

South Lakeland District Council
Overview and Scrutiny Committee
Friday, 15 January 2021
2021/22 to 2025/26 Draft Budget

Portfolio:	Finance and Resources Portfolio Holder
Report from:	Section 151 Officer
Report Author:	Helen Smith, Finance Lead Specialist (Section 151 Officer) Claire Read, Finance Specialist and Deputy Section 151
Wards:	(All Wards)
Forward Plan:	The first draft budget forms part of the Budget and Policy Framework Decision included in the Forward Plan as published on 29 September 2020, the decision due to be taken on 23 February 2021. The proposals relating to the Cumbria Business Rate pool is a key decision and is included in the Forward Plan as published on 9 November 2020.

1.0 Expected Outcome

1.1 This report presents the latest **2021/22 Five Year Draft Budget**. The expected outcome is that Council will be in a position to deliver the priorities set out in the Council Plan within its resources. This will enable the statutory requirement to agree a balanced budget and to set the appropriate Council Tax level for 2021/22.

The Customer Connect programme has substantially reduced future budget deficits. However, the impact of Covid-19 has had a fundamental impact on the Council's financial position. The Government have introduced a number of one-off grants to mitigate the impact of Covid-19 as part of the local government finance settlement announced in December 2020. The Government has also further delayed the reform of local government funding. Options are being developed to balance future budget deficits.

The final proposed revenue budget and capital programme, including any further amendments, will be put forward for consideration by Cabinet on 3rd February 2021 and approval by Council on 23 February 2021.

2.0 Recommendation

2.1 **It is recommended that Overview and Scrutiny Committee:-**

- (1) Notes that the development of the Budget is an iterative process between now and Council on the 23rd February 2021. The assumptions, proposals and calculations included within it will be subject to change as more information from internal and external sources is provided and decisions around the final proposals can be made;**
- (2) Consider the proposals contained in this report and Appendices 3 to 14 to achieve a balanced budget from April 2021;**
- (3) Consider the proposals for Fees and Charges from April 2021 set out in Appendix 14 (excluding car parking) and the proposed increase in car parking fees as set out in Appendix 13;**

- (4) **Note the projected deficits starting at £0.1m for 2021/22 rising to circa £2.2m by 2025/26; and**
- (5) **Agrees any comments to be taken forward for consideration at the Cabinet meeting on 3rd February 2021.**

3.0 Background and Proposals

- 3.1. The Council, at its meeting on 28 July 2020 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 2021/22 – 2025/26 Budget.
- 3.2. This report presents a draft position. Work will continue to incorporate further changes into subsequent budget reports, particularly further impacts of Covid-19 and the central government grant position.
- 3.3. The position set out in this report is based on the budget report considered by Cabinet on 8th December 2020 updated for Government announcements in the Spending Review 2020 and provisional local government finance settlement. The final Draft Budget Report will incorporate the consideration of the internal and external consultation received at that time and be presented to the 3rd February 2021 Cabinet meeting. Any further amendments would be delegated to the Leader and Portfolio Holder in consultation with the s151 officer prior to the reports consideration at the Council meeting on the 23 February 2021.
- 3.4. Overall the provisional local government finance settlement and associated proposals for additional funding to mitigate the impact of Covid-19 have reduced the projected budget deficit for 2021/22 from £1.1m as reported to Cabinet on the 8th December 2020 to just under £0.1m currently. Future income is still to be incorporated from the Government scheme to assist with the impact of Covid-19 on Council tax and business rate income.
- 3.5. The Council will be requested to approve the final Budget at its meeting on the 23 February 2021. The budget timetable is presented for information at **Appendix 2**.

DRAFT GENERAL FUND REVENUE BUDGET

SUMMARY POSITION

- 3.6. The Medium Term Financial Plan provides a summary five year annual position which includes a projection of the overall surplus or deficit on the General Fund Revenue Budget. The assumptions and financial implications are kept constantly under review as circumstances change. A summary of the known changes at this stage are provided in the table below, the more detailed analysis of expenditure and income is set out in **Appendix 3**.
- 3.7. **Table 1** sets out the summarised estimated annual General Fund Budget requirement across the review period, including the projected deficits. It also shows the savings identified and where the budgets have been reduced.

