

South Lakeland District Council
Cabinet
Wednesday, 3rd February 2021
2021/22 to 2025/26 Draft Budget

Portfolio: Finance and Resources Portfolio Holder
Report from: Section 151 Officer
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Wards: (All Wards)
Forward Plan: The 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 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. Although 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, these are insufficient to cover the full extent of the additional costs and income lost due to the pandemic. The Government has also further delayed the reform of local government funding. Options are being developed to balance future budget deficits.

2.0 Recommendation

2.1 It is recommended that Cabinet:-

- (1) Consider and comment on the proposals contained in the report to achieve a balanced budget in 2021/22; and**
- (2) Recommends the Draft Budget to Council for approval subject to any further amendments arising from Government announcements and the final calculation of business rates income due.**

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. Final local government finance settlement figures are expected to be provided by the Government following the end of the consultation period on 16th January 2021. A verbal update on any effect of the final settlement will be provided at the Cabinet meeting. It is requested that any further amendments will 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 23rd February 2021.

- 3.3. 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 a surplus of just under £3,000 currently. Future income is still to be incorporated from the Government scheme to assist with the impact of Covid-19 on business rate income.
- 3.4. The Council will be requested to approve the final Budget at its meeting on the 23rd February 2021. The budget timetable is presented for information at **Appendix 2**.

DRAFT GENERAL FUND REVENUE BUDGET

SUMMARY POSITION

- 3.5. 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**.
- 3.6. **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 February 2021:

	2021/22 £000	2022/23 £000	2023/24 £000	2024/25 £000	2025/26 £000
Service Expenditure	25,297.9	24,009.4	24,023.1	24,454.9	24,732.1
Service Income	(13,301.6)	(12,632.5)	(12,953.7)	(13,241.5)	(13,622.8)
Net Service Budget (excluding capital charges)	11,996.3	11,376.9	11,069.4	11,213.4	11,109.3
Council Tax	(9,285.4)	(9,564.8)	(9,846.7)	(10,131.1)	(10,417.9)
Business Rates	(3,688.3)	(2,260.2)	(2,161.2)	(2,302.0)	(1,956.7)
Government Grant	(712.6)	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	(161.4)	792.8	940.4	858.0	733.2
(Surplus)/Deficit assuming £5 Band D Council Tax increase from April 2021 onwards	(2.9)	2,417.6	2,159.5	2,128.7	2,235.7

- 3.7. This is the third 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 paragraphs 3.10 onwards below. Final amendments may be required, for example when the final income figures for business rates income and the final Government grant settlement for 2021/22 are announced or further Covid-19 amendments. A verbal update will be given to Cabinet if figures are received before this report is considered on 3rd February.
- 3.8. The Council has a statutory duty to set a balanced budget. Work is underway to resolve the projected deficits from April 2022 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 2021/22 and onwards include:
- a) Inflation in the base budget in accordance with the Budget Strategy (only where contractually committed or unavoidable).
 - b) Salary budgets have been prepared based on the establishment list agreed at Corporate Management Team in December 2020.
 - c) For 2021/22 the detailed budgets now include the planning assumption of 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.
 - d) 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.

IMPACT OF COVID-19 2020/21 AND ASSUMPTIONS

- 3.10. 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.
- 3.11. 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.

- 3.12. The Council has received over £140m of grant to support business and individuals across the district. This includes £27m of business rate discounts, £108m 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 and the latest tranche of £31m of business grants, are in the process of being paid. Whilst the Council repeatedly attempted to encourage eligible businesses to claim, it is expected that £10m of unclaimed small business grant will be repaid to the Government. All these grants have been given for a specific purpose and cannot be used for other purposes.
- 3.13. 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 5 tranches of funding has been announced of £4.6bn nationally of which SLDC will receive £1.8m split between 2020/21 and 2021/22. 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 before the impact of Covid-19. Consequently, this does not reflect the degree that Covid-19 has impacted the district – for example, 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.
- 3.14. 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.
- 3.15. 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 has submitted a bid but as the grant is only to cover losses from November 2020 onwards this will only cover a proportion of the Council’s additional costs.
- 3.16. 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**.
- 3.17. 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 final results of the local government funding settlement and business rate income figures are received.

