

Statutory Report of the Chief Finance Officer on setting the 2021/22 Budget

1. Purpose of this Appendix

- 1.1 In setting its Budget Requirement, the Council is required under the Local Government Act 2003 (Section 25) to consider:
- i) The formal advice of the statutory responsible financial officer on the robustness of the estimates included in the budget and the adequacy of the reserves for which the budget provides;
 - ii) The Council has to determine what levels of borrowing, if any, it wishes to make under the Prudential Code that governs local authority borrowing.

2. Robustness of Estimates

The greatest risk when preparing financial projections at the current time is the potential impact of COVID-19 on the Council's income and expenditure streams. This report was prepared in early February 2021 when levels of new cases were falling, vaccines were being rolled out and England has been in lockdown for many weeks. The Government is currently expected to announce its next proposals on 22nd February 2021, the day before this budget is due to be set. Budget projections for 2021/22 are based on assumptions of reduced income, additional expenditure and ongoing financial impacts of losses in 2020/21 as set out in section 3 of the budget report and Section 3g of the Budget Book (Appendix 2). These estimates are based on current Government announcements.

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 with other local Councils, Barrow Borough Council was low vulnerability and low recovery and Lancaster City Council is also high vulnerability and low recovery.

COVID-19 has also had a significant impact on the capacity of staff in the Council, including within the finance team who have had to deal with around £150m of additional grants and reliefs during 2020/21. This has had an impact on the availability of staff to participate in the budget setting process. As a result this budget has not been checked to the levels we would normally carry out.

Beyond COVID-19 there is still uncertainty around the impact the Government's plans for changes the structure of local government, delays to proposed changes to local government funding and the impact of the UK's withdrawal from the EU. The former is predicted to significantly reduce income to the Council through retained business rates but projections have been included while the impact of the latter is still unclear and have not been included in budget projections. It remains important to adhere strictly to the Council's Financial Procedure Rules and its Treasury Management Strategy while keeping a tight rein on budget monitoring so that adverse trends are identified quickly and acted upon promptly.

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.

Appendix 1

The budget estimates include assumptions on spend pressures, inflationary pressures, interest rate forecasts and current trends on demand for services. The latter is kept under constant review, especially for income generating services. The estimates also reflect the Local Government Finance settlement 2021/22 as well as the most up to date forecast of COVID-19 related costs and grants and business rates income. Savings proposals have been assessed to ensure they are realistic and achievable.

The Council's revenue and capital budgets are integrated in that the financial impact of the proposed capital programme is reflected in the revenue estimates.

Areas of specific risk in the current five-year period under consideration are:

- The Government delayed its expected 2019 Spending Review with a one-year Spending Round announced mid-2019 and the Budget announced for 11th March 2020. The 2020 Spending Review was a one-year only review, the local government finance settlement is for one-year only and the Budget is announced for 3rd March 2021. Changes are expected to local government funding but the amount and distribution are not currently known.
- The Council will become increasingly reliant on income from council tax and business rates as the Government reduces general grants. The Government has announced a fundamental review of business rates which may replace the current system with something that reflects online as well as physical sales. In a system where the level of income is largely influenced by external factors the balance of risk and income will shift substantially. This risk is further increased by the number of appeals around rateable values as a result of changes to patterns of working, shopping and leisure as a result of COVID-19.
- The Council implemented a large-scale change in its operating model, known as Customer Connect. While staffing changes have now been implemented there digital development programme is still in progress and renovation works to South Lakeland House and Kendal Town Hall have been delayed due to COVID-19.
- Managers are continuing to review the efficiency of the services that fall outside the Customer Connect programme, which will be reviewed alongside the implementation of the Commissioning framework. These will be reported to Members to consider as part of the ongoing financial management process. Options are being developed to enable any increases to the deficit position due to external funding or internal pressures to be offset.
- The estimated level of income generated from fees and charges has been set at a prudent level to take account of actual levels of income being generated in 2020/21 after making assumptions on the potential remaining impact of COVID-19.
- The implications of the Welfare Reform Changes and the introduction of Universal Credit to replace Housing Benefit will continue to be closely monitored and planned for as information is forthcoming. Again, COVID-19 has seen very high levels of South Lakeland residents on furlough and increases in levels of claims for the Council Tax Reduction Scheme which will reduce receipts from Council tax in 2021/22 and into the future.

3. Adequacy of Financial Reserves

The level of and usage of the Council's reserves is undertaken annually as part of the Medium Term Financial Plan.

In preparing the 2021/22 Revenue Budget I have reviewed the level of reserves and balances and assessed their adequacy against a range of factors, including;

- the potential impact of unexpected events or emergencies;
- the predictability of cash flows demand-led pressures, inflation and interest rates;

- estimates of the level and timing of capital receipts and grants;
- the overall financial standing of the Council and its track record in budget management and capacity to manage in-year pressures;
- the adequacy of the Council's insurance arrangements;
- the financial risks in the medium term plans, including the robustness of those plans;
- expected changes to the Council's funding arising from Government decisions.

As part of my review of the adequacy of reserves, an assessment of financial risks and financial exposure has been carried out, including the risks set out in brief above and in more detail in the Risks and Opportunities Log in **Section 6c** of the Draft Budget Book. **Section 6b** of the Draft Budget Book shows the risks taken into account in the assessment of the desired level for the General Fund Working Balance and the Council's General Reserve.

The Council's key financial reserves are summarised at **Section 6a** in the Council Draft Budget Book. In total, general reserves are forecast to total circa £5.2m as at 31 March 2022. General Reserves remain in a reasonable position, temporarily, when taken together with the £1.5m General Fund Working Balance and the intention to rebuild reserves used to meet the costs of COVID-19. Reserves are below the desired level of £5.9m.

The Budget provides sufficient reserves for major repairs and IT replacement, with foreseeable expenditure allocated from these funds.

No significant recurring expenditure is funded from reserves, consistent with Council policy.

4. Advice

In respect of the General Fund, the proposed reserves and the £1.5m working balance place the Council in a reasonable financial position for 2021/22 and, if repayments of reserves used in 2020/21 to fund COVID-19 are reimbursed as set out in the budget, will be adequate for the medium term. This ability to reimburse reserves is fully dependant on future Government decisions around funding: currently beyond April 2022 the Council needs to identify around £2m of recurring budget savings to ensure this can be achieved with current projections of Government funding. The Council will continue to review the medium and longer term pressures projected as part of its Medium Term Financial Plan. It is important that reserves are maintained at robust levels in order to respond to these challenges and as a cushion against forecast risks and unforeseen events.

5 Determination of Borrowing

The Prudential Accounting regime enables the Council to borrow subject to meeting criteria of affordability. The draft Prudential Indicators have been established and are presented for Council approval elsewhere on this agenda. The level of investment in the 2021/22 Draft Capital Programme has been maintained at a level that does not require borrowing other than for the Vehicle and Plant replacement programme, revenue generating projects and loans to third parties. A capital prioritisation process was applied to proposed capital projects which is consistent with the Council's Capital Strategy and strengthens the assessment of the financial impacts of the investment. The Government has recently launched consultation on use of PWLB borrowing where commercial investments have been undertaken. Initial consideration of the proposed capital programme against the proposals suggest the Council does not face issues in accessing borrowing from the PWLB.

Helen Smith, Finance Lead Specialist (Section 151 Officer)
South Lakeland District Council
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