Table 1: Projected budget deficit January 2021:

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Service Expenditure	24,140.7	23,728.8	23,794.7	24,323.6	24,971.6
Service Income	(12,328.1)	(12,325.7)	(12,661.7)	(13,090.1)	(13,651.2)
Net Service Budget (excluding capital charges)	11,812.6	11,403.1	11,133.0	11,233.5	11,320.4
Council Tax	(9,258.0)	(9,489.5)	(9,745.6)	(10,028.0)	(10,312.7)
Business Rates	(3,688.3)	(2,527.0)	(2,428.0)	(2,302.0)	(1,956.7)
Government Grant	-663.5	0.0	0.0	0.0	0.0
Interest Receivable/Payable	661.0	693.5	762.1	833.9	856.2
Minimum Revenue Provision	1,187.5	1,379.4	1,395.5	1,656.5	1,911.6
Other Corporate Items	40.7	1,004.0	1,088.4	734.9	417.0
January 2021 (Surplus)/Deficit assuming £5 Band D Council Tax increase from April 2021 onwards	92.0	2,463.5	2,205.4	2,128.8	2,235.8

Without the impact of Covid-19 the Council would be able to set a balanced budget for 2021/22 and would have deficits for future years lower than originally projected in February 2020.

- 3.8. This is the second iteration of the budget and these annual projections are based on information available at the time of preparation along with the broad set of assumptions detailed in paragraph 3.10 below. The assumptions, proposals and calculations included above and on the attached appendices will be subject to change as more information from internal and external sources is provided, calculations and options are refined and as decisions around the final proposals are made.
- 3.9. 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

- 3.10. The draft budget proposals for 2021/22 and onwards include:
- Inflation in the base budget in accordance with the Budget Strategy (only where contractually committed or unavoidable).
 - Salary budgets have been prepared based on the establishment list agreed at Corporate Management Team in December 2020.
 - For 2021/22 the detailed budgets now include a pay freeze for most staff, reflecting announcements in the Spending Review in November 2020. From April 2022 onwards the budgets include 2% for inflationary pay awards. The budgets approved in February 2020 included 2% for the 2020/21 pay award: this has now been settled at 2.75%. The cost of this additional 0.75% is around £100k. Although the Spending Review included a public sector pay freeze, this is not binding on local government pay which is separately negotiated between representatives of employers and employees. The local government pay settlement for April 2021 is still to be agreed but is expected to reflect the Spending Review. The cost of a 1% change in the pay settlement is around £140,000 per year.
 - The National Living Wage (NLW) is expected to increase to £9.21 an hour from April 2021. The local government pay settlement for 2020/21 has a minimum

hourly rate (excluding apprentices) of £9.25 per hour which is higher than the new NLW levels. Any increases in the National Living Wage above 2% will be a budget pressure in future budget drafts.

- e) The staffing budgets for all services currently include a vacancy allowance of 4% across all services except for front line delivery services which have been reduced to 2% following a budget pressure identified as part of the 2020/21 budget setting. 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 (known as the Green Book).
- f) On 9 October 2019 the Government increased the interest rates for local authorities borrowing from the Government through the Public Works Loans Board (PWLB) by 1%, followed by a consultation on the future of PWLB borrowing criteria. As part of the local government finance settlement the Government announced limits on borrowing for commercial purposes and reversed the 1% increase.
- g) Capital charges will be reviewed within the final budget proposals presented to February Council. These have no impact on the MTFP projections as they are not charged against Council Tax.

IMPACT OF COVID-19 2020/21 AND ASSUMPTIONS

- 3.11. Although the impact of Covid-19 first hit the Council's income and expenditure in the 2019/20 financial year this section just considers the financial impacts from April 2020 onwards.
- 3.12. It is currently impossible to get a clear picture of the financial impact of Covid-19 on both residents and the Council as the circumstances keep changing: the latest Government's announcement on the 4th January, placing the whole of the country into tier 5 `Stay at Home` is the highest level of restrictions, there is the possibility of vaccines for some residents and no clear picture of when and how national and international travel restrictions will be eased. A review carried out by Grant Thornton of the financial impact on district councils looked at the vulnerability of individual Council's financial position to Covid-19 and how quickly and easily they may recover. The vulnerability index considered the Council's financial position and the nature of population, place, economy, health and social care within the district. The recovery index included factors including percentages of businesses and employment in "at risk" sectors. The report identified SLDC highly vulnerable and low on the recovery index. For comparison, Barrow Borough Council was low vulnerability and low recovery and Lancaster City Council is also high vulnerability and low recovery.
- 3.13. The Council has received over £110m of grant to support business and individuals across the district. This includes £27m of business rate discounts, £78m of grants to small businesses, £0.5m of support for council tax payers and other grants for specific purposes including homelessness. The majority of these grants have been paid out or, particularly in the case of the £6.7m of Local Restrictions Support Grants (Closed) grant are in the process of being paid. It is expected that £10m of unclaimed small business grant will be repaid to the Government where the Council repeatedly attempted to encourage eligible businesses to claim. All these grants have been given for a specific purpose and cannot be used for other purposes.
- 3.14. The Council has received two funding packages to offset its own costs and lost income. The first funding package is the Local Authority Support grant and currently 4 tranches of funding has been announced of £4.6bn nationally of which SLDC has received £1.3m. The allocation of funding has been different for each tranche but the Government has now settled on an allocation that reflects population size and

levels of deprivation but using deprivation measures before the impact of Covid-19. At one point South Lakeland had the highest national percentage of residents furloughed. This is likely to have significant short- and long-term impacts on resident's financial well-being.

