

South Lakeland District Council Council

Tuesday, 25 February 2020
2020/21 to 2024/25 Budget

Portfolio: Finance and Resources Portfolio Holder
Report from: Section 151 Officer
Report Author: Helen Smith – Finance Lead Specialist (Section 151 Officer)
Wards: (All Wards);
Forward Plan: Budget and Policy Framework Decision included in the Forward Plan as published on 1 October 2019

1.0 Expected Outcome

- 1.1 This report firstly considers the Chief Finance Officers advice on the robustness of estimates and the adequacy of reserves under the requirements of the Local Government Act 2003.
- 1.2 After consideration of the above, Council is asked to consider the recommendations from Cabinet to determine the Council's **2020/21 to 2024/25 Five Year Budget**, including fees and charges, the capital programme and the pay policy statement. A balanced budget for 2020/21 is presented including an increase in the Band D Council tax of 2%.
- 1.3 The expected outcome is that Council will be in a position to deliver the priorities set out in the Council Plan within its resources. This will enable the statutory requirement to agree a balanced budget and to set the appropriate Council Tax level for 2020/21.
- 1.4 The delivery of the Customer Connect programme has substantially reduced future budget deficits. A one-year local government finance settlement has delivered additional, one-off income in 2020/21. Options still need to be developed to use this additional funding to mitigate the expected funding reductions from April 2021.

2.0 Recommendation

2.1 It is recommended that Council:-

- (1) Considers the Chief Finance Officer's Statutory Report (Appendix 1) prior to the approval of the 2020/21 Budget and endorses the approach to risk and reserves set out in the Report;**
- (2) Adopts a Budget Requirement of £9,121,400 for 2020/21 as set out in Section 2b of the Draft Budget Book (Appendix 2);**
- (3) Approves a 2% increase in Council tax, increasing the Band D Council tax by £3.91 to £199.54 for District Council Services for 2020/21 as part of a balanced revenue budget;**
- (4) Approves the detailed service budgets as set out in Section 3 of the Draft Budget Book;**

- (5) **Notes the latest Collection Fund Estimates, Parish Council precepts and Parish Council taxes for 2020/21 as set out in Section 4 of the Draft Budget Book. The Cumbria County Council and Cumbria police element are currently included as proposed but not approved at the time of writing the report. Any change will be updated and reported to Council on 25 February 2020;**
- (6) **Approves the Capital Programme as set out in Section 5 of the Draft Budget Book;**
- (7) **Approves the Reserves as set out in Section 6 of the Draft Budget Book;**
- (8) **Approves the Fees and Charges Book for 2020/21 as set out in Appendix 3;**
- (9) **Adopts and publishes the Statutory Pay Policy Statement as set out in Appendix 4;**
- (10) **Considers the Equality Impact Assessment and Health, Social, Economic and Environmental Impact Assessment attached at Appendix 5 and 6; and**
- (10) **Notes that the proposals contained in this report have been incorporated into the Procurement Schedule, Prudential Indicators and Treasury Management Framework elsewhere on this agenda.**

3.0 Background and Proposals

- 3.1 The Council, at its meeting on 23 July 2019, agreed to the proposed Budget Strategy for the current year's budget process as part of the Medium Term Financial Plan (MTFP). The Budget Strategy set out some broad principles which are being used in the preparation of the 2020/21 – 2024/25 Budget.
- 3.2 Cabinet at its meeting on 20 December 2019 considered the first draft budget proposals. A further update was provided to the Cabinet meeting on the 5 February 2020. This report updates that position with the final local government finance settlement figures, which were published on 6 February 2020.
- 3.3 The Council has a statutory duty to set a balanced budget for the coming financial year and the changes which are now incorporated to achieve this are shown. A Council tax increase of 2% is proposed. This increase in the Council tax is consistent with expectations of Central Government set out in the final finance settlement for 2020/21.

GENERAL FUND REVENUE BUDGET

SUMMARY POSITION

- 3.4 The Medium Term Financial Plan provides a summary five year annual position which includes a projection of the overall surplus or deficit on the General Fund Revenue Budget. The assumptions and financial implications are kept constantly under review as circumstances change. A summary of the known changes at this stage are provided in the table below, the more detailed analysis of expenditure and income is set out in Section 2 and 3 of the Draft Budget Book (**Appendix 2**).
- 3.5 Table 1 sets out the summarised estimated annual General Fund Budget requirement across the review period, including the projected deficits from April 2021. Section 2a of the Draft Budget Book (**Appendix 2**) gives more detail and a reconciliation of the latest projections compared to previous deficit projections.

Table 1 Summary Medium Term Financial Plan

	2020/21 £000	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000
Service expenditure	23,506.2	23,201.9	23,500.5	23,689.4	24,304.6
Service income	(12,554.8)	(12,412.5)	(12,720.7)	(12,882.2)	(13,133.8)
Net Service Budget	10,951.4	10,789.4	10,779.8	10,807.2	11,170.8
Net Interest Payable	586.9	928.5	1,022.1	1,074.7	1,132.6
Income from Council Tax (net of Parish Precept)	(8,944.3)	(9,309.2)	(9,591.4)	(9,876.1)	(10,163.3)
Retained Business Rates	(5,512.8)	(2,977.8)	(2,541.8)	(2,107.2)	(1,672.0)
Contribution to pool Reserve	947.9	0.0	0.0	0.0	0.0
Other Government Grants	(433.0)	0.0	0.0	0.0	0.0
Direct Revenue Financing of Capital Programme	413.0	113.0	84.0	63.0	40.0
Minimum Revenue Provision	784.7	1,250.4	1,357.0	1,552.8	1,675.1
Transfers to/from Reserves	1,206.3	261.0	334.3	332.2	390.1
Net Projected Deficit (Surplus) February 2020	0.0	1,055.3	1,444.0	1,846.6	2,573.3

