Appendix 1

Statutory Report of the Chief Finance Officer on setting the 2022/23 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:

a) 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;

b) 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

2.1. There are three major issues which may have a very significant impact on the Council's financial position and where uncertainty has impacted on the robustness of reserves: Local Government Reorganisation (LGR), COVID-19 and the proposed changes in the funding for local government.

2.2. Local Government Reorganisation

2.2.1. Government consulted on options for the creation of unitary local government in Cumbria during early 2021 with a Government announcement in July 2021 that, subject to Parliamentary approval, two new unitary authorities will replace the current local government structure in Cumbria effective from 1st April 2023. All six districts and Cumbria County Council will cease to exist in their current format on 31st March 2023. A new Westmorland and Furness Council will be created to cover the Barrow, Eden and South Lakeland areas and the Cumberland Council covering the Allerdale, Carlisle and Copeland areas.

2.2.2. The successful East/West proposal which was submitted by Allerdale and Copeland Councils submission suggested that estimated annual savings of between £19.1m and £31.6m would be achieved and that the transition would require a total one-off investment of between £17.6m and £23.8m, not including transformation costs after vesting date. There is no Government funding to assist with the costs of creating the new authorities – it is expected that the initial costs will be offset by these savings after vesting date.

2.2.3. Following the announcement, the Cumbria Chief Finance Officer's Group, attended by all S151 Officers of the seven Cumbrian authorities, have undertaken a high-level assessment of the financial impact of LGR and provided some indicative figures for implementation which have also been sense checked against other authorities which have been through the LGR process.

2.2.4. A County Wide LGR Implementation Reserve has been approved, including governance arrangements, funding proposals and the required scheme of delegation for relevant officers. The indicative, and high level, budget for implementation of "safe and legal" authorities on 1st April 2023 is £18.920m:

Cumberland and Westmorland and Furness Council Indicative Implementation Costs	£m
Implementation	2.266
External Support Costs	5.500
Internal Programme Management	4.000
ICT Costs	4.000
Sub- total	15.766
Contingency (20%)	3.153
Total Estimated Implementation costs	**18.920**

2.2.5. These costs and assumptions will continue to be updated as the financial modelling develops and the work streams and themes, established by the LGR Programme Board, continue their work. It is likely that the spend will be incurred over three financial years (2021/22 – 2023/24) with some costs incurred after vesting day. Work is ongoing to fully understand the legacy position and how this will be supported. For each of the categories of spend above, detailed definitions are being developed in order to ensure consistency of approach for any expenditure incurred.

2.2.6. All seven Cumbrian authorities will contribute to the reserve with the County Council contributing 50% and the remaining 50% split equally between the district authorities. Therefore this Council's contribution will be up to £1.6m which will be taken from the General Reserve. Following approval by the individual authorities, it is proposed that the reserve be established during early 2022.

2.2.7. Work is ongoing to prepare a Medium Term Financial Plan for the new authorities and to identify the costs of transition and the benefits to be realised to produce a balanced budget position.

2.3. COVID-19

2.3.1. While the financial risk of COVID-19 has had a lower impact on the Council's financial position than originally expected, mainly due to additional Government funding and an increase in car park income in National Park areas, there is still uncertainty around projections at the current time. This report was prepared in early February 2022 when records of Omicron variant were still very high but the Government has just announced all restrictions will be scrapped. Budget projections for 2022/23 still include a contingency for additional costs but at a lower level than for 2021/22, mainly due to lost car park income in urban areas.

2.3.2. 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.

2.4. Local Government Funding

2.4.1. There is still uncertainty around the impact the Government's delayed plans changes to local government funding. After two one-year Spending Rounds in 2019 and 2020 the 2021 Spending Review covered three years. Core Spending Power for local authorities is estimated to increase by an average of 3% in real terms each year, including investment in Adult Social Care reform, but the majority of this increase will come from increases in Council tax.

2.4.2. In February 2022 the Government published the Levelling Up White Paper which sets out how the £2.6bn available through the UK Shared Prosperity Fund, £7.5bn over 30 years in devolution deals, and £1.7bn of £4.8bn Levelling Up Fund will be distributed.