- 3.15. The second funding package from the Government is for lost income. This only covers income from fees and charges for transactional, face-to-face type services where there has been a reduction in use, such as car parks. The scheme does not cover lost income from rents or other income not directly linked to individual transactions. The grant covers 75% of lost income over a 5% threshold of annual budget. The Council has received £0.9m under this scheme for lost income, mainly from car parking, for April to July 2020, and claimed £0.4m for August-December 2020. Further claims will be made for the remainder of the financial year.
- 3.16. The income scheme does not cover indirect loss of income from contracted out services where the contractor receives the income and the Council pays a management fee. This is the arrangement SLDC has for leisure services and where the contractor has approached the Council for additional funding to offset lost income during periods when they were closed or reduced capacity when open. The Government announced £100m of funding for the Department of Culture, Media and Sport (DCMS) to distribute. The Council is submitting a bid but the grant is only to cover losses from November 2020 onwards so will not cover all of the Council's additional costs. Discussions are ongoing with the contractor and reports have been presented to Cabinet meetings.
- 3.17. Due to local government accounting requirements the total impact of lost income from council tax and business rates do not hit the Council's income and expenditure account in the year they occur: the income from council tax and business rates paid from the collection fund to each precepting body is fixed for the year and any surplus or deficit is estimated in January and added as an adjustment to the amount due to each body for the following year. (This does not include parish councils.) The Government has announced additional funding to partially offset lower income from council tax and business rates and have also introduced measures to enable Councils to spread the impact over 3 years rather than one year to reduce the immediate impact which is reflected in **Appendix 8**.
- 3.18. Council approved use of the General Reserve to fund the one-off impact of Covid-19 in the current financial year up to £2.0m. It is currently proposed that contributions will be made to the General Reserve to re-build the level from April 2021: this assumption will be reviewed once the results of the Government Spending Review and local government funding settlement are received.

GOVERNMENT FUNDING

- 3.19. The figures presented include certain assumptions where work is on-going or where information is not yet available. A key factor going forward will continue to be central government funding. The expected change to 75% business rates retention and a new funding distribution model from April 2020 has been delayed until at least April 2022 and the model has been updated to reflect this assumption.
- 3.20. The Government announced a single-year spending review on 25 November 2020 and the local government finance settlement on 17 December 2020. Overall local government has received an average Core Spending Power (CSP) increase of 4.5% (£2.2bn) but 87% of this increase is from council tax increases, and is accompanied by relatively low increases in grant funding. Social care authorities will be able to increase Band D by up to 5%, and district councils will be able to increase by the higher of 2% or £5. There are new and increased grants but very little of the new grant increases are funded with new money. Almost all the increases are funded by using the New Homes Bonus (NHB) returned surplus. This approach breaks the

principle of returning the surplus to local government and thus makes forecasting more difficult.

- 3.20.1. The main elements of Revenue Support Grant and Business Rates are unchanged from April 2020 and are in-line with the projections in the Medium Term Financial Plan.
- 3.20.2. New Homes Bonus continues for one more year but in a restricted form. For SLDC there will be additional income of £14.8k. The Government has confirmed its intention to replace New Homes Bonus with something more targeted.
- 3.20.3. Rural Services Delivery Grant continues for one year with a slightly increased allocation nationally of £4m to £85m and SLDC receiving £21.9k extra bringing the total to £454.9k.
- 3.20.4. A new grant (Lower Tier Services Grant) effectively uses £111m of the NHB returned surplus. It is a peculiar grant with the purpose of helping to minimise the range of increases in Core Spending Power, and particularly to ensure that no authority receives a reduction in CSP. It is very heavily weighted towards district councils, and particularly those that are losing from the changes in NHB. It is expected to be a short-term grant that will disappear when wider reforms of local government funding are introduced (possibly in 2022-23). SLDC will receive £95.8k.
- 3.20.5. A new tranche (tranche 5) of the COVID funding (£1.55bn) has been announced with SLDC to receive £447.9k.
- 3.20.6. A new grant has been announced of £670m to support council tax. This is designed to offset reductions in council tax due to more claimants for the council tax reduction scheme. For SLDC this will be £112.8k and will partially offset the reduction in income due to the council tax base being lower by £165.1k.
- 3.20.7. A scheme to fund 75% of irrecoverable losses in council tax and business rates was announced in the Spending Review. This scheme will run in parallel to the requirement for billing authorities to spread the 2020/21 collection fund deficit over 3 years. Further details are required before an estimate can be made of how much may be received by SLDC.
- 3.20.8. The Covid-19 Sales, fees and charges (SFC) compensation scheme will continue into the first quarter of 2021/22.
- 3.21. Consultation on the provisional local government finance settlement closes on 16th January 2021 and consultation on the Covid-19 funding package closes on 14th January 2021. It is expected that proposals will be finalised soon after these dates.