- 3.6 The projections all include the full Customer Connect savings delivered to date. In addition, the one-off local government finance settlement and deferment of the new funding model until at least April 2021 leaves the Council with substantial additional one-off income of around £2.7m for 2020/21, turning a projected budget deficit into a budget surplus. The projected annual revenue surplus before contribution to General Reserve totals £11k in 2020/21 but this is a one-year only surplus with a projected deficit for £1m in 2021/22 rising to circa £2.6m by 2024/25.
- 3.7 Work is underway to resolve the projected deficits. The future projections are based on information available at the time of preparation along with the broad set of assumptions detailed in paragraph 3.9 below. The assumptions, proposals and calculations included above and on the attached appendices will be subject to change as more information from internal and external sources is provided and as options are refined and as decisions taken.
- 3.8 The Council has a statutory duty to set a balanced budget. Work is underway to resolve the projected deficits from April 2021 onwards. Future year estimates will be kept under review as part of the MTFP process to ensure that savings plans are sufficient to set balanced budgets. Any additional budget pressures or discretionary, fixed term growth items will need to be funded by savings in existing budgets.

BUDGET STRATEGY ASSUMPTIONS

- 3.9 The draft budget proposals for 2020/21 and onwards include:
- 3.9.1 Inflation in the base budget in accordance with the Budget Strategy (only where contractually committed or unavoidable).
- 3.9.2 Salary budgets have been prepared based on the establishment approved by Human Resources Committee on 26 November 2019 which reflects the Customer Connect appointments. Budgets also include known incremental advances, 2% for inflationary pay awards. The local government pay settlement for April 2020 is still to be agreed.
- 3.9.3 On 31 December 2019 the Government announced the National Living Wage and National Minimum Wage to apply from April 2020. The table below shows the current levels, the levels to apply from April 2020 and the hourly rates currently included in the draft budgets for 2020/21:

Table 2: National Living Wage and National Minimum Wage

Year	25 and over	21 to 24	18 to 20	Under 18	Apprentice
April 2019 (current rate)	£8.21	£7.70	£6.15	£4.35	£3.90
April 2020	£8.72	£8.20	£6.45	£4.55	£4.15
SLDC draft budgets: hourly rates assumed	£9.20	£7.87	£6.29	£4.45	apply age-related rates

The salary budgets have been updated to reflect the higher national rates for those under 25 years of age. The Council only uses these age-related rates to apprentices so the budgetary impact will be small. The national pay settlement for staff for April 2020 is currently still being negotiated between unions and employers representatives.

The Government has indicated it intends to increase the National Living Wage to £10.00 per hour by 2025. Due to prior Council decisions the Councils wage structure minimum salary, with the annual budgeted 2% increase, will result in a minimum salary of £10.16 by April 2025.

- 3.9.4 Employer pension contributions are 20.1% of pensionable pay.
- 3.9.5 The staffing budgets include a reduction of 4% as a vacancy allowance: except for rota-ed services where the vacancy allowance has been reduced to 2% with a view to potentially reducing to 0% if necessary next year. In theory there are savings when posts are vacant and usually a saving where a new appointment is at the bottom of the pay scale while staff budgets assume existing staff receive an annual increment, as required by the local government terms and conditions - Green Book.
- 3.9.6 As part of the Customer Connect programme there has been a fundamental restructuring of the Council's staffing. Costs to services are based on internal recharges which reflect staff time on individual services. Prior to Customer Connect there have been regular exercises to record staff time spend on functions which has formed the basis of the recharge calculation. From January 2020 the new structure of customer services, case management, specialists and the delivery team has been introduced. Because this structure is so different to the previous structure it will not be possible to calculate recharges with any degree of accuracy. It is planned to calculate recharges in autumn 2020 when the new operating model has been in place for six months and there is sufficient transaction and activity data to make accurate allocations of time and therefore cost. In the meantime the draft budgets in **Appendix 2** exclude recharges for the current and future years. These have no impact on the surplus/deficit projections as the income and expenditure for internal recharges nets to £0.
- 3.9.7 Capital charges have been updated to reflect the Capital Programme approved by Council in December 2019. These have no impact on the MTFP projections as they are not charged against Council Tax.
- 3.9.8 Interest payable and receivable has been updated to reflect the most up to date interest rate projections and capital programme funding assumptions and is consistent with the Council's Treasury Management documents presented elsewhere on this agenda.
- 3.9.9 The draft budgets assume all budgets for 2019/20 will be spent in-year. Any requests for re-profiling will be subject to approval by full Council in May 2020.

