

South Lakeland District Council

Cabinet: 21 July 2021

Council: 27 July 2021

Draft Medium Term Financial Plan 2021/22 - 2026/27

Portfolio: Finance and Assets Portfolio Holder
Report from: Section 151 Officer
Report Author: Helen Smith - Finance Lead Specialist (Section 151 Officer)
Claire Read - Finance Specialist
Wards: (All Wards);
Forward Plan: Budget and Policy Framework Decision included in the Forward Plan as published on 25/05/2021

Links to Council Plan Priorities: to ensure the Council has sufficient financial resources in the short- to medium-term to deliver its statutory responsibilities and its Council Plan priorities.

Working across boundaries – Through ensuring financial resources to deliver priority

Delivering a balanced community – Through ensuring financial resources to deliver priority

A fairer South Lakeland – Through ensuring financial resources to deliver priority

Addressing the climate emergency – Through ensuring financial resources to deliver priority

1.0 Expected Outcome and Measures of Success

- 1.1 The Medium Term Financial Plan is a key element of the Council's corporate planning framework, to ensure the Council has sufficient financial resources in the short- to medium-term to deliver its statutory responsibilities and its Council Plan priorities.
- 1.2 This report includes high-level projections based on the information available as at early July 2021. The projections will be regularly reviewed and reported during the 2022/23 budget preparation process. The Council is required by statute to set a balanced budget in February/March 2022.
- 1.3 Based on current projections within the report the impact of Covid-19 in 2020/21, combined with budget deficits reported in February 2021, the Council will need to find revenue savings (including potential additional income) of £0.3m to set a balanced budget for 2022/23. Further recurring savings of £2.6m will need to be identified by February 2025.

2.0 Recommendation

2.1 It is recommended that Cabinet:-

- (1) **Considers and recommends the proposed Medium Term Financial Plan at Appendix 1 to Council for approval;**
- (2) **Recommends to Council for approval a budget of £250,000 to fund work associated with Local Government Reorganisation; and**
- (3) **Accepts the Grant Funding associated with the Welcome Back Fund**

and recommends to Council for approval the increased budgets of £217,700.

2.2 It is recommended that Council:-

- (1) Approves the proposed Medium Term Financial Plan at Appendix 1;**
- (2) Approves the request for £250,000 to fund work associated with Local Government Reorganisation; and**
- (3) Approves the budgets of £217,700 associated with the Welcome Back Fund.**

3.0 Background and Proposals

- 3.1 The Council has produced a MTFP for several years. The financial projections were last reported to Council in February 2021. Since then the Council's financial situation in relation to Covid-19 for 2020/21 has become clearer as part of the 2020/21 final accounts process.
- 3.2 Covid-19 has had a massive impact on the finances of the Council with over £134m of additional support from Government to the Council and South Lakeland area in 2020/21. Additional budget of £2.0m for Covid-19 costs was approved by Cabinet and Council in June 2020, funded by use of General Reserve. In February 2021, when the latest Covid-19 projections were reported alongside the budgets for 2021/21, the expected net cost of Covid-19 was reduced to £1.3m. The final net variance due to Covid-19 in 2020/21 is now estimated as £259k, mainly due to additional grants and contributions received, reducing the amount needed to rebuild reserves this year and into the future. No projections relating to Covid-19 (other than reserves) have been updated; they will be reviewed as part of the budget monitoring process and reported in future budget updates.
- 3.3 Additional funds relating to Covid-19 are still being announced and received. Councils across England are to share £56m of ERDF funding to support the return to high streets safely and help build back better from the pandemic. This Welcome Back Fund builds on the £50m Reopening High Street Safely Fund (RHSSF) allocated to councils in 2020 and forms part of wider support government is providing to communities and businesses, to protect jobs, support the most vulnerable and ensure no one is left behind. The Welcome Back funding is from the England European Regional Development Fund as part of the European Structural and Investment Funds Growth Programme 2014-2020. The Council has been offered £192,936.00 from the Welcome Back Fund and has had a carry forward of £24,768.29 from the Reopening the High Streets Fund. The Council has agreed an activity plan with MHCLG with the Council responsible for procuring products and making decisions in accordance with EU regulations. All decisions taken will be evidenced to MHCLG. Cabinet is requested to approve the receipt of the additional £192,936 of grant funding. Council is requested to approve budgets for income and expenditure of £ 217,700 for this grant and activity.
- 3.4 At the time of writing this report an announcement was still awaited in respect of local government reorganisation (LGR). A new budget of £250,000 is requested to provide working budget to help the organisation prepare and enter a transition programme through a share of initial consultancy fees and some capacity to backfill capacity diverted to LGR work.
- 3.5 The final budget report in February 2021 assumed a pay freeze, in line with statements made in the spending review 2020. However, Local Government employers have since offered a pay increase of 1.5%, which has been rejected by unions. Therefore the original assumed pay increase of 2% has been re-inserted into the financial model.