KEY UNCERTAINTIES REMAINING

- 3.22. The key uncertainties are:
 - a) The scheme to fund 75% of irrecoverable losses in council tax and business rates (see above) requires additional details before an estimate can be made of how much may be received by SLDC. Figures will be available to prepare estimates for the report to Cabinet on 3rd February 2021 but the final figures will not be known until the 2020/21 accounts are complete.
 - b) From April 2022 the whole system of Government funding is expected to change: the financial model assumes the overall funding from Government through general grants or retained business rates will continue to decline but by a lower rate as has been seen during the multi-year settlement from

2015-2019 (excluding one-off adjustments such as the negative Revenue Support Grant). This reflects the current indications that funding of local government overall (excluding one-off adjustments for Covid-19) will stabilise at current levels but that funding will be targeted at social care.

- c) It is not expected that the existing business rate pool will continue for 2021/22. Due to the level of uncertainty around these arrangements, the funding is built into budgets 1 year in arrears so this can be used to support financial years 2021/22 onwards. Any unallocated balance remains within the NNDR pool reserve, which is earmarked for economic development. Membership of the pool will need to be determined within 28 days of the provisional local government settlement. It is requested that the Finance Lead Specialist and the Finance and Resources Portfolio holder be delegated to decide if the Council should remain within the Cumbria pool by this deadline.
- d) Interest payable and receivable will continue to be reviewed prior to the final budget being set in February 2021 to ensure this reflects the most up to date interest rate projections and capital programme funding assumptions.

3.23. Overall, there are still massive uncertainties around the Council's future financial position due to Covid-19. Without Covid-19 the Council is in a strong position to set a balanced budget for 2021/22 and would be working to address the level of deficit from April 2022 onwards. From April 2022 however it is worth reiterating that the challenges arising from the change in Government support through the Fair Funding Review and changes to business rate retention could have a significant impact.

3.24. It is expected that Government may consult on options for the creation of unitary local government in Cumbria during February and March 2021, potentially leading to a Government decision by July 2021. In the event the Government proceed with an order for structural change, it will be necessary for the Councils affected by the order to commence transitional work to implement the change by a vesting day likely to be April 1st 2023.

RECURRING REVENUE BUDGET PRESSURES AND REVIEWS

3.25. There are a number of recurring budget pressures and adjustments that have been identified through the budget process. As identified in **Table 1**, these total £210k for 2021/22 changes to a credit of £58k by 2025/26. The details of these are contained within **Appendix 4**.

3.26. The Revenue budget pressures and reviews include an increase in car parking income of £305k in 2021/22 following a review of demand and car parking fees. For more details see **Appendix 13**. There is also an additional £252k annually for pension costs which reflect revised proposals for resolving the unlawful age discrimination cases and also the reduction in the value of the pension fund assets as a result of Covid-19.

3.27. The other large budget pressures are on-going and relate to changes to the agreement for Braithwaite Fold Caravan Site and to falling market prices for recyclable materials and over the next five years a total saving of £92k has been found through a review of Corporate Budgets (utilities, insurances, rates etc) and inflation.

2020/21 GROWTH PROPOSALS

3.28. The detail of revenue growth items is included at **Appendix 5**. These total £27k in 2021/22 reducing to £12k by 2025/26 and are contributions towards the Bridgeway Sexual Assault Referral Centre and to Cumbria County Council for highway weed spraying.

SAVINGS PROPOSALS

- 3.29. A number of savings proposals have been brought forward as part of the budget exercise these total £198k in 2021/22 increasing to £265k by 2025/26. These are detailed in **Appendix 6**. The amount and nature of the savings identified are considered reasonable and deliverable from 2021/22.
- 3.30. The savings relate to changes in delivery options for services and to changes in the levels of council tax discounts and premiums for empty homes which are currently out for public consultation.

REVENUE IMPACT OF CAPITAL REQUESTS

- 3.31. **Appendix 7** includes details of the impact of capital schemes on revenue costs/income. Currently the only impact is the updated minimum revenue provision (MRP) resulting from reprofiling of the capital programme for 2020/21.
- 3.32. Section 4 below gives more details on the current proposals concerning Capital Programme. Once changes to capital programme have been agreed and financing identified the revenue impact will be updated. This could include either costs of borrowing (repayment represented through the Minimum Revenue Provision and interest payable) or through revenue contributions to fund the capital expenditure.