GOVERNMENT FUNDING AND OTHER REVENUE BUDGET UNCERTAINTIES

- 3.10 The figures presented from April 2021 onwards include certain assumptions where work is on-going or where information is not yet available. A key factor going forward will continue to be central government funding. The expected change to 75% business rates retention and a new funding distribution model from April 2020 has been delayed until at least April 2021.
- 3.11 The Government published the provisional Local Government Finance Settlement on 20 December 2019 and the final settlement on 6 February 2020.
- 3.12 The majority of the settlement is in line with the technical consultation issued in October 2019 and reflected in the first draft budgets report to Cabinet on 20 December 2019 and to Overview and Scrutiny Committee on 17 January 2020. It effectively rolls-forward the 4-year settlement the Council accepted in 2016/17 for a fifth year instead of introducing a fundamentally new settlement basis. The main changes in the provisional settlement are set out below:
- 3.12.1 The Council Tax referendum thresholds for district councils were reduced in the Spending Round to a maximum increase of 2% compared to the levels set for 2018/19 for district councils with the maximum increase of the higher of below 3% or £5. The final settlement has raised the maximum increase to the higher of below 2% or £5. For this Council this could potentially raise the maximum increase in Band D Council Tax from the £3.91 that is included in the proposed budget to £5.00, which would generate an additional £50,000 of income from Council Tax. There are no limits on increases for parish councils but the Government expects parishes to take all available steps to mitigate the need for Council Tax increases.
- 3.12.2 As expected, the Government has chosen not to reduce local authority funding through reductions in business rate retention, a reduction which has been known as negative RSG. Under the original 4-year settlement the Council was expecting a reduction in funding of £613,000 for 2019/20 and a similar amount for 2020/21. This was expected and had already been reflected in the draft budget proposals considered by Cabinet on 20 December 2019.
- 3.12.3 Rural Services Delivery Grant has been frozen at £81m nationally. This Council's share of the grant will remain at £433,500.
- 3.12.4 When the existing business rate retention scheme started in 2013-14, the Government committed that Baseline Funding Levels and Business Rates Baselines, which are used to determine tariffs and top-ups and therefore the amount of business rates retained by individual Councils, would be fixed in real terms until the system was reset. The Government has decided not to alter the existing mechanism for determining tariff and top-up payments in 2020-21. These elements will therefore be uprated in line with the change in the small business non-domestic rating multiplier (1.6%). The draft budgets assumed a 2% increase in baseline, this results in slightly less income being payable to the Government and therefore slightly more retained by the Council.
- 3.12.5 The actual level of rates retained is determined from the NNDR1 return which sets out the expected rates collectable and which reflects changes in business rate reliefs announced by the Government. Overall the Council expects to receive £5,512,800 of income from business rates including £947,900 from the Cumbria Business Rate

pool which is earmarked for Economic Development. The total rate income includes £539,200 relating to a potential surplus for 2019/20: in accordance with current accounting practice this should be credited to the NNDR surplus/deficit reserve to match potential deficits in other periods.

3.12.6 As part of the Queens speech on 19 December 2019 the Government announced some additional reliefs for business rates:

- a) Increasing Retail Relief from 33% to 50%;
- b) Independent cinemas and music venues will also qualify for retail relief;
- c) Independent pubs will benefit from a further £1,000 cut in business rates on top of the 50 per cent relief; and
- d) The current £1,500 relief for local newspapers will also be extended by another year, to help keep 150 titles going.

The Council expects to receive grant to reimburse us for these additional reliefs.

3.12.7 The existing Cumbrian business rate pool is expected to continue for 2020/21 only. This is expected to generate an additional £948,000 of income to the Council, which is earmarked for economic development.

3.12.8 The Government confirmed the threshold for payment of New Homes Bonus (NHB) will remain at 0.4% of taxbase for 2020/21 and that the new bonus will be for 2020/21 only with residual payments from earlier years only being paid for 2021/22 and 2022/23. For this Council this requires a net increase in Band D equivalent properties on the council tax list of 212. The actual increase was 245 properties, including 82 empty homes brought back into use. The Council will also receive £31,360 NHB relating to 112 new affordable homes. The level of NHB due to the Council will be £55,106 higher than budgeted at £393,106. The table below shows the allocation of the NHB for 2020/21.

Table 3: Proposed use of New Homes Bonus 2020/21

New Homes Bonus allocation 2020/21	£000
Members Small Grants	51.0
Burton Heritage Scheme	35.0
Other LIPs grants	71.2
Total Locally Important Project Share (40%)	157.2
Use in Capital Programme (60%)	235.9
Total New Homes Bonus 2019/20	393.1

The NHB for 2021/22 and 2022/23 will be £23k lower per year than included in the draft budget.

3.13 From 2021 the whole system of Government funding will change: the financial model assumes the overall funding from Government through general grants or retained business rates will continue to decline by the same rate as has been seen during the current multi-year settlement excluding one-off adjustments such as the negative Revenue Support Grant. This reflects the current indications that funding of local government overall will stabilise at current levels but that funding will be targeted at social care.

- 3.14 It is expected that New Homes Bonus will be discontinued from April 2021 except for minor legacy payments. SLDC does not use the NHB to balance its base budgets but it is used to fund Locally Important Projects (LIPS) and other capital programme items. Funding of approved schemes in the capital programme has been reviewed to reflect expected funding but future projects will need to be reviewed as clarity is provided. To reduce the impact of the withdrawal of NHB on supporting communities through LIPS it is proposed that the Rural Services Delivery Grant for 2020/21 of £433,500 is moved in-year to a new Local Projects Reserve. This reserve, along with £66,500 of unallocated NHB, will then be used to fund local projects from April 2021 onwards on the following basis:

Table 4: Proposed use of Local Projects Reserve

Year	Local Projects £000
2021/22	£200.0
2022/23	£150.0
2023/24	£100.0
2023/24	£50.0
	£500.0

- 3.15 It is also proposed that a Climate Change reserve is established in 2020/21 to enable the re-profiling of expenditure between 2020/21 and 2021/22 relating to the Climate Change Coordinator and project funding and carbon reduction.
- 3.16 Overall, although there are still uncertainties, the Council is in a strong position to set a balanced budget for 2020/21 and to address the additional level of deficit from 2021/22. From 2021 there are more challenges arising from the change in Government support through the Fair Funding Review and changes to business rate retention. Both of these could significantly affect the resources available to the Council.