2.4.3. At the moment the MTFP assumes the current system of business rates will continue, as confirmed by the final report of the Government's Business Rate Review. However, there are three areas to be resolved:

a) The level of local retention of business rates, potentially to 75% through the reduction of the 50% central share of business rates retained by the Government to 25% and replacement of certain grants

b) The Government was reviewing the needs formula which will control how much business rates will be retained locally. A national working group including the Minister of Levelling Up, Housing and Communities (DLUHC), HM Treasury, the Local Government Association (LGA), professional organisations and representatives of interested groups such as the District Council's Network (DCN) met to discuss the proposals which were badged as the Fair Funding Review. The current position is unclear.

c) A reset of the business rates system so accumulated growth will be redistributed based on the needs formula: for 2022/23 the accumulated growth above the Council's business rate baseline is projected to be £3.9m of which 50% is retained by the Council and 50% is paid to the Cumbria business rate pool. As a result of COVID-19 and fundamental changes to how people shop, work and live there are likely to be significant changes to relative values of properties in the next revaluation of rateable values.

2.4.4. 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.

2.5. Both LGR and COVID-19 have had a significant impact on the capacity of staff in the Council, including within the finance team who have had to deal with the audit of around £150m of additional grants and reliefs during 2020/21 and around £50m in 2021/22. 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.

2.6. 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 2022/23 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.

2.7. 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.

2.8. 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.

2.9. 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 in 2020/21 but levels have fallen during 2021/22, albeit not back to pre-pandemic levels.

3. Adequacy of Financial Reserves

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

3.2. In preparing the 2022/23 Revenue Budget I have reviewed the level of reserves and balances and assessed their adequacy against a range of factors, including;

a. the potential impact of unexpected events or emergencies;
b. the predictability of cash flows demand-led pressures, inflation and interest rates;
c. estimates of the level and timing of capital receipts and grants;
d. the overall financial standing of the Council and its track record in budget management and capacity to manage in-year pressures;
e. the adequacy of the Council's insurance arrangements;
f. the financial risks in the medium term plans, including the robustness of those plans;
g. expected changes to the Council's funding arising from Government decisions.

3.3. 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.

3.4. The Council's key financial reserves are summarised at **Section 6a** in the Council Draft Budget Book:

	31/03/2021 £000	**31/03/2022 £000**	**31/03/2023 £000**	**31/03/2024 £000**	**31/03/2025 £000**	**31/03/2026 £000**
General Reserves	(7,774)	(3,895)	(2,981)	(2,946)	(2,999)	(3,174)
Capital Reserves	(2,629)	(2,122)	(721)	(906)	(1,091)	(1,231)
Earmarked Reserves	(17,800)	(11,823)	(6,081)	(5,496)	(5,496)	(5,496)
Total Reserves	**(28,203)**	**(17,839)**	**(9,783)**	**(9,348)**	**(9,586)**	**(9,901)**
Working Balance	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)	(1,500)
Total Reserves and Working Balance	**(29,703)**	**(19,339)**	**(11,283)**	**(10,848)**	**(11,086)**	**(11,401)**

In total, general reserves are forecast to total circa £3.0m as at 31 March 2023. 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 LGR from savings in running the new Councils. However, the total General Reserves and Working Balance are slightly below the desired level of £4.6m.

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

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

4. Advice

4.1. In respect of the General Fund, the proposed reserves and the £1.5m working balance place the Council in a reasonable financial position for 2022/23 and will be adequate for the medium term. This ability to reimburse reserves is fully dependant on future Government decisions around funding and the impact of LGR: currently beyond April 2023 the Council needs to identify around £2.5m of recurring budget savings to ensure this can be achieve with current projections of Government funding. This is the last annual budget for the current Council, the budget for 2023/24 will be prepared by the S151 Officer of the new Westmorland and Furness Council. The Council will continue to work with officers from Barrow Borough Council, Eden District Council and Cumbria County Council to review the medium and longer term pressures projected as part of Medium Term Financial Planning. 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

5.1. 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 2022/23 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 changed rules around use of PWLB borrowing where commercial investments have been undertaken: the Council does not face issues in accessing borrowing from the PWLB.

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South Lakeland District Council
10 February 2022