FURTHER SAVINGS AND EFFICIENCIES

- 3.33. 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. Proposals have been included in the draft budget to reduce expenditure on service delivery and to increase income from council tax.
- 3.34. 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. Officers are preparing proposals to bridge the budget gap including efficiency improvements, revised and new charges for services and proposals to reduce funding and services. Progress on preparing these proposals has been delayed due to the need to react to other Government announcements around Covid-19 and local government reorganisation. Updates on progress will be included in future budget updates.

FEES AND CHARGES

- 3.35. The MTFP assumes that income to be generated from fees and charges will total £10.6m for 2021/22. This figure has been adjusted to reflect the budget pressures from **Appendix 4**, where these relate to fees and charges.
- 3.36. Lake Administration Committee considered and approved fees and charges on 2 October 2020 and Licensing Committee considered its fees 2 November 2020.
- 3.37. Table 3 below summarises the main fees and charges for 2021/22 and the changes proposed. Full details are shown in the draft Fees & Charges book included as **Appendix 14**.

Table 3: Proposed Fees and Charges Summary 2021/22

Fees	Budget 2020/21	Budget 2021/22	Change Budget	Change in Fee	Comments
------	-------------------	-------------------	------------------	------------------	----------

Car Park Fees (excl Permits)	£3,634,162	£3,655,248	1%	0%	This does not include the recommended increase in fees set out in Appendix 13
Lake Encroachments	£629,794	£641,322	2%	2%	
Lake Permanent Moorings	£518,827	£529,550	2%	2%	
Planning Application Fees	£524,215	£524,308	0%	0%	Fees set Nationally
Car Park Permits	£469,338	£478,420	2%	2%	This does not include the recommended increase in fees set out in Appendix 13
Building Control Fees	£326,457	£333,177	2%	0%	Price remains the same for commercial reasons
Land Charges	£250,000	£250,000	0%	0%	Fees capped to balance surplus
Cemetery Charges	£222,147	£226,458	2%	2%	
Premises and Club Certificates	£202,107	£206,475	2%	0%	Set nationally - any changes due to be received by January 2021
Town View Fields Accommodation Charge	£201,892	£205,701	2%	-13%	Fees reduced by average 13% to reflect actual cost
Council Tax Summonses (Liability Order)	£179,388	£182,832	2%	0%	Fees can only be set for cost recovery
Jetty Berths	£131,000	£131,000	0%	2%	
Kendal Market Hall	£122,241	£126,230	3%	0%	No change in fees as demand not there to allow fees and charges to be increased
Car Park Fines	£120,078	£122,721	2%	0%	No change in fee as it is a nationally set penalty charge.
Taxi Licences	£106,543	£108,390	2%	0%	Fees have not been increased. Legislation which governs Hackney Carriage and Private Hire dictates that a consultation process must be followed and fees must be advertised in advance, however due to Covid-19 and capacity it was not possible to do this.
Storage of Boats	£81,541	£83,059	2%	2%	
Private Water	£122,994	£74,287	-40%	2%	Cost neutral budget virement for £50k done in 20/21 for sampling analysis
Kendal Town Hall	£71,771	£73,011	2%	Various	Includes new fees for new rooms and removal of fees for rooms no longer lettable post refurbishment
Other Lake Fees	£63,911	£65,164	2%	2%	

Bulky Waste Collection	£40,000	£40,000	0%	0%	Recharge of external cost only, external cost fixed per contract. Cost neutral bid to increase to £50k offset by increases to expenditure budget
Other services with income less than £25,000	£217,267	£219,496	1%		
Grand Total	£8,235,673	£8,276,849	0.50%		

- 3.38. Not reflected in the above is the review of car parking fees and charges for 2021/22. The review has considered a number of things including demand and traffic management. As a result it is proposed that rates for town centre car parks and those in the National Parks should be updated to reflect changes in demand. At the same time it is proposed that permit prices are to be increased by 10% bringing them more in line with neighbouring authorities, while still retaining their good value. Prior to this hourly rates have been frozen on most car parks since April 2011. More details of these proposals are included at **Appendix 13**.

CARRY FORWARD OF UNSPENT ESTIMATES

- 3.39. There are some big underspends in 2020/21 due to a combination of changes in Government requirements and the need to divert resources to Covid-19 delaying the implementation of some programmes of spend. Details are included in **Appendix 10**.