RECURRING REVENUE BUDGET PRESSURES

- 3.17 There are a number of recurring budget pressures and adjustments that have been identified through the budget process. These total £678k for 2020/21 decreasing to £445k by 2024/25. The details of these are contained within Section 3c of the Draft Budget Book (**Appendix 2**).
- 3.18 The largest single pressure relates to one off costs to form a commercial project team in 2020/21 to future-proof systems and processes around s106 and other agreements across planning, planning policy and legal services. The other large budget pressures are on-going and relate to falling market prices for recyclable materials and a reduction in the vacancy allowance for rota-ed services, both of which have been reported as part of the Corporate Financial Update report for Quarter 3 2019/20.

GROWTH PROPOSALS

- 3.19 The detail of revenue growth items is included at Section 3d of the Draft Budget Book (**Appendix 2**). These have intentionally been kept to a minimum. These are for one off projects over a one to two year timeframe and include feasibility studies, masterplans and funding for a climate change project.

SAVINGS PROPOSALS

- 3.20 A number of savings proposals have been brought forward as part of the budget exercise excluding any savings relating to Customer Connect which are being collected separately. These total £502.1k in 2020/21 falling to £441k by 2024/25.

These are detailed in Section 3e of the Draft Budget Book (**Appendix 2**). The amount and nature of the savings identified are considered reasonable and deliverable from 2020/21.

- 3.21 The main savings relates to a reduction in pension contributions and the result of re-tendering the insurance contract in 2019, this is offset by changes following the review of corporate budgets.

REVENUE IMPACT OF CAPITAL REQUESTS

- 3.22 Section 3f of the Draft Budget Book (**Appendix 2**) includes details of the impact of capital schemes on revenue costs/income. The impact has been assessed at a cost of £25k for 2020/21 to increased income of £62.5k recurring from 2023/24. This section includes an additional proposal for £25k for a Changing Places toilet to be included in the scheme for the refurbishment of Rothay Park toilets, as requested by Cabinet at their meeting of 5 February 2020.

SAVINGS AND EFFICIENCIES

- 3.23 Significant savings targets of £740k rising to £1.550m were agreed in July 2018 from the Customer Connect Programme and are on target for delivery as reported above. Further work will be carried out to identify proposals to meet the additional amounts required. This process needs to be flexible according to the challenges and opportunities that arise to meet the projected deficits, which are very likely in themselves to change, particularly given the large uncertainty over business rates retention. Updates will be provided in subsequent budget reports.

FEES AND CHARGES

- 3.24 The MTFP assumes that income to be generated from fees and charges will total £10.3m for 2020/21. This figure has been adjusted to reflect the budget pressures from Section 3c of the Draft Budget Book (**Appendix 2**), where these relate to fees and charges.
- 3.25 The 2019/20 car parking income budgets have been inflated by 2% in line with the MTFP. Hourly rates have been frozen on most car parks since April 2011. This is subject to annual review. It is proposed to increase permit fees to address the imbalance between daily tickets and annual charges.
- 3.26 Lake Administration Committee considered fees and charges on 4 October 2019 and Licensing Committee considered its fees 4 November 2019. The full fees and charges listing is attached at **Appendix 3**.

PARISH PRECEPTS AND COLLECTION FUND

- 3.27 All parish precepts have been received in time for the production of this report and are presented at Section 4c of the Draft Budget Book. The parish precepts for 2020/21 total £1,784,976, which represents an increase of £92,086 (5.4%) compared to 2019/20. The average band D Council tax for the parishes will rise by a lower percentage of 4.9% (from £37.20 to £39.05) due to the increase in the Council tax base.
- 3.28 Collection Fund estimates are shown at Section 4a of the Draft Budget Book based on the latest information received, recording the collection and distribution of local taxation and non-domestic rates. The Fund shows a projected deficit of £685.6k for Council tax for 2019/20 of which this Council's share is £81.1k. The deficit is shared with Cumbria County Council, Cumbria Police and the District Council in proportion to their individual Council tax levels.
- 3.29 Both Cumbria County Council and the Police and Crime Commissioner are expected to finalise their precept for 2020/21 after this report has been finalised (on 11 February 2020), therefore the collection fund estimates include only provisional

figures for both Cumbria County Council and Cumbria Police; any changes to these figures will be reported at the Council meeting.

- 3.30 This report details the precepts requested by the precepting bodies. Elsewhere on this agenda is the report to formally set the Council tax for the District and each Parish.

