delivery.	Low	Marginal	Close monitoring and short-term use of revenue contingency provision and General Reserve followed by review for following year.
8.	Government devolution approach diverts funding to other areas	Reduction in funding for other services	Medium	Marginal	Monitor proposals for extension of devolution
9.	The resilience of the budget is not re-enforced by the strengthening of reserves and balances.	Budget may not be able to cope with unexpected events and spending plans may have to be curtailed.	Low	Marginal	Close adherence to the Plan's proposals for the maintenance of reserves and balances.
10.	Government introduction of more stringent capping system through the specification of levels above which a referendum will be triggered	Revenue budget unable to cope with basic inflationary increases, further pressure on resources and service delivery.	Low	Marginal	Maintenance of General Reserve as a buffer against unexpected restriction on council tax increases. The Plan uses realistic assumptions for forward planning.
11.	Government proposals for localisation of business rates, including baseline reset increase uncertainty of major income stream.	Income streams will be insufficient to fund service delivery.	High	Critical	Monitor changes in rateable values & proposals for new development / closures/ other changes. Monitor Government proposals for changes in NNDR legislation. Maintenance of General Reserve as a buffer against unexpected changes in funding.

Ref	Vulnerability / Trigger	Consequence	Likelihood	Impact	Actions to control this risk
11a.	Government proposals for additional reliefs for business rates will not be fully funded	As above	As above	As above	As above
12.	Council is reluctant to take the required challenging decisions in a number of service areas e.g. fees & charges or grants payable	Income streams may not be optimised leading to reduced resources available for spending on priority services or projected savings may not be generated	Low	Serious	Financial decisions in non-priority areas should be made on commercial principles backed by sound business cases. Commissioning Framework to include decommissioning.
13.	Budgetary control procedures are not understood and followed – higher likelihood during period of organisational change.	Variances from budgets are not identified and acted upon, leading to inappropriate/unauthorised spending.	Medium	Marginal	Ongoing review of procedures to ensure that budget monitoring information is appropriate and meaningful. Greater emphasis on trend analysis and the use of customer data. Closer liaison between Finance staff and budget holders.
14.	Reduction in economic development funding if Cumbria LEP is unable to attract significant funding.	Inability to improve employment prospects within the district	Low	Serious	If LEP is unable to invest in economic development there will be increased pressure on the Council's capital programme to invest significant funds.
15.	The Council is unable to meet future demand for services	Service falls below all acceptable standards.	Medium	Critical	Close monitoring of the changing needs and levels of demand and review of resource allocation.

SOUTH LAKELAND DISTRICT COUNCIL

Ref	Vulnerability / Trigger	Consequence	Likelihood	Impact	Actions to control this risk
16.	Pension funding	Budget may not be able to cope with additional costs and spending plans may have to be curtailed.	Low	Marginal	Moved to alternative method of contribution based on set percentage for current service accrual and fixed contribution for past service costs; this has reduced inherent problem of declining staff base for contributions. Government reform of pension scheme should alleviate impact of declining investment returns.
17.	Costs of asset maintenance, as identified in the Land and Property Strategy, exceed resources available.	Budgetary pressures force cuts in standards of maintenance.	Medium	Serious	A quinquennial review of maintenance requirements is prepared. The General Fund Planned Maintenance fund exists to meet abnormal spending needs.
18.	Future demographic and other changes demand additional expenditure	Budget inadequate for additional spending demands/potential loss of income due to declining population	Medium	Serious	Monitor impact of demographic changes
19.	Potential creation of Internal Drainage Board	Unavoidable Levy payable to Internal Drainage Board; under capping rules, levies would count against the Council's Council Tax capping limit.	Low	Marginal	Monitor proposals, review treatment as special expense. Current rules for calculating council tax increases a new levy would count towards triggering a referendum. Government consultation spring 2019.
20.	Potential loss of surplus-generating assets through the proposed Community right to bid and/or failure of assets transferred	Budget may not be able to cope with loss of income/sudden increase in budgets required for remedial costs	Low	Marginal	Review all requests against the Asset Transfer Policy