COUNCIL TAX, BUSINESS RATES AND COLLECTION FUND

- 3.40. Levels of Council tax increases are heavily influenced by Government policies which assume individual Councils increase their Council tax by the maximum amount permitted by the Government. This maximum has varied between 2% and 3% for the last few years or £5, whichever is the higher. Through this policy the Government has encouraged Councils to move towards financial self-sufficiency through increasing the proportion of income raised by Council tax rather than government grant. The MTFP assumes increases £5 per annum for a Band D equivalent property. Each 1% increase in Council Tax generates an additional £91k of income to the Council.
- 3.41. The £5 increase in Council tax is a planning assumption for budgeting purposes only at this stage. The actual level of Council tax to be charged is a decision by Council as part of the budget approval process in February.
- 3.42. The MTFP assumes an increase in the Council tax base of 250 band D properties annually. This is equivalent to an additional £50k of Council tax each year for this Council. The actual tax base for 2021/22 was calculated in December 2020 and has reduced by 315.3 Band D equivalent properties, from 45,712.0 to 45,396.6. The majority of the decrease is due to discounts under the Council Tax Reduction Scheme (CTRS) which have increased as a result of Covid-19 (there were 2,716 claimants at the end of October 2020 against a budget baseline of 2,400 claimants). This reduction is partially offset by a new Local Council Tax Support Grant for 2021/22 but it is expected this reduction will be for more than just 12 months. Cabinet will be requested to approve the CTRS scheme in February 2021: It is not intended to amend the Council's CTRS scheme for 2021/22.
- 3.43. This impact can be partially offset by the review of discounts and premiums on empty homes: the increases in council tax payable on empty homes is intended to encourage the use of homes rather than to increase income. However, any additional income will reduce the pressure of reduced income.
- 3.44. The amount of Council Tax recognised in the accounts for the year is based on estimates made before the start of the financial year. This gives Council's certainty

over income in-year. If there is any reduction in income, due to increased discounts, reductions in numbers of properties (for instance, properties becoming holiday homes to let and transferring to business rates) or due to non-collection then this reduction is recognised in subsequent financial years. The Government have announced assistance of 75% of any such losses: this has not yet been included in the budget projections. Councils are required to calculate this surplus or deficit on the Council tax collection fund on the 15th January each year. Any adjustments will be reported in the budget update to Cabinet on 2nd February 2021. This budget assumes there will be a deficit relating to 2020/21.

- 3.45. On 1 December 2020 the Local Authorities (Collection Fund: Surplus and Deficit) (Coronavirus) (England) Regulations 2020 come into force. This requires Council's to spread the repayment of collection fund deficits arising in 2020/21 over the next three years rather than the usual period of a year. This recognises the difficulties being faced by Council's in collecting Council Tax and Business rates in 2020/21 as a result of the Covid-19 pandemic and was done to allow Council's breathing space when setting budgets for next year. The budget assumes that the Council will take advantage of this opportunity and has split the estimated deficit for both Council Tax and NNDR in 2020/21 over the next three years.

4 CAPITAL PROGRAMME

- 4.1 Proposals for new areas of capital expenditure have been considered by CMT in October and for the basis of the resulting proposed capital programme as presented in **Appendix 12**. A summary of the proposed capital expenditure up to 2025/26 is shown below:

Table 4: Summary Draft Capital Programme Expenditure

2020/21 Revised	2021/22	2022/23	2023/24	2024/25	2025/26	Total 2020/21 to 2025/26
£000	£000	£000	£000	£000	£000	£000
12,525.1	19,085.30	13,516.0	6,153.0	2983.0	1,223.0	55,485.4

- 4.2 Following a review of the capital programme, current capital funding and reserves we are currently unable to fund the majority of the Capital Bids of £733k, in this budget round. In line with previous decisions £285k can be funded by borrowing as this relates the Vehicle and Plant Programme but the remaining £488k remains unfunded as non-ring fenced capital funds are very low. This includes:

- a) £223k for refurbishment and improvement of assets;
- b) £150k of new spend; and
- c) £75k to upgrade software;

More details are included in **Appendix 7** and these schemes are included as bids in the draft capital programme at **Appendix 12**.

- 4.3 Although the capital programme contains estimates of expenditure for future years, these rely on the income budgets being met (e.g. Capital Receipts, Right to Buy and VAT shelter). All elements of the programme, and particularly those areas with recurring budgets, will be reviewed annually with reference to the actual resources available.
- 4.4 It was reported in the Quarter 2, 2020/21 Financial Update Report that certain elements of the capital programme would be underspent in year and would require re-profiling into subsequent years. These are reflected in **Appendix 12** within the

updated 2020/21 programme along with other schemes where the need for re-profiling has been highlighted.