COUNCIL TAX

- 3.31 Central government's policy around Council Tax changed during the 2016/17 finance settlement. It moved from incentivising Council Tax freezes to assuming increases in Council Tax as part of the overall financial resources Council's would utilise. Increases of up to £5 or 3% were permitted in 2019/20 and the MTFP assumed Council tax would continue to rise by £5 per annum to £200.63 at April 2020 which equates to 2.56% per band D property for 2020/21.
- 3.32 The 2019 Spending Review and technical consultation for 2020/21 reduced the maximum permitted increase from the higher of £5 or up to 3% down to 2%: as a result the 2% increase was applied for each year of the financial model. A 2% increase would be equivalent to an increase of £3.91 at Band D to £199.54. The provisional settlement received in December 2019, confirmed in the final settlement on 6 February 2020, permits a maximum increase of £5 or 2%, whichever is greater. Each 1% increase in Council Tax generates an additional £89k of income to the Council
- 3.33 It is now proposed that the Council Tax be increased by 2% for 2020/21 and that the Medium Term Financial Plan be updated to assume a Band D equivalent increase of £5 from April 2021 onwards.
- 3.34 The MTFP assumes an increase in the Council tax base of 250 band D properties annually. At £199.54 per band D this is equivalent to an additional £49k of Council tax each year for this Council. The Finance Lead Specialist approved the Council tax base for 2020/21 under delegated powers on 20 December 2019. The calculation of the taxbase includes projections of discounts, exemptions and an allowance for non-collection. The current taxbase assumes a collection rate of 99% which reflects not only bad-debts but also reductions in bandings or increases in discounts and exemptions. The taxbase calculation is shown at Section 4b of the Draft Budget Book.
- 3.35 The budget projections assume an increase in the Council tax base, net of reductions, exemptions and discounts, of 250 band D properties. This assumption reflects that many affordable homes will be at bands below band D or will be eligible for discounts. This is consistent with the Council Plan aspiration of the creation of 1,000 new affordable homes for rent from the period 2014-2025. There has been an increase of 198.6 in the overall tax base for the South Lakeland district from 45,513.49 band D equivalent properties to 45,712.13 band D equivalent properties. This will result in a slight fall in Council tax collectable of £10.4k to £9,121,400 based on the projected 2019/20 Council tax of £199.54.
- 3.36 Legislation has now been passed to permit Councils to increase the premium on empty homes from 50% to, initially, 100%. A report to consider this option will be brought to a future meeting of Council.

CAPITAL PROGRAMME

- 3.37 Proposals for new areas of capital expenditure were considered by Cabinet Portfolio Holders on the 9 October 2019 and were prioritised with reference to the funding available. The resulting proposed capital programme is presented at Section 5 of the Draft Budget Book (**Appendix 2**). A summary of the proposed capital expenditure up to 2024/25 is shown below:

Table 5: Proposed capital expenditure

2019/20 Revised	2020/21	2021/22	2022/23	2023/24	2024/25	Total 2019/20 to 2024/25
£000	£000	£000	£000	£000	£000	£000
7,128.8	18,874.7	15,951.4	5,169.1	2,822.0	2,983.0	52,929.0

3.38 There were a number of capital bids prioritised. These include:

- a) £550k in relation to improvements to the Environment Agency lead Flood Relief Scheme Improvements, to be funded from reserves;
- b) £65k for the purchase of further bins and boxes for waste services;
- c) £480k for structural repairs to Westmorland Shopping Centre Car Park to extend the life of the shopping centre to 25 years;
- d) £90k for the refurbishment of Ellerthwaite depot to create office accommodation for rent;
- e) £50k for match-funding the extension and refurbishment to Rothay Park toilets by the Lakes Parish Council to provide an opportunity to purchase food/drink with a further £25k requested by Cabinet on 5 February 2020 to fund the provision of a Changing Places toilet as part of the refurbishment;
- f) £500k for actions arising from the Kendal Parking Study to include the potential purchase of land, upgrading of machinery and improved signage;
- g) £27k for roofing repairs to The Monument, Kirkby Lonsdale.

More details are included in Section 3f of the Draft Budget Book (**Appendix 2**) and these schemes are included as bids in the draft capital programme at Section 5 of the Draft Budget Book (**Appendix 2**).

3.39 There are a number of significant potential additional service areas and schemes to be added to the capital programme that have yet to be prioritised and or allocated a capital and or revenue budget. These schemes would lead to additional capital budget costs on top of those presented in Section 5 of the Draft Revenue Budget Book (**Appendix 2**). These include:

- a) Schemes relating to car parking including consideration of the potential for new sites, for example in Arnside, reconfiguration options and the siting of electric charging points.
- b) Acquisition of land for employment sites within the district
- 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.
- d) Options for the future of Kirkby Lonsdale library.

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

3.41 Only minor changes have been made to the Capital Programme approved in December 2019, as set out in the Q3 Finance Update Report and only in 2019/20:

Table 6: Changes to Capital Programme: Q3 monitoring

	£000
2019/20 Capital Programme Q2	6,988.3
Grasmere Village Society Contribution to Broadgate Meadow play area	44.0
Kendal Town Council Contribution to Hallgarth Play area	6.9
County and Police Contributions to Burton Heritage Scheme	89.5
2019/20 Capital Programme Q3	7,128.7

- 3.42 Once receipts earmarked for specific purposes are removed the programme has a modest element of unallocated resources, however, as noted above, there are a number of potentially significant unavoidable schemes that might need to make a call on these.
- 3.43 The resulting proposed capital programme is presented at Section 5 of the Draft Budget Book. A summary of the funding of the proposed capital expenditure up to 2024/25 is shown below:

Table 7: Funding of Draft Capital Programme

	Balance April 2019 £000	Estimated Income £000	Use in capital programme £000	Projected Balance March 2025 £000
General				
Usable Capital Receipts	1,188.9	419.0	(1,401.6)	206.3
VAT Shelter receipt	932.0	1,300.0	(2,029.0)	203.0
New homes bonus (capital)****	1,581.1	513.0	(1,983.0)	111.1
Earmarked or allocated				
Revenue (LIPS)	537.4	240.0	(721.6)	55.8
IT replacement reserve	81.2	480.0	(546.7)	14.5
Major Repairs Reserve	155.4	900.0	(953.2)	102.2
General Revenue contributions	324.2	1,808.0	(2,025.6)	106.6
Cap grants and contributions (inc S106)	871.6	11,166.0	(11,624.7)	412.9
Disabled Facilities Grants	177.4	3,753.0	(3,866.3)	64.1
Community Housing Fund*	2,233.4	0.0	(470.0)	1,763.4
Right to Buy receipt**	4,544.5	4,200.0	(6,495.0)	2,249.5
Borrowing				
Funding from borrowing***.	0.0	20,812.0	(20,812.3)	(0.3)
Total	12,626.9	45,591.0	(52,929.0)	5,288.9

*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

RESERVES AND WORKING BALANCE

WORKING BALANCE

- 3.44 The Council's working balance at 1 April 2019 was £1.5m. Working balances are used to help cushion the organisation against uneven cash-flows and avoid unnecessary borrowing. The balance on the working balance should be maintained at £1.5m.

OTHER RESERVES

- 3.45 The Council holds a General Reserve of monies set aside to form a buffer against future financial risks in the medium term and to enable the Council to progress major organisational and transformational changes by providing resources to fund the initial costs of these developments.
- 3.46 Authorities in England and Wales are required to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. An annual review is carried out to assess risks including: pay and pension costs, inflationary pressures, interest rates, Government grant and income from fees and charges
- 3.47 The Council considers the impact of holding monies unnecessarily in reserves giving the ongoing impact on local residents and taxpayers. The External Auditor considers the level of reserves each year to ensure the amounts held are sufficient but not excessive. There is no theoretical “correct” level of reserves because the issues that affect an authority’s need for reserves will vary over time.
- 3.48 Reserves are also available to support the strategically important projects listed in the capital programme that have yet to be allocated a budget including housing, depot options, leisure centres and multi-storey car parks. These are subject to further option appraisal and business case development.
- 3.49 Section 6b of the Draft Budget Book shows the latest risk-based calculation of a minimum recommended working balance and General Reserve for 2020/21. This suggests the overall projected balance is slightly higher than necessary. The fundamental principle governing the use of reserves is that they should not be used to fund recurring expenditure.
- 3.50 The Statutory Duties Reserve consists of an original sum of £150k set aside for legal and other statutory requirements with delegation to Senior Management Team to approve the use of the monies, topped back up at year end if necessary. The use of these amounts is reported as part of the Corporate Finance reporting process.
- 3.51 The Council holds a number of other reserves for various reasons. Section 6a of the Draft Budget Book summarises the individual reserves, their purpose and their expected balances and movements 2019/20 to 2024/25. The projected reserves reflect contributions in but do not anticipate the element of spend to cover contingencies which are not predictable when they will be spent.
- 3.52 Table 8 summarises the projected balances on reserves and the working balance at the end of each financial year.

Table 8: Reserves summary

	31/03/2019 £000	31/03/2020 £000	31/03/2021 £000	31/03/2022 £000	31/03/2023 £000	31/03/2024 £000	31/03/2025 £000
General Reserves	(7,710)	(4,807)	(5,011)	(5,181)	(5,381)	(5,581)	(5,781)
Capital Reserves	(2,661)	(1,528)	(69)	58	(171)	(379)	(564)
Earmarked Reserves	(4,535)	(5,183)	(5,192)	(4,817)	(4,667)	(4,567)	(4,517)
Total Reserves	(14,906)	(11,517)	(10,272)	(9,940)	(10,219)	(10,527)	(10,862)
Working Balance	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Total Reserves and Working Balance	(16,406)	(13,017)	(11,772)	(11,440)	(11,719)	(12,027)	(12,362)

ROBUSTNESS OF ESTIMATES AND ADEQUACY OF RESERVES

- 3.53 Legislation requires the Council to formally take account of the Chief Finance Officer's advice on these matters when setting its budget. This advice is given in **Appendix 1**.
- 3.54 The proposed level of reserves and working balance, the delivery of significant savings as a result of the Customer Connect programme, reductions in pension contributions and the one-off 2020/21 government settlement place the Council in a sound financial position for 2020/21 and are adequate for the medium term. There are significant risks in the current MTFP projections, including the impact of the current and future Government Spending Reviews, the current economic climate and low levels of investment returns. It is important that reserves are maintained at robust levels in order to respond to these challenges and as a cushion against forecast risks and unforeseen events. Overall the Council can set a balanced budget for 2020/21 and address the additional level of deficit from 2021/2 onwards.