- 3.6 Unlike the Government, who can borrow over the long-term to offset additional short-term costs, local authorities are only permitted to borrow to fund capital expenditure. Therefore any additional costs have to be met either through use of reserves or reductions in the net budget. General (un-earmarked) reserves should not be used to meet recurring costs and, once used, usually need to be topped back up to robust levels. Due to the nature of LGR it is appropriate that General Reserve is used to fund this initial request for budget.
- 3.7 The Government originally planned to change the funding model for local authorities from April 2019: this has been delayed many times already and an announcement of further delay is expected until at least April 2023. The timing, and the amount of funding to be distributed, is still to be confirmed and is expected to be announced following the Spending Review 2021, expected in the autumn. The assumptions used within the financial model will be closely monitored and updates provided during the 2022/23 budget setting process. Assuming the review is delayed by 12 months increases the resources available to the Council in 2022/23 by £1.9m: if the review is implemented in 2022/23 then short-term savings and use of reserves may have to be considered as part of the finalisation of the 2022/23 budget.
- 3.8 The Draft MTFP is attached at Appendix 1. Adjustments to the model have been made to reflect the 2020/21 final financial position and the expected delay in funding changes. The annual revenue budget deficit projections total £0.3m for 2022/23 rising to £2.6m in 2025/26. Figures for 2026/27 are still being prepared.
- 3.9 The Council's capital programme has, in general, been funded by the use of capital receipts, contributions, major repairs reserve or from capital grants. The Council now has low levels of uncommitted capital resources to fund new projects and will need to either limit future capital expenditure, re-allocated existing funding, use more revenue funding or borrow to deliver the capital programme. A review of the capital programme will need to also consider deliverability of the existing programme and will be carried out as part of the 2022/23 budget cycle with a target to report to Cabinet and Council in autumn 2021.
- 3.10 The Government has changed their guidance for the use of government borrowing (from the Public Works Loan Board (PWLB)) from November 2020. Local authorities are only able to access the PWLB where no part of its capital programme can be deemed to be commercial in nature and falling under the "asset for yield" category, for the current year and the following three years. It will be necessary to amend the existing capital bid process to ensure that bids are compliant with both the Commissioning Strategy and these restrictions
- 3.11 Due to reasonable General Fund balances and reserves, robust financial management practices and a good track record in achieving efficiency savings the Council is in a positive financial position overall compared to many local authorities but now has a substantial challenge to correctly predict and then offset the budget deficits from April 2023.
- 3.12 The MTFP, once approved, will form the basis of the budgets to be prepared during the remainder of 2021/22 for approval in February 2022. However, the MTFP and the budget strategy provide only the broad framework. Individual decisions, particularly the level of Council Tax, will be approved during the budget process, and no later than the end of February 2022, based on the latest projections available.
- 3.13 Options to balance the budget in both the short and medium term will be prepared for the 2022/23 budget to be approved in February 2022. The size of the projected future deficits may require solutions that will take some time to identify and implement. It will be important to ensure adequate consultation on proposals is carried out. The Commissioning Strategy will be used to identify how the resources of the Council can

be used to improve outcomes for South Lakeland residents in the most efficient, effective, equitable and sustainable way.