- 4.5 Community Infrastructure Levy (CIL) is not currently reflected in the capital programme or its funding. The Council has started to receive modest levels of income from CIL. The governance arrangements over when and how to allocate this and the Infrastructure Delivery Plan were approved by Cabinet on 13 September 2017.
- 4.6 A summary of the draft capital programme funding is in the table below. This shows the proposed use of capital resources in support of the capital programme (see **Appendix 12**).

Table 5: Capital Funding 2020/21 to 2025/26

	Balance April 2020 £000	Estimated Income £000	Use in capital programme £000	Projected Balance March 2026 £000
General				
Usable Capital Receipts	2,062.3	1,695.0	(2,848.6)	908.7
New homes bonus (capital)****	1,279.6	265.7	(1,510.0)	35.3
Earmarked or allocated				
Revenue (LIPS)	379.4	126.1	(395.9)	109.6
IT replacement reserve	23.1	480.0	(488.6)	14.5
Major Repairs Reserve	280.4	500.0	(795.9)	(15.5)
General Revenue contributions	1,342.4	820.4	(1,726.3)	436.5
Cap grants and contributions (inc S106)	1,896.3	14,159.1	(15,525.7)	529.7
Disabled Facilities Grants	244.5	3,808.3	(3,800.3)	252.4
Community Housing Fund*	1,968.3	0.0	(561.0)	1,407.3
Right to Buy receipt**	5,444.9	4,200.0	(7,144.2)	2,500.7
Borrowing				
Funding from borrowing***.	0.0	20,240.9	(20,240.9)	0.0
Sub Total	14,921.2	46,295.6	(55,037.4)	6,179.3
Funding to be agreed	0.0	0.0	(448.0)	(448.0)
Total	14,921.2	46,295.6	(55,485.4)	5,731.3

*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

- 4.7 **Table 5** illustrates the pressure of capital funding as the Major Repairs Reserve shows a deficit by March 2026, following the reduction in contributions to £50k per year from 2022/23, whilst still retaining funding for Parks and Playgrounds at £65k per annum.
- 4.8 The funding issues highlighted in 4.2 and 4.7 need to be addressed before final budgets are produced in February 2021.

5 RESERVES AND WORKING BALANCE

WORKING BALANCE

- 5.1 The Council's working balance at 1 April 2020 was £1.5m. Working balances are used to help cushion the organisation against uneven cash-flows and avoid

unnecessary borrowing. The balance on the working balance should be maintained at £1.5m.

OTHER RESERVES

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

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

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

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

5.4 Reserves are also available to support the strategically important projects listed in the capital programme that have yet to be allocated a budget including land acquisition for car parking and employment sites and the depot review. These are subject to further option appraisal and business case development.

5.5 Due to the levels of uncertainty the estimated levels of reserves and risk assessment of reserves have not yet been prepared. They will be prepared following the Spending Review and local government finance settlement and reported to Cabinet and Council in February 2021. **Appendix 11** shows the proposed changes to the currently approved budgets for contributions to and from reserves.

5.6 A request has been received from the Operational Lead – Specialist Services to transfer a further £92,800 from the Community Housing Fund reserve to the 2020/21 revenue budget to fund requests for capacity reports and other studies at potential sites. A virement has already been approved by Cabinet for £47,000 for the same purpose as part of the Q1 Corporate Financial Update report bringing the total requests for additional use of the reserve to £139,800. The Finance Procedure Rules require requests over £100,000 to be approved by Council. This request was received after the Q2 Corporate Financial Update had been approved: approval through this report will give officers permission to spend the monies without waiting for the next Corporate Financial Update to be approved by Council in February 2021.

6 NEXT STEPS

6.1 This draft Budget Report will be updated as both internal and external issues become clearer. The local government finance settlement will be reflected in the final budget proposals to be presented to Cabinet on 3 February and Council 23 February 2021 for approval. Additional reports will be produced if required.

6.2 The provisional Local Government Finance Settlement was published on 17th December 2020 and consultation on the settlement closes on 16th January 2021. The settlement is expected to be finalised shortly after this date.

CONSULTATION

- 6.3 This report provides a first draft of the 2021/22 Five Year Budget. This will be subject to a consultation period following approval of this report by Cabinet. Consultation responses received will be reported back to Cabinet on 3 February 2021 with final responses included in the report to Council on 23 February 2021. 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."
- 6.4 The Lake Administration and Planning Committees will receive and consider the elements of the draft Budget Report which are relevant to them. Licensing Committee members will be sent budget information. This report presents the latest budget position to Overview and Scrutiny Committee.
- 6.5 Public consultation through the Council's website and letters to relevant council tax payers has been carried out on the proposed changes to discounts and premiums on empty homes. Consultation will also be carried out in accordance with statutory requirements on increases in car parking charges, on budget proposals with business rate payers. Updates on responses received will be reported verbally to the meeting.