PAY POLICY

- 3.55 The Localism Act 2011 brought in new provisions with regard to requirements for the Council to determine and publish an annual Pay Policy Statement. The Pay Policy Statement requires annual review. South Lakeland District Council is an employer in its own right and has the autonomy to make decisions on pay that are appropriate to local circumstances and which deliver value for money for local taxpayers.
- 3.56 In accordance with Section 38 of the Localism Act 2011 South Lakeland District Council is required to publish a statement on the Council's approach to setting the pay of its employees, in particular the posts defined as 'chief officer' posts.
- 3.57 The Statement for 2020 is attached as **Appendix 4**. This policy statement was considered by the Human Resources Committee on the 11th February 2020 and approved. The purpose of the statement is to provide transparency with regard to the Council's approach to setting the pay and remuneration of its employees.
- 3.58 There are a number of approved Human Resource policies and procedures that deal with pay and remuneration of all employees and this Pay Policy Statement draws the information together and has been prepared in accordance with the guidance issued by the Secretary of State for Communities and Local Government.

NEXT STEPS

- 3.59 The Government has already announced changes to the business rates funding system for 2021. Three major changes coincide:
- 3.59.1 An increase in local retention of business rates to 75% through the reduction of the 50% central share of business rates retained by the Government to 25% and replacement of certain grants
- 3.59.2 The Government is reviewing the needs formula which will control how much business rates will be retained locally. A national working group including the Minister of Housing, Communities and Local Government (MHCLG), HM Treasury, the Local Government Association (LGA), professional organisation and representatives of interested groups such as the District Council's Network (DCN) meets to discuss the proposals which are badged as the Fair Funding Review. These developments will be monitored and fed into the MTFP as the details are clarified.
- 3.59.3 A reset of the business rates system so accumulated growth will be redistributed based on the needs formula. For 2020/21 the accumulated growth above the

Council's business rate baseline is £3.5m of which 50% is retained by the Council and 50% is paid to the Cumbria business rate pool.

- 3.60 Officers will continue to develop proposals for medium-term savings to offset the projected deficits from April 2021 onwards. The Medium Term Financial Plan will be updated to reflect the 2019/20 final outturn during June 2020 and will be reported to Overview and Scrutiny, Cabinet and Council. Officers are also working on a Commercial Strategy and a Commissioning and Procurement framework which will help address the Council's approach to service delivery, income generation and risk.

4.0 Consultation

- 4.1 Statutory consultation has been undertaken with large ratepayers, the Police and Crime Commissioner and Cumbria County Council.
- 4.2 Overview and Scrutiny Committee considered the draft budgets on 17 January 2020. They discussed the impact of Government funding changes, including the potential impact on parish funding. They requested that updates be provided during the year on announcements from Government on funding and on commercialisation proposals. Assets were discussed and the role of the Strategic Asset Board who are reviewing major assets. The delivery of Customer Connect savings was also discussed. Finally, it was agreed that an update would be provided on the Cumbria Business Rate pool.
- 4.3 Lake Administration Committee, Planning Committee & Licensing Committee considered draft budgets for their services in January 2020. There were no comments submitted to Cabinet on 5 February 2020.
- 4.4 The Conservative Group and Labour Group were approached and given an opportunity to submit proposals for alternative budget options.
- 4.5 The first draft of the 2020/21 Five Year Budget was published for consultation following approval of the report by Cabinet on 20th December 2019. Information was communicated on social media and on the website as part of the consultation process. There were no consultation responses received to be reported back to Cabinet on 5th February 2020. Final responses received up to 21st February 2020 will be reported to Council on 25th February 2020. The Council's Budget and Policy framework procedure rules states "The consultation period in each instance will ideally be not less than 8 weeks but no longer than 12 weeks." On this occasion the consultation period has been constrained by purdah rules for the General Election which was outside the control of the Council.

5.0 Alternative Options

- 5.1 This report presents options in relation to potential budget pressures and savings, new capital programme bids, one off revenue growth bids and fees and charges. The proposals together meet the Council's statutory duty to set a balanced budget for 2020/21. An alternative option would be to reject some of the proposals; this would then require further work to ensure a balanced budget was set.

6.0 Links to Council Priorities

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

7.0 Implications

7.1 Financial, Resources and Procurement

- 7.2 The draft Budget aims to safeguard the Council's financial position and ensure a balanced budget for 2020/21 and an improved position in the years that follow.
- 7.3 The Council is under a general Duty of Best Value to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". Councils are expected to consider overall value, including economic, environmental and social value when reviewing service provision. Social value is about seeking to maximise the additional benefit that can be created by procuring or commissioning goods and services. To achieve the right balance – and before deciding how to fulfil their Best Value Duty – authorities are under a Duty to Consult representatives of a wide range of local persons. These requirements have been considered in the preparation of this draft Budget.
- 7.4 This budget report is one of a number of reports on this Agenda that give an overview of the Council's financial arrangements from the Q3 monitoring report to 2019/20 through this report to the Procurement Schedule which gives delegation to officers to enter into contracts to deliver this budget, the Council tax setting report which formally sets the Council's primary income source, the Council tax reduction scheme which gives assistance to those who struggle to pay Council tax and the treasury management and capital strategy which look at how the Council will safeguard its investments, borrow prudently and shows it has proper arrangements for identifying future asset costs.