4.0 Appendices Attached to this Report

Appendix No.	Name of Appendix
1	Draft Medium Term Financial Plan

5.0 Consultation

5.1 Preparation of the MTFP is an iterative process and the majority of the proposals are based on previous plans updated for actual spend and latest information available. The plan has been shared with Leadership Team and the Finance and Assets portfolio holder. It will be considered by Cabinet before approval by Council. It will be reported to the next available meeting of the Overview and Scrutiny Committee.

6.0 Alternative Options

6.1 The assumptions forming the MTFP could be amended. This is not recommended, as the proposals are regarded as the most appropriate option when considered against the need to secure financial resilience and deliver the Council Plan priorities.

7.0 Implications

Financial, Resources and Procurement

7.1 As detailed in the report and the appendix.

Human Resources

7.2 This report has no direct human resource implications.

Legal

7.3 There are no legal implications arising from the report.

Health and Sustainability Impact Assessment

7.4 Have you completed a Health and Sustainability Impact Assessment? No

7.5 If you have not completed an Impact Assessment, please explain your reasons: The Health, Social, Economic and Environmental Assessment is carried out as part of the future years Budget Report that will follow this strategic direction.

7.6 Summary of Health and Sustainability Impacts

		Positive	Neutral	Negative	Unknown
Environment and Health	Greenhouse gases emissions				√
	Air Quality				√
	Biodiversity				√
	Impacts of Climate Change				√
	Reduced or zero requirement for energy, building space, materials or travel				√
	Active Travel				√

Economy and Culture	Inclusive and sustainable development				√
	Jobs and levels of pay				√
	Healthier high streets				√
	Culture, creativity and heritage				√
Housing and Communities	Standard of housing				√
	Access to housing				√
	Crime				√
	Social connectedness				√

Equality and Diversity

7.7 Have you completed an Equality Impact Analysis? No

7.8 If you have not completed an Impact Analysis, please explain your reasons: An Equality Impact Analysis is carried out as part of the future years Budget Report that will follow this strategic direction

7.9 Summary of Equality and Diversity impacts

Please indicate: P = Positive impact; 0 = Neutral; N = Negative; Enter "X"					
Age	P		0		N
Disability	P		0		N
Gender reassignment (transgender)	P		0		N
Marriage & civil partnership	P		0		N
Pregnancy & maternity	P		0		N
Race/ethnicity	P		0		N
Religion or belief	P		0		N
Sex/gender	P		0		N
Sexual orientation	P		0		N
Armed forces families	P		0		N
Rurality	P		0		N
Socio-economic disadvantage	P		0		N

Risk Management	Consequence	Controls required
The Council does not have adequate arrangements for the identification and addressing of financial risks	Potentially expenditure could exceed resources available	A full analysis of the key risks are detailed within the MTFP. Robust short, medium and long term planning.

Contact Officers

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Background Documents Available

Name of Background document	Where it is available
2021/22 Budget Book	https://www.southlakeland.gov.uk/media/7435/budget-book-202122.pdf
2020/21 Outturn report	https://democracy.southlakeland.gov.uk/ieListDocuments.aspx?CId=121&MId=4996&Ver=4

Tracking Information

Signed off by	Date sent	Date Signed off
Section 151 Officer	Report from S151	Report from S151
Monitoring Officer	09/07/2021	12/07/2021
CMT	09/07/2021	09/07/2021

Circulated to	Date sent
Lead Specialist	N/A
Human Resources Lead Specialist	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	09/07/2021
Ward Councillor(s)	N/A
Committee	N/A
Executive (Cabinet)	21/07/2021
Council	27/07/2021