Ref	Vulnerability / Trigger	Consequence	Likelihood	Impact	Actions to control this risk
21.	Higher that estimated increase in costs due to international political uncertainty e.g. fuel	Budget may not be able to cope with additional costs and spending plans may have to be curtailed.	Low	Marginal	Frequent budget monitoring
22.	Reduced ability to attract and retain suitably qualified staff. .	Inability to deliver services to current levels or additional costs of temporary staff	Low	Marginal	Monitor recruitment activity
23.	Welfare reform: additional costs of implementation of Universal Credit due to need to support digital by default application process and payment to claimants rather than landlords.	Potential increase in support costs and potential increase in homelessness cases due to rent arrears. Loss of administration grant towards continuing costs	High	Marginal	Monitor proposals and respond to consultation
24.	Procurement projects: projected savings not generated	Unable to deliver estimated savings, inability to balance budget	Medium	Marginal	Review all savings proposals for deliverability, ensure specification of proposed contract is realistic.
25.	Procurement projects: challenge to process	Potential legal costs and additional costs of service delivery until challenge resolved	Low	Marginal	All procurement exercises to follow Council's Contract Procedure Rules, which are updated for changes in legislation. Additional legal advice is procured for major or unusual procurement projects
26.	Closure of major employer	Reduction in income from business rates but increase in demand for affordable housing and council tax reduction scheme.	Medium	Marginal	Monitoring of significant employers
27.	Legal challenge, particularly of charging regimes	Potential need to refund income received and contribute to legal costs	Low	Marginal	Potential claims for significant refunds of charges e.g. land charges

Ref	Vulnerability / Trigger	Consequence	Likelihood	Impact	Actions to control this risk
28.	Increased tax avoidance, particularly of business rates	Reductions in income from business rates	Medium	Marginal	Monitor claims for reliefs, particularly empty properties
29.	Further changes to New Homes Bonus e.g. increase in threshold	Reduction in income from government	High	Marginal	Currently income from New Homes Bonus is not included as a recurring item in the Council's base budget due to uncertainty about future income streams. Any reduction would reduce the funding available to local projects and may require funding from other Council income streams.
30.	Changes in shopping habits and other behavioural changes reduces income from Council operations	Reduction in income from markets, car parking, public halls etc	Medium	Serious	Will be incremental impact initially: monitor income and usage as part of corporate monitoring process and budgeting process
31.	Increased applications for rate reliefs and/or appeals	Reduction in income from business rates	Medium	Serious	Monitor applications for relief and appeals
32.	Cumbria Business Rate pool income lower than expected	Reduction in income from pool potentially below single-authority safety-net	Low	Serious	Regular monitoring of business rate income and appeals through Cumbria pool, particularly relating to Sellafield due to abnormally large rateable value.

Risk Prioritisation Matrix

Likelihood					
	A High		23,29,32	4	11, 11a
	B Medium		8, 13, 24, 26, 28	17,18,30, 31	3, 15
	C Low		1, 5, 6, 7, 9, 10, 13, 16, 19, 20, 21, 22, 25, 27	12, 14, 32	2
	D Very Low				
		4 Negligible	3 Marginal	2 Serious	1 Critical
	Impact				

Colour key:	
Green	Low priority risks which require annual review
Blue	Priority risks which require mitigating controls and quarterly review