GOVERNMENT FUNDING

- 3.18. 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. The funding distribution model is expected to move funding away from district council's generally and, in particular, district council's with relatively higher levels of income and lower levels of deprivation. Currently it is expected that funding from retained business rates will fall by around £1.4m from April 2022 and that grants of £0.5m will cease. The level and timing of these changes is very uncertain. Current estimates of future funding are based on internal calculations and external advice.
- 3.19. The Government announced a single-year spending review for 2021/22 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.
- 3.19.1. 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.
- 3.19.2. 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.
- 3.19.3. 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.
- 3.19.4. 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.
- 3.19.5. A new tranche (tranche 5) of the COVID funding (£1.55bn) has been announced with SLDC to receive £447.9k.
- 3.19.6. 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.

- 3.19.7. 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 for business rates while an initial estimate of £147.4k has been included for lost Council tax income. This will have an impact of £49.1k in 2021/2 as the benefit of this will be split across the three years in which the 2020/21 collection fund deficit is recognised.
- 3.19.8. The Covid-19 Sales, fees and charges (SFC) compensation scheme will continue into the first quarter of 2021/22.
- 3.20. Consultation on the provisional local government finance settlement closed on 16th January 2021 and consultation on the Covid-19 funding package closed on 14th January 2021. It is expected that proposals will be finalised soon after these dates but had not been announced when this report was prepared.

KEY UNCERTAINTIES REMAINING

- 3.21. The key uncertainties are:
- a) The continuing impact of Covid-19 on the future financial position of the Council. The current proposals assume lockdown ends at the end of the current financial year. Future restrictions on movement or requirement for further support will have a financial impact beyond these current projections.
 - b) 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. It was hoped that figures would be available to prepare estimates for this report but only initial estimates for the Council tax element have been prepared: the final figures will not be known until the 2020/21 accounts are complete.
 - c) 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.
 - d) It was not expected that the existing business rate pool will continue for 2021/22 however all members of the pool have indicated their willingness to continue with the pool despite increased uncertainty around income 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 2022/23 onwards. Any unallocated balance remains within the NNDR pool reserve, which is earmarked for economic development.
 - e) 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.
- 3.22. Overall, there are still massive uncertainties around the Council's future financial position due to Covid-19. With recent additional Government Covid-19 grant announcements the Council is able to set a balanced budget for 2021/22. However,

Covid-19 is expected to have a continuing impact beyond 2021/22. From April 2022 the challenges arising from the change in Government support through the Fair Funding Review and changes to business rate retention are expected to have a significant impact of around £2m per year.

- 3.23. 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 that the Government proceed with an order for structural change, it will be necessary for the Councils affected by the order to commence transitional work during 2021/22 to implement the change by a vesting day likely to be April 1st 2023. The transitional costs, if required, are likely to be substantial and a request for further budget will be required as part of any consideration of future proposals.

RECURRING REVENUE BUDGET PRESSURES AND REVIEWS

- 3.24. There are a number of recurring budget pressures and adjustments that have been identified through the budget process. These total £396k for 2021/22 and changes to a credit of £4k by 2025/26. The details of these are contained within **Appendix 4**.
- 3.25. 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.
- 3.26. 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

- 3.27. 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

- 3.28. 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.
- 3.29. 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.

REVENUE IMPACT OF CAPITAL REQUESTS

- 3.30. **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.
- 3.31. 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

- 3.32. 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. Additionally, proposals have been included in the draft budget to reduce expenditure on service delivery and to increase income from April 2021. It will not be possible to meet the current projections of reductions of funding of around £2m per year through additional Council tax or efficiencies: new funding streams or structural changes in expenditure will be required.
- 3.33. 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

- 3.34. 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.
- 3.35. Lake Administration Committee considered and approved fees and charges on 2 October 2020 and Licensing Committee considered its fees 2 November 2020.
- 3.36. Cabinet on 20th January 2021 approved a range of proposals around 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 and a half-hour tariff will be introduced in most areas.
- 3.37. The full fees and charges listing is attached at Appendix 12.

CARRY FORWARD OF UNSPENT ESTIMATES

- 3.38. 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**.