7.0 Alternative Options

- 7.1 This report presents alternative options in relation to potential budget pressures and savings, new capital programme bids, one off revenue growth bids and fees and charges. The proposals together aim to meet the Council's statutory duty to set a balanced Budget for 2021/22.

8.0 Links to Council Priorities

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

9.0 Implications

Financial, Resources and Procurement

- 9.1.1 The draft Budget aims to safeguard the Council's financial position and ensure a balanced budget for 2021/22 and an improved position in the years that follow.
- 9.1.2 Councils are required to set a balanced budget and the Section 151 is required to submit a report on the robustness of estimates and adequacy of reserves as part of the budget setting process in February 2021. The Section 151 Officer also has an obligation to make a report under Section 114 of the Local Government Finance Act 1988, which dictates that:

"The chief finance officer of a relevant authority shall make a report under this section if it appears to him that the expenditure of the authority incurred (including expenditure it proposes to incur) in a financial year is likely to exceed the resources (including sums borrowed) available to it to meet that expenditure".

Section 114 notices are very rare but one has recently been made by the Section 151 Officer of Croydon Council. The Section 151 Officer has the power and responsibility to legally suspend spending for a period of time if they judge the Council does not have a balanced budget or the imminent prospect of one. It means that no new expenditure is permitted, with the exception of that funding statutory services, including safeguarding vulnerable people, however existing commitments and contracts will continue to be honoured.

In my opinion as Section 151 Officer the Council is not close to this position but is dependent upon Government following up on promises around funding the costs of Covid-19 and that without these extra costs the budget would be balanced for 2021/22 at least.

Human Resources

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

Legal

9.3 The Council is required to approve its budget and set its Council tax before 11th March 2021 immediately prior to the start of the financial year (Local Government Act 1992) .This report outlines the Councils proposals and starts the process of consultation on the budget with the final approval of the budget by Council at its meeting on 23 February 2021.

Health, Social, Economic and Environmental

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

9.5 If you have not completed an Impact Assessment, please explain your reasons: This report contains proposals to set a balanced budget for 2021/22 which will be subject to further consultation. Specific issues that require HSEEIAs will be addressed within the final budget proposals presented to Council 23 February 2021.

Equality and Diversity

9.6 Have you completed an Equality Impact Analysis? No

9.7 If you have not completed an Impact Assessment, please explain your reasons: This report contains proposals to set a balanced budget for 2021/22 which will be subject to further consultation. Specific issues that require EIAs will be addressed within the final budget proposals presented to Cabinet on 3 February and Council on 23 February 2021.

10. Risk

Risk	Consequence	Controls required
The impact of Covid-19 and other unexpected events on the Councils finances is more substantial than projected	Failure to create a balanced and sustainable budget by February 2021	Regular monitoring of announcements, performance, expenditure and income
Failure to create a balanced and sustainable budget by February 2021	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	Review resources required to ensure growth bids are realistic and deliverable,

Risk	Consequence	Controls required
	underspends and potential slippage in expenditure to subsequent years.	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.

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	Budget process and strategy
2	Budget Timetable
3	General Fund Revenue Account Forecast 2020/21 - 2025/26
4	Budget Pressures
5	One-off Revenue Growth Proposals
6	Savings Proposals
7	Revenue Implications of Capital Requests
8	Impact of Covid-19
9	Delay in implementation of rates reform
10	Carry forwards
11	Changes in contributions to and from reserves
12	Draft Capital Programme 2020/21 to 2025/26
13	Fees and Charges – Car Parking proposals
14	Draft Fees and Charges book

Background Documents Available

Name of Background document	Where it is available
Medium Term Financial Plan approved Council 28 July 2021	https://tinyurl.com/y3lz82yr
Provisional Local Government Finance Settlement	https://tinyurl.com/ycnbuduy
Covid-19 funding proposals	https://tinyurl.com/yaek3sbe
Draft Budget report, Cabinet 8 th December 2020	https://tinyurl.com/ycbk5mka

Tracking Information

Signed off by	Date sent	Date Signed off
Legal Services	04/01/2021	06/01/2021
Section 151 Officer	Report from s151 Officer	Report from s151 Officer
Monitoring Officer	04/01/2021	06/01/2021
CMT	04/01/2021	05/01/2021

Circulated to	Date sent
Lead Specialist	Report of Lead Specialist
Human Resources Manager	04/01/2021
Communications Team	04/01/2021
Leader	04/01/2021
Committee Chairman	N/A
Portfolio Holder	04/01/2021
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	03/02/2021
Council	23/02/2021