1 Revenue budget & Capital Programme not integrated & aligned with Council Plan.
2 The programme of budget reductions does not deliver the required level of savings to correct the forecast inherent budget deficit.
3 The Customer Connect Programme does not deliver the organisational changes and efficiency savings included in budget forecasts.
4 Result of Brexit
5 Resources cannot be identified to fund new service development.
6 Further loss of income from investments as interest rates reduce.
7 Provisions for inflation are inadequate, income falls below targets, grant is withdrawn suddenly
8 Government devolution approach diverts funding to other areas
9 The resilience of the budget is not re-enforced by the strengthening of reserves and balances.
10 Government introduction of more stringent capping system through the specification of levels above which a referendum will be triggered
11 Government proposals for localisation of business rates, including baseline reset increase uncertainty of major income stream.
11a. Government proposals for additional reliefs for business rates not fully funded
12 Council is reluctant to take the required challenging decisions in a number of service areas e.g. fees & charges or grants payable
13 Budgetary control procedures are not understood and followed – higher likelihood during period of organisational change.
14 Reduction in economic development funding if Cumbria LEP is unable to attract significant funding.
15 The Council is unable to meet future demand for services
16 Pension funding
17 Costs of asset maintenanceexceed resources available.
18 Future demographic and other changes demand additional expenditure
19 Potential creation of Internal Drainage Board
20 Potential loss of surplus-generating assets through the proposed Community right to bid and/or failure of assets transferred
21 Higher that estimated increase in costs due to international political uncertainty e.g. fuel
22 Reduced ability to attract and retain suitably qualified staff. .
23 Welfare reform: additional costs of implementation of Universal Credit due to need to support digital by default application process and payment to claimants rather than landlords.
24 Procurement projects: projected savings not generated
25 Procurement projects: challenge to process
26 Closure of major employer
27 Legal challenge, particularly of charging regimes
28 Increased tax avoidance, particularly of business rates
29 Further changes to New Homes Bonus e.g. increase in threshold
30 Changes in shopping habits and other behavioural changes reduces income from Council operations
31 Increased applications for rate reliefs and/or appeals
32 Cumbria Business Rate pool income lower than expected

SOUTH LAKELAND DISTRICT COUNCIL

Opportunities

Ref	Opportunity/Trigger	Consequence	Likelihood	Impact	Actions to achieve this opportunity
A.	Regional Devolution	Removal of government restrictions and barriers between organisations enabling more localised decision making, for example variation in Council Tax discounts and premiums	Medium	Significant	Discussions with other public sector organisations and HM Treasury
B.	Significant increase in net dwellings increases New Homes bonus.	Additional funding to support either expansion of existing services, provision of new services or prevents reduction in existing services	High	Marginal	Maximise addition of properties (& minimise removal of properties) on valuation list by end of September annually; maximise increase in number of affordable homes through planning requirements or provision of support, financial or otherwise. Likely to be abolished from March 2020. Although may be significant increase in income, the Council has commitment for use on affordable housing and locally important projects.

Ref	Opportunity/Trigger	Consequence	Likelihood	Impact	Actions to achieve this opportunity
C.	Localisation of business rates	Potentially could provide funding to support either expansion of existing services, provision of new services or prevent reduction in existing services	High	Marginal	The Government scheme of tariffs limits the potential for significant gains from increased business rates. Monitor planning applications, Local Plan proposals etc.
D.	Business rate pilot	Potentially could increase proportion of business rate income retained locally, either by Council or by Cumbria County Council	Medium	Serious	Cumbria Pilot bid was unsuccessful for 2018/19 and 2019/20. Impact beyond April 2020 is impossible to predict due to uncertainties around Government proposals for business rates.
E.	Shared services	Potentially could provide additional funding to support either the existing level of service or enhanced service levels	High	Marginal	Review existing services, work with other public services in the area to review service provision and potential sharing of services: depends on finding a partner.
F.	New advances in technologies	Potentially could reduce staffing requirements or existing non-staffing costs; could permit new or enhanced services	Low	Marginal	Monitor developments in technology
G.	Community Groups wishing to take over services	Potential transfer of costs to alternative provider who may be able to provide existing services at lower cost or enhanced services at existing cost	Low	Significant	Monitor requests, including those under the Community Right to Challenge. Currently there appears little appetite or capacity for further transfers.