PARISH PRECEPTS AND COLLECTION FUND

- 3.39. All parishes have been requested to provide their precept requests by the end of January 2021. These will be collated for the final Budget report to Council on 23rd February 2020.
- 3.40. The Collection Fund estimates will be prepared based on the latest information received, recording the collection and distribution of local taxation and non-domestic rates. The projected surplus or deficit for Council tax must be calculated on 15th January 2021, as required by statute. The surplus is shared with Cumbria County Council, Cumbria Police and the District Council in proportion to their individual Council Tax levels. The overall deficit for 2020/21 has been calculated as £1.618m and the SLDC share is £198.5k. The deficit is largely as a result of additional discounts issued under the Council Tax Reduction Scheme (CTRS) to reduce

Council tax bills for those with low income. The review of the CTRS for 2021/22 is included elsewhere on this agenda: no changes to the scheme are proposed beyond limited changes required by Government.

COUNCIL TAX, BUSINESS RATES AND COLLECTION FUND

- 3.41. 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.
- 3.42. It is now proposed that the Council Tax for 2021/2 be increased by £5 for a Band D equivalent property, equal to an increase of 2.51% to £204.54. This is expected to generate an additional £228k for the Council compared to the current financial year.
- 3.43. 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.
- 3.44. 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, it is expected that this will bring the Council £49k additional income in the next financial year (see Appendix 6), which will reduce the pressure of reduced Council Tax income elsewhere. A report on the outcome of the consultation on proposed changes in discounts and the empty homes premium is elsewhere on this agenda.
- 3.45. 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.
- 3.46. 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.
- 3.47. Additionally, the Government have announced assistance of 75% of any such irrecoverable losses, currently estimated at just under £150k to be split across the years 2021/22 to 2023/24.

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 2: 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. Further reprofiling requests are included in the Q3 Finance Update report elsewhere on this agenda: these are not yet included in this capital programme but will be included in the final version to be consider by Council on 23rd February 2021.
- 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 3: 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 3** 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.

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.

6 NEXT STEPS

- 6.1 Council on 23rd February 2021 will be asked to approve the budget, capital programme and Council Tax for April 2021 onwards. Council will receive an update of this report reflecting any further announcements or changes which will affect the Council’s financial position including the final finance settlement, including the impact of any adjustments to business rates multiplier and tariff.
- 6.2 The Government has also confirmed a fundamental review of business rates, recognising the role of business rates as a source of local authority income and committing to consider input from the sector as part of the review. These developments will be monitored and fed into the MTFP as the details are clarified. Overall it is expected that the new proposals will shift resources from district councils to councils with responsibility for adult social care and children’s services.
- 6.3 The Medium Term Financial Plan will be updated during summer 2021. The updated MTFP will be reported to Cabinet and Council: it is expected that this will be during July 2021 and will include the Budget Strategy for 2022/23 – 2026/27. Officers will continue to develop proposals for medium-term savings to offset the projected deficits from April 2022 onwards.

7 CONSULTATION

- 7.1 Overview and Scrutiny Committee considered the draft budgets on 15th January 2021. They discussed the proposals for increases in car parking charges and the interaction between car park charges and the health of high street businesses. Service budgets have been shared with members of the Lake Administration, Planning and Licensing Committees for the services which are relevant to them.
- 7.2 Consultation has been carried out on the budget proposals overall and also on key elements, including proposals to increase car parking charges and proposed changes to the levels of Council tax discounts and premia for empty homes.

8 Alternative Options

- 8.1 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.

Links to Council Priorities

- 8.2 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 fully funding the medium-term costs of Covid-19 similar to the additional funding that enabled a balanced budget to be set for 2021/22. Any sudden, significant changes in demand or reductions in funding will cause further challenges in maintaining financial sustainability.

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 Council's 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 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 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.

Contact Officers

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Appendices Attached to this Report

Appendix No.	Name of Appendix
1	Budget process and strategy
2	Budget Timetable
3a	General Fund Revenue Account Forecast 2020/21 - 2025/26
3b	General Fund Summary
3c	Service Budgets by Department
3d	Detailed Service Budgets
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	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	21/01/2021	25/01/2021
Section 151 Officer	Report from s151 Officer	Report from s151 Officer
Monitoring Officer	21/01/2021	25/01/2021
CMT	21/01/2021	21/01/2021

Circulated to	Date sent
Lead Specialist	Report of Lead Specialist
Human Resources Manager	21/01/2021
Communications Team	21/01/2021
Leader	22/01/2021
Committee Chairman	N/A

Circulated to	Date sent
Portfolio Holder	21/01/2021
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	03/02/2021
Council	23/02/2021