7.5 Human Resources

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

7.7 Legal

- 7.8 The Council is required to firstly consider the Chief Finance Officers advice on the robustness of estimates and the adequacy of reserves under the requirements of the Local Government Act 2003.
- 7.9 The Council is required to approve its budget and set its Council tax before 11th March 2020 (Local Government Act 1992). This report outlines the Council's proposals and outlines its consultation and engagement process. An Equality Impact Assessment of the proposals is attached to the report.
- 7.10 The decision on this item is one to which the Local Authority (Standing Orders)(England) (Amendment) Regulations 2004 and rule 15.6 of Part 4 of the Council's Constitution: Rules of Procedure apply and accordingly there must be a recorded vote.
- 7.11 Section 106 of the Local Government Finance Act 1992 makes it an offence for a Councillor in Council tax arrears (with at least two months unpaid bills) to vote at a meeting of the council, a committee or of the council's executive where financial matters relating to Council tax are being considered. It is also an offence if any such councillor present, who is aware of the arrears, fails to disclose that they are in arrears of Council tax.

7.12 Health, Social, Economic and Environmental

- 7.13 Have you completed a Health, Social, Economic and Environmental Impact Assessment? Yes (attached at **Appendix 6**)

7.14 Summary of health, social, economic and environmental impacts: There are positive impacts relating to Climate Change, homelessness and poverty

7.15 Equality and Diversity

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

7.17 Summary of equality and diversity impacts: There are positive impacts relating to funding of a debt advisor: to assist in preventing socio-economic disadvantage

Risk

Risk	Consequence	Controls required
Failure to create a balanced and sustainable budget by February 2020	Includes: inability to deliver corporate priorities, inappropriate spending, and inappropriate reductions in services.	Identification of sound budget guidelines in an agreed strategy reduces the risk of an unaffordable budget and/or precipitate budget reductions. Monitoring of progress against the budget timetable reduces the need for last-minute budget adjustments.
Insufficient staff capacity to deliver on growth items within capital and revenue budgets	Inability to deliver services to expected levels or additional costs of temporary staff. Potential underspends and potential slippage in expenditure to subsequent years.	Review resources required to ensure growth bids are realistic and deliverable, including other unavoidable staffing pressures
Revenue budget and Capital Programme may not be integrated and aligned with Council Plan.	Resources not directed to achieving corporate outcomes, leading to inappropriate spending.	Both the revenue budget and the Capital Programme are now embedded in the corporate planning cycle. All revenue budgets and capital programme schemes are linked to Council plan priorities
Reduction in funding from Government is greater than estimated or announced too late for adjustments to be made to budgets	In-year budgetary pressure and potential overspending, jeopardising service delivery.	Close monitoring of Government announcements, potential short-term use of revenue contingency provision and General Reserve followed by review for following year.

Risk	Consequence	Controls required
Government proposals for piloting full localisation of business rates increase uncertainty of major income stream.	Income streams will be insufficient to fund service delivery.	Monitor Government proposals for changes in NNDR legislation. Maintenance of General Reserve as a buffer against unexpected changes in funding. Monitor changes in rateable values & proposals for new development / closures/ other changes.
The Pay Policy Statement does not contain the information required by legislation	The Council will not adhere to legislation	Ensure the Pay Policy contains the information required by legislation

Further detail of risks and opportunities around items included in this report can be found at **Section 6** of the Draft Budget Book which shows the Risk and Opportunity log from the Council's Medium Term Financial Plan approved in July 2019 (as updated).

Contact Officers

Helen Smith, Finance Lead Specialist and Section 151 Officer,
h.smith@southlakeland.gov.uk, 01539 793147

Claire Read, Finance Specialist, Claire.Read@southlakeland.gov.uk, 01539 793152

Appendices Attached to this Report

Appendix No.	Name of Appendix
1	Chief Finance Office Statutory Report on Robustness of the Budget and adequacy of the level of reserves
2	2020/21 – 2024/25 Draft Budget Book including:
	General Fund Summary
	MTFP projections February 2020
	Service Budgets by Director / Operational Lead
	Detailed Service Budgets
	Recurring Revenue Budget Pressures
	Growth Proposals
	Savings Proposals
	Collection Fund 2020/21
	Council Taxbase 2020/21
	Parish Expenses 2020/21
	Draft Capital Programme 2019/20 to 2024/25
	Reserves Summary
	Risk Assessment of Reserves
	MTFP Risks and Opportunities Log

Appendix No.	Name of Appendix
3	Fees and Charges Book for 2020/21
4	Pay Policy Statement
5	Equality Impact Assessment
6	Health, Social, Economic and Environmental Impact Assessment

Background Documents Available

Name of Background document	Where it is available
Medium Term Financial Plan approved Council 23 July 2019	https://tinyurl.com/y35xefgw
Draft Budget report to Cabinet 20 December 2020	https://tinyurl.com/s4zhjpv
Draft Budget report to Overview and Scrutiny Committee 17 January 2020	https://tinyurl.com/yx4dutkd
Draft Budget report, Cabinet, 5 February 2020	https://tinyurl.com/vkyxhub
Pay Policy report, Human Resources Committee, 11 February 2020	https://tinyurl.com/rukwhmq

Tracking Information

Signed off by	Date sent	Date Signed off
Section 151 Officer	07/02/2020	10/02/2020
Monitoring Officer	07/02/2020	11/02/2020
CMT	07/02/2020	N/A

Circulated to	Date sent
Lead Specialist	N/A
Human Resources Lead Specialist	07/02/2020
Communications Team	07/02/2020
Leader	07/02/2020
Committee Chairman	N/A
Portfolio Holder	07/02/2020
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	05/02/2020
Council	25/02/2020