SOUTH LAKELAND DISTRICT COUNCIL

Ref	Opportunity/Trigger	Consequence	Likelihood	Impact	Actions to achieve this opportunity
H.	Opportunities for generating additional income for services – relaxation of national controls e.g. planning fees	Potential increase in income	High	Marginal	Monitor proposals, respond to consultation
I.	Significant increase in economic development funding if Cumbria LEP is able to attract significant funding through bidding for Regional Growth Fund or Single Local Growth Fund monies.	Ability to improve employment prospects within the district	Medium	Significant	Funding is allocated directly to schemes so the Council is not involved as accountable body but funding would reduce pressure on the Council's capital programme to support economic development schemes.
J.	Cost of debt repayment lower than expected due to higher long-term interest rates and therefore PWLB premiums reducing	Need to commit less capital receipts to repayment of debt in order to deliver interest payment reductions	High	Marginal	Monitor interest rates and repay debt when premiums are minimised if appropriate and in line with treasury management strategy.
K.	Increased income from investments as interest rates improve.	Additional revenue income offsets need to find savings to balance budget deficit.	Low	Marginal	Close monitoring of returns, minimal levels of projected interest receipts in MTFP financial model.
L.	Identification and delivery of savings enable funding of programme of growth and service development	Additional revenue savings beyond those needed to offset budget deficit	Low	Marginal	Close monitoring of deliverability of proposed savings

SOUTH LAKELAND DISTRICT COUNCIL

Ref	Opportunity/Trigger	Consequence	Likelihood	Impact	Actions to achieve this opportunity
M.	Corporate assets generate new income streams, either revenue or capital	Additional income to offset budget deficit or to supplement capital programme.	High	Marginal	Review each asset for alternative use or sale in accordance with the Corporate Asset Strategy
N.	Result of Brexit may potentially change estimated levels of growth, inflation, interest etc.	The Council may have opportunity to amend the capital and revenue spending plans to react to changes in funding and potential lower levels of expenditure	High	Serious	Monitor impact of decision

Glossary

Baseline Funding Level

The Government's assessment of the Council's share of business rates. For 2013/14 this was based on actual NNDR collected in 2009/10 and 2010/11. From 2014/15 this is increased by inflation adjusted for revaluations.

This is due to be reset from April 2020; the details of how this will be calculated is still to be confirmed.

Best Value

A general duty for local authorities to demonstrate that they deliver high quality services that provide overall value including economic, environmental and social value.

Budget

A statement defining the Council's policies over a specified period of time in terms of finance. Budgets usually include statements about the use of other resources (e.g., numbers of staff) and provide some information on performance measures.

Budget Requirement

The estimated revenue expenditure on General Fund services that needs to be financed from the Council Tax, Business Rates and Formula Grant after deducting income from fees and charges, certain specific grants and any funding from reserves.

Business rates

Income collected from non-domestic ratepayers, formally known as Non-Domestic Rates (see below).

Capital Expenditure

Spending that will provide benefit over a period of years. This includes spending on the acquisition, construction or improvements of assets (e.g. land, building, vehicles, and equipment) either directly by the Council or indirectly by grants or loans to others. Capital expenditure is defined by legislation: items falling outside of the definition must be charged to a revenue account.

Capital Programme

A schedule of the Council's capital expenditure plans for a period of several years together with the funds that will pay for that spending.

Capital Receipts

The proceeds from the sale of land or other assets. Capital receipts can be used to finance new capital expenditure within rules set down by the Government, but they cannot be used to finance revenue expenditure.

Until April 2004, the Government set proportions of receipts that were usable for capital expenditure or reserved (set-aside) for debt redemption.

Since April 2004 receipts can be re-invested in new capital expenditure, subject to affordability.

Capping

A system of controlling the spending of local authorities whereby Central Government limits a local authority's budget requirement either because it is deemed excessive or is deemed to show an excessive increase over the previous year. Direct capping by Ministers was replaced for the 2012/13 Council Tax setting process by local referendums if Council Tax increased by more than the amount specified by Ministers.

Community Infrastructure Levy (CIL)

Payment from developers for new construction: shared with parishes and must be used for agreed infrastructure projects.

Contingency

Money set-aside in the budget to meet the cost of unforeseen items of expenditure, or shortfalls in income and to provide for inflation that exceeds that provided in service budgets.

Council Plan

A document that sets out the Council's policies, priorities, objectives and targets for a period of several years. The Plan is reviewed annually.

Council Tax

The main source of local taxation to local authorities, Council Tax is levied on households within the South Lakeland area by the District Council and the proceeds are paid to

Cumbria County Council, Cumbria Police and Crime Commissioner, Parish Councils and its own General Fund.

Damping

The damping mechanism ensured that each authority received a minimum cash increase, or maximum decrease, in formula grant each year: for losing councils like South Lakeland, in the past grant was maintained at this ‘floor’ level via redistribution from gaining authorities. Under the current arrangements the level of damping has been frozen until 2020. Future proposals for damping are still being developed for funding beyond April 2020.

Debt Charges

A term for the interest paid on loans raised and repayments of principal. Also known as capital financing costs or loan charges.

Direct Revenue Financing

See Revenue Contributions to Capital.

Estimates

The amounts which are expected to be spent, or received as income, during an accounting period. The term is also used to describe detailed budgets, which are either being prepared for the following year, or have been approved for the current year.

External Audit

The independent examination of the activities and accounts of local authorities to ensure the accounts have been prepared in accordance with legislative requirements and proper practices and to ensure the authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Since October 2012 the Council’s external auditors are Grant Thornton under a contract monitored by Public Sector Audit Appointments Ltd. They are required to follow the Audit Code of Practice set by the National Audit Office.

Fees and Charges

Income raised by charging users of services for the facilities. For example, local authorities usually make charges for the use of leisure facilities, car parks, planning, building regulations, collection of trade refuse etc.

Financial Procedure Rules

A written code of procedures approved by the Council as part of its Constitution, intended to provide a framework for proper financial management. These usually set out rules on accounting, audit, administrative procedures and budgeting systems.

Fund of Revenue Monies for Capital Purposes

A reserve set up by the Council by contributions from the General Fund revenue account to provide additional funds to supplement its capital programme and to meet one-off spending associated with capital schemes that fall outside the definition of capital expenditure in legislation.

General Fund

The main revenue account of the District Council. Day-to-day spending on services is met from the fund. Spending on the provision of Council housing, however, must be charged to a separate Housing Revenue Account if the Council increases its housing stock above a certain level of properties.

Gross Expenditure

The total cost of providing the Council's services before taking into account income from Government grants and fees and charges for services.

Growth

Any increase in spending from one year to another which enables the Authority to pay for more services (staff, goods, etc) rather than to meet higher costs.

Growth items are also referred to as investment or service development items. Proposals for growth are subject to a competitive bidding evaluation process to assess their contribution to corporate outcomes or statutory/health and safety requirements before being considered for inclusion in the revenue budget.

Interest and Investment Income

Surplus cash funds held by the Council (reserves, balances, set-aside capital receipts, temporary cash receipts) are invested in order to earn interest that is credited to its revenue accounts.

Internal Audit

An independent appraisal function established by the management of an organisation for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

Levy (business rates)

Payable to the Government: 50% of income retained by the district council over the baseline funding level. There will be changes to the levy as part of the Government's proposed move to 75% rate retention.

Net Expenditure

Gross expenditure less specific services income, but before deduction of revenue support grant.

Non-Domestic Rates

Income collected from business ratepayers: calculated as a rateable value (set by the Valuation Office Agency, reviewed on a change in circumstances or as part of an annual revaluation: the last revaluation was in 2017) and a multiplier (set by Government, usually increased by inflation but capped at a 2% increase from April 2014). Collected by the district council the income is currently shared with central government (50%), county council (10%) and retained by the district council (40%). Tariffs and top-ups are used to equalise income to need as assessed under the old formula grant settlement but it is intended the formula will not updated from the 2013/14 local government settlement until reset in 2020. Levy of 50% is payable on income above baseline: safety net payments are available if income falls below 92.5% of baseline.

Outturn

Actual income and expenditure in a financial year.

Pooling

A number of councils can form a business rate pool: the baseline funding levels are pooled.

In practice this reduces levy to be paid but also reduces the ability to claim safety net if income falls. A pool has to be approved by the Ministry of Housing, Communities and Local Government annually according to a pre-set timetable.

Provisions and Reserves/Funds

Amounts set aside in one year to cover expenditure in the future. Provisions are for liabilities or losses which are likely or certain to be incurred, but the amounts or the dates on which they will arise are uncertain. Reserves are amounts set aside which do not fall within the definition of provisions and include general reserves (or 'balances') which every authority must maintain as a matter of prudence.

Procurement

Procurement is the process of acquiring goods, works and services, covering both acquisition from third parties and from in-house providers. The process spans the whole cycle from identification of needs through to the end of a services contract or the end of the useful life of an asset. Procurement involves obtaining best value for money by choosing the option that offers the optimum combination of whole life costs and benefits to meet the customer's requirement.

Prudential Regime/Prudential Code

Until 31 March 2004, local authorities' capital spending was controlled by Central Government, largely by limiting their borrowing. In April 2004 the Government introduced a new prudential system for capital finance. As well as using capital receipts and revenue monies to finance capital expenditure, Councils can now borrow up to limits set by themselves so long as their decisions can be shown to be affordable and prudent. The system is governed by a statutory code which local authorities are obliged to follow.

Reserves

See Provisions and Reserves

Revenue Contributions to Capital

Resources provided from an authority's revenue budget to finance expenditure on capital projects, frequently as a 'top-up' to other capital resources. Also known as Direct Revenue Financing (DRF).

Revenue Expenditure/Revenue Account

Running costs, including employees, premises, supplies, services and debt charges. These are recorded in revenue accounts together with income from Government grants, fees and charges.

Revenue Support Grant (RSG)

A grant paid by Central Government to aid local authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

Grant is distributed to Councils based on the Government's assessment of their spending needs. This is determined by a set of formulae that reflect factors such as population, geography, deprivation and economic characteristics.

Right to Buy (RTB)

A Government scheme whereby tenants of Council houses are offered incentives to buy their homes. The sale proceeds represent capital receipts for the Council. Following the housing transfer some tenants still have a preserved right to buy: as part of the transfer agreement the Council shares the proceeds of sales from March 2012.

Spending Power

Term introduced by the local government finance settlement in December 2010 to take into account other sources of fund when comparing government grant allocation between authorities. Spending power is the total of Council Tax, formula grant and specific grants.

Tariff

Payments to the Government due under localisation of business rates: the difference between the income expected to an authority and the authority's baseline funding level, set as part of the local government finance settlement.

Top-ups

Payments from the Government under localisation of business rates if the income expected to an authority is less than the authority's baseline funding level, the opposite of a tariff.

Treasury Management

Management of the Council's cash flow, borrowing and investments, governed by agreed policies and annual statements.

Value for Money (VFM)

A much-used term that describes a service or product that demonstrates a good balance between its cost, quality and usefulness to the customer. A VFM audit takes into account the economy, efficiency and effectiveness (known as the 'three Es') of a local authority service, function or activity. The current vfm assessment considers: "In **all significant respects**, the audited body takes **properly informed decisions** and deploys resources to achieve **planned** and sustainable outcomes for taxpayers and local people."

Zero Based Budgeting

An approach to building budgets up from scratch which is essential when creating a new budget and useful when reviewing budgets or calculating estimates for periodic and ad hoc income and expenditure. Under this approach, estimates are constructed on the basis of the individual activities the authority plans to enter into and the particular revenues it